



**Omni-Lite Industries Canada Inc.
Unaudited Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
(in United States Dollars)**

	Contents
Notice to Reader	2
Unaudited Condensed Consolidated Financial Statements	
Statements of Financial Position	3
Statements of Income (Loss) and Comprehensive Income (Loss)	4
Statements of Changes in Shareholders' Equity	5
Statements of Cash Flows	6
Notes to Unaudited Condensed Consolidated Financial Statements	7 – 22

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

UNAUDITED 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 three months ended March 31, 2021 and 2020.

NOTICE TO THE READER OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of Omni-Lite Industries Canada Inc. including the consolidated statements of financial position as at March 31, 2021 and 2020 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the three months ended March 31, 2021 and 2020 are the responsibility of the Company's management.

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

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

"David Robbins" signed

David Robbins
Director and Chief Executive Officer
Cerritos, California, USA
May 21, 2021

"Roger Dent" signed

Roger Dent
Director
Cerritos, California, USA
May 21, 2021

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

Consolidated Statements of Financial Position

	Note	03/31/21	12/31/20
Assets			
Current			
Cash		\$ 1,760,395	\$ 1,542,405
Accounts receivable		856,895	976,878
Inventory	3	3,269,763	3,252,315
Due from related parties	7	-	-
Prepaid expenses		161,055	187,252
Total Current Assets		\$ 6,048,108	\$ 5,958,849
Long-term			
Investment	4	668,545	471,720
Property, plant and equipment	5	7,781,801	7,757,424
Due from related parties	7	23,000	26,000
Deferred tax asset		-	-
Intangible assets	6	584,122	602,788
Deposits		33,493	33,493
Total Assets		\$ 15,139,069	\$ 14,850,274
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 414,099	\$ 576,583
Lease liability	9	99,823	90,535
Income taxes payable		11,478	2,400
Bank indebtedness	8	-	1,519,349
Total Current Liabilities		\$ 525,400	2,188,867
Long Term			
Bank indebtedness	8	1,519,349	-
Proceeds from Paycheck Protection Program	8	399,587	-
Lease liability	9	212,924	-
Deferred tax liability		178,391	213,304
Total Liabilities		\$ 2,835,651	2,402,171
Shareholders' Equity			
Share capital	10	8,204,897	8,204,897
Contributed surplus	11	1,973,824	1,961,473
Retained earnings		1,872,163	2,226,024
Accumulated other comprehensive income (loss)	4	252,535	55,709
Total Shareholders' Equity		\$ 12,303,418	\$ 12,448,103
Total Liabilities and Shareholder's Equity		\$ 15,139,069	\$ 14,850,274

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

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the 3 months ended March 31	Note	2021	2020
Revenue		\$ 1,269,719	\$ 2,144,870
Cost of goods sold	3	1,237,272	1,675,618
Gross margin		\$ 32,447	\$ 469,251
Overhead expenses			
Selling, general and administrative		324,659	415,474
Share-based compensation	11	12,350	30,605
Amortization of intangible assets	6	18,667	18,667
Total overhead expenses		355,676	464,745
Research and product design		49,800	67,387
Income/(Loss) from operations		\$ (373,029)	\$ (62,881)
Other income (expense)			
Interest income		2,656	-
Interest expense	8	(20,637)	(18,407)
Other income		10,819	-
Loss before income taxes		\$ (380,191)	\$ (81,288)
Income tax expense (recovery)			
Current		9,078	2,027
Deferred		(35,408)	3,762
		(26,330)	5,789
Net loss		\$ (353,861)	\$ (87,077)
Other comprehensive income/(loss)			
Items that may not be reclassified to profit or loss:			
Gain (Loss) on investment	4	196,825	(56,668)
Comprehensive loss		\$ (157,036)	\$ (143,745)
Loss per share			
- basic	12	(0.03)	(0.01)
- diluted	12	(0.03)	(0.01)
Weighted average shares outstanding			
- basic	12	11,333,854	11,333,854
- diluted	12	11,333,854	11,333,854

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

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

Consolidated Statements of Changes in Shareholders' Equity

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
Balance at December 31, 2019		\$ 8,204,897	\$ 1,846,836	\$ 2,844,116	\$ (231,313)	\$ 12,664,536
Share-based compensation	10	-	30,605	-	-	30,605
Net loss		-	-	(87,077)	-	(87,077)
Loss on investment	4	-	-	-	(56,668)	(56,668)
Balance at March 31, 2020		\$ 8,204,897	\$ 1,877,441	\$ 2,757,039	\$ (287,981)	\$ 12,551,396

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
Balance at December 31, 2020		\$ 8,204,897	\$ 1,961,473	\$ 2,226,024	\$ 55,709	\$ 12,448,103
Share-based compensation	10	-	12,350	-	-	12,350
Net loss		-	-	(353,861)	-	(353,861)
Gain on investment	4	-	-	-	196,826	196,826
Balance at March 31, 2021		\$ 8,204,897	\$ 1,973,824	\$ 1,872,163	\$ 252,535	\$ 12,303,418

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

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

Consolidated Statements of Cash Flows

For the three months ended March 31	Note	2021	2020
Cash flows from operating activities			
Net loss for the period		\$ (353,861)	\$ (87,077)
Adjustments for:			
Depreciation	5	247,907	266,852
Allowance for bad debt (reversal)		(1,800)	-
Amortization of intangible assets	6	18,667	18,667
Deferred tax (recovery) expense		(34,913)	29,194
Share-based compensation	10	12,350	30,605
Lease interest expense	9	7,367	4,624
		<u>\$ (104,283)</u>	<u>\$ 262,865</u>
Net change in non-cash working capital items			
Accounts receivable		121,783	(172,003)
Inventory		(17,448)	(175,576)
Prepaid expenses		26,196	(6,430)
Accounts payable and accrued liabilities		(162,483)	(223,007)
Income taxes payable		9,078	(23,832)
Increase/(Decrease) in cash from operating activities		<u>\$ (127,156)</u>	<u>\$ (337,983)</u>
Cash flows from financing activities			
Payments from related parties	7	-	374
Employee Receivables		3,000	3,000
Proceeds from bank indebtedness	8	-	511,625
Finance Guarantee Liability		-	(250,000)
Proceeds from Paycheck Protection Loan	8	399,587	-
Repayment of lease liability	9	(58,121)	(56,560)
Increase in cash from financing activities		<u>\$ 344,466</u>	<u>\$ 208,439</u>
Cash flow from investing activities			
Sale of equipment		3,180	-
Purchase of property, plant and equipment	5	(2,500)	(8,802)
Decrease in cash from investing activities		<u>\$ 680</u>	<u>\$ (8,802)</u>
Increase in cash		<u>\$ 217,990</u>	<u>\$ (138,346)</u>
Cash, beginning of period		<u>\$ 1,542,405</u>	<u>\$ 693,245</u>
Cash, end of period		<u>\$ 1,760,395</u>	<u>\$ 554,899</u>

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

Notes to Condensed Consolidated Financial Statements

1. Nature of Operations

Omni-Lite Industries Canada Inc. (“Omni-Lite” or the “Company”) was incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The consolidated financial statements of the Company for the three months ended March 31, 2021 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on May 20, 2021. Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 18 Kings Street East, Suite 902, Toronto, ON M5C2C4. The Company’s core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company’s operations is located in the United States (“U.S.”) and its functional currency is U.S. dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

Impact of the COVID-19 Pandemic

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

The pandemic has significantly adversely affected the Company’s operations in 2020. The full extent of the effects of the pandemic on the Company’s future operations continues to be unknown at this time and is dependent on the duration of the pandemic and future government and customer actions. In response to this uncertainty, the Company has fully availed itself of Paycheck Protection Program, completed a workforce reduction program and implemented other cost saving measures to preserve cash.

2. Significant Accounting Policies

These 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 March 31, 2021.

2. Significant Accounting Policies – continued

These condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting.

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended December 31, 2021 and 2020. These policies have been consistently applied to each of the periods presented.

a) Estimates and Judgements

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

b) Business Combinations

On January 1, 2020, the Company adopted the amendment, as issued on October 22, 2018, by the IASB related to IFRS 3, "Business Combinations" ("IFRS 3"), revising the definition of a business and providing for the addition of an optional 'concentration test' to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input – Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process – Any system, standard, protocol, convention or rules that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.

Output – The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional 'concentration test' permits a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other vent. If the concentration test is met, the set of activities and assets is determined to be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the year ended December 31, 2020.

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

3. Inventory

The major components of inventory are classified as follows:

The cost of inventories recognized as expense and included in cost of goods sold for the three months ended March 31, 2021 was \$1,237,272 (2020 - \$1,675,618). During the three months ended March 1, 2021, the Company recorded a reserve for obsolete inventory of \$nil (2020 - \$21,000) and wrote off \$nil (2020 - \$nil).

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Raw Materials	401,406	334,148
Tooling	528,506	550,541
Work in Progress	680,859	562,164
Finished Goods	1,658,992	1,805,462
Total	\$ 3,269,763	\$ 3,252,315

4. Investment

At March 31, 2021, the long-term investment consists of an equity investment in the common shares of California Nanotechnologies Corp. ("California Nano"), a public company related through a common director. The Company's investment is recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	<u>Carrying Amount</u>
Investment at December 31, 2019	\$ 184,698
Gain from market price valuation	287,022
Investment at December 31, 2020	\$ 471,720
Gain from market price valuation	196,825
Investment at March 31, 2021	\$ 668,545

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

5. Property, Plant and Equipment

	Land	Building	Production Equipment	Other Equipment	Non-Consumable Tooling	Right-of-Use Assets	Totals
Cost							
At December 31, 2019	\$770,000	\$2,158,925	\$15,808,083	\$360,459	\$7,886,562	\$ 505,310	\$27,489,339
Additions	-	-	23,850	-	-	-	23,850
At December 31, 2020	\$770,000	\$2,158,925	\$15,831,933	\$360,459	\$7,886,562	\$ 505,310	\$27,513,189
Additions	-	-	2,500	-	-	96,620	99,119
Retirements	-	-	(110,157)	-	-	-	(110,157)
Reclassifications	-	-	163,499	(163,926)	426	-	1
At March 31, 2021	\$770,000	\$2,158,925	\$15,887,775	\$196,533	\$7,886,989	601,930	27,502,152
Accumulated depreciation							
December 31, 2019	\$ -	\$847,964	\$10,083,130	\$290,766	\$7,267,839	\$211,058	\$18,700,757
Depreciation	-	56,294	352,152	15,867	419,636	211,059	1,055,008
At December 31, 2020	\$ -	\$904,258	\$10,435,282	\$306,633	\$7,687,475	\$422,117	\$19,755,765
Depreciation	-	14,123	89,418	2,885	99,220	42,261	247,907
Retirements	-	-	(106,973)	-	-	(176,348)	(283,321)
Reclassifications	-	-	131,511	(131,511)	-	-	-
At March 31, 2021	\$ -	\$918,381	\$10,549,238	\$178,007	7,786,695	\$288,030	\$19,720,351
Net Book Value							
At December 31, 2020	\$770,000	\$1,254,667	\$5,396,651	\$53,826	\$199,087	\$83,193	\$7,757,424
At March 31, 2021	\$770,000	\$1,240,544	\$5,338,537	\$18,526	\$100,294	\$313,900	\$7,781,801

6. Intangible Assets

	Customer Relationships	Goodwill	Trademark	Non-Compete Agreements	Patents	Totals
Cost						
At December 31, 2019, December 31, 2020 and March 31, 2021	\$240,000	\$407,170	\$100,000	\$20,000	\$6,285	\$773,455
Accumulated amortization						
At December 31, 2019	\$62,000	-	\$25,500	\$8,500	-	\$96,000
Amortization	49,000	-	19,240	6,427	-	74,667
At December 31, 2020	\$111,000	-	\$44,740	\$14,927	-	\$170,667
Amortization	11,000	-	5,760	1,906	-	18,666
At March 31, 2021	\$122,000	-	\$50,500	16,833	-	\$189,333
Net Book Value						
At December 31, 2020	\$129,000	\$407,170	\$55,260	\$5,073	\$6,285	\$602,788
At March 31, 2021	\$118,000	\$407,170	\$49,500	\$3,167	\$6,285	\$584,122

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

7. Related Party Transactions and Balances

During the three months ended March 31, 2021, the Company had the following related party transactions and balances not disclosed elsewhere in these condensed consolidated financial statements:

	March 31, 2021	December 31, 2020
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of \$1,170,497 which is due on demand. Of this amount, \$1,161,029 accrues interest at 2.89% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully impaired.	\$ -	\$ -
ii. The Company has provided a guarantee on the bank debt held by California Nanotechnologies Corp. The bank debt consists of a term loan with a balance of approximately \$229,000 (\$257,000 at December 31, 2020).		
iii. On March 31, 2020, the bank called California Nano's line of credit of \$250,000, which was guaranteed by the Company. Omni-Lite repaid this amount on their behalf and has a loan receivable with interest at the prime rate plus 1% from California Nanotechnologies Corp. This amount has been fully reserved.		
Has an unsecured interest free loan receivable from an employee forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022.	20,000	20,000
Provided four grants (December 31, 2020– four) related to the purchases of hybrid/electric cars under the Company's <i>Greenhouse Gas Reduction Incentives for Employees</i> program in the amount of \$5,000 each. Two grants outstanding mature in 2021 and two grants mature in 2023.	20,000	20,000
Reserve for earned grants	(17,000)	(14,000)
Total due from related parties	\$ 23,000	\$ 26,000
Current portion	-	-
Long-term portion	\$ 23,000	\$ 26,000

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

7. Related Party Transactions and Balances – continued

Significant Subsidiaries:

The table below provides information relative to the Company's significant subsidiaries, including each such entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by the Company, a brief description of the entity, and the market areas served, if applicable. The functional currency of each entity is U.S. Dollars.

Company (Jurisdiction of Incorporation/ Formation)	Percentage of ownership by Omni-Lite Industries Canada, Inc.	Overview	Market Area
Omni-Lite Industries California, Inc. (California, USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada, Inc., which was formed and incorporated on October 4, 1985. It is the head office which conducts research and development, and production operations.	United States
Monzite Corporation (New Hampshire, USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Impellimax, Inc.	United States
Impellimax, Inc. (New Hampshire, USA)	100%	Wholly-owned subsidiary of Monzite Corporation, which was acquired on September 21, 2018. It designs, manufactures, and contract manufactures electronic subcomponents.	United States

8. Bank Indebtedness

The Company has a three-year, \$3.0 million revolving credit line with City National Bank, an RBC Company, which expires on December 31, 2022 (the "Credit Agreement"). Interest under the revolving line of credit accrues at the prime rate. The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and equipment, and general intangibles. The agreement includes certain conditions and financial covenant ratios including, loan to value, net worth and debt service. At March 31, 2021, the loan balance was \$1,519,349 (December 31, 2020 - \$1,519,349). Interest expense of \$13,270 (2020 - \$13,783) related to the Company's line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the three months ended March 31, 2021. In addition, the Company recorded \$7,367 (2020 - \$4,624) of lease interest expense.

In the first quarter of 2021, the Company applied for and received \$399,587 of funding under the Paycheck Protection 2 Program. The Company intends to file for forgiveness of this loan once its performance period is complete. In addition, in the first quarter of 2021, the Company was notified by the SBA that the remaining \$636,800 of its Paycheck Protection Program 1 funding has been forgiven. The total amount received under the Paycheck Protection 1 Program was \$819,700. This amount was recorded as income in 2020.

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

9. Lease Liability

	<u>2021</u>	<u>2020</u>
Opening balance January 1	\$ 90,535	\$ 308,237
Lease addition	272,965	-
Lease payments	(58,121)	(231,402)
Interest on lease liability	7,368	13,700
Lease liability end of period	<u>\$ 312,747</u>	<u>\$ 90,535</u>
Less current portion	<u>99,823</u>	<u>90,535</u>
Long term portion	<u>\$ 212,924</u>	<u>\$ -</u>

The Company has leases for manufacturing and office space at its two manufacturing locations. One lease, expiring in March 2021, was renewed through March 2026. The discount rate applied to the lease is 9%. In addition to lease payments, the Company pays annual operating costs consisting of insurance, real estate taxes and facility maintenance costs of approximately \$22,000. The second lease expires on June 30, 2021. The discount rate applied to this lease is 6%. In addition to lease payments, the Company pays annual operating costs consisting of real estate taxes and insurance of approximately \$3,000. See Note 5 for information related to the lease asset.

10. Share Capital

a) Authorized:

Unlimited number of common shares with no par value.

b) Issued:

	<u>Number of Shares</u>	<u>Amount</u>
Total issued and outstanding December 31, 2019, December 31, 2020 and March 31, 2021	11,333,854	\$8,204,897

c) Share Options:

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

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

10. Share Capital – continued

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

	Number	Option Price per Share Range	Weighted Average Exercise Price
Option outstanding at December 31, 2019	914,333	CAD \$0.90 to \$1.85	CAD \$1.12
Options – expired	(111,666)	CAD \$0.92 to \$1.35	CAD \$1.25
Option outstanding at December 31, 2020	802,667	CAD \$0.90 to \$1.85	CAD \$1.10
Options – expired	(46,667)	CAD \$1.48	CAD \$1.48
Options outstanding at March 31, 2021	756,000	CAD \$0.90 to \$1.85	CAD \$1.08
Options exercisable at March 31, 2021	372,664	CAD \$0.90 to \$1.85	CAD \$1.26

The Company did not grant options during the three months ended March 31, 2021.

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

Options Outstanding	Option Price	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Contractual Life
575,000	CAD \$0.90	CAD \$0.90	3.66 years
181,000	CAD \$1.40-\$1.85	CAD \$1.64	0.65 years
756,000	CAD \$0.90-1.85	CAD \$1.08	4.31 years

Options Vested	Option Price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
191,664	CAD \$0.90	CAD \$1.26	3.66
181,000	CAD \$0.90-\$1.85	CAD \$1.64	.65
372,664	CAD \$0.90-\$1.85	CAD \$1.26	2.94

In estimating expected stock price volatility at the time of a particular share option grant, the Company relies on observations of historical volatility trends. Share-based compensation expense in relation to the options was \$8,599 for the three months ended March 31, 2021 (2020-\$24,311). The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.62%
Expected life (years)	5
Volatility rate (%)	58.60%
Dividend yield (%)	0.00%
Forfeiture rate (%)	0.00%

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

10. Share Capital - continued

d) Warrants:

The Company initiated a long-term stock warrant plan in the third quarter of 2018 for key management and employees. On September 21, 2018, 1,200,000 warrants were granted all with an expiry date of September 21, 2026. The remaining contractual life on the warrants is 6.48 years. The warrants are allocated among six tranches with each tranche having specified number of warrants, strike price, and vesting provisions.

	Number	Warrant Price Per Share Range	Weighted Average Exercise Price
Warrants outstanding at December 31, 2019, December 31, 2020 and March 31, 2021.	1,200,000	CAD \$1.13 to \$2.26	CAD \$1.67
Warrants exercisable at March 31, 2021	175,833	CAD \$1.27	CAD\$1.27

The warrants that are outstanding as of **March 31, 2021** are summarized as follows:

Warrants Outstanding	Warrant Exercise Price
200,000	CAD \$1.13
125,000	CAD \$1.27
175,000	CAD \$1.41
200,000	CAD \$1.55
250,000	CAD \$1.98
250,000	CAD \$2.26
1,200,000	CAD \$1.67

500,000 warrants granted have exercise prices ranging from CAD\$1.13 – CAD\$2.26 and vest one-third per year with the first vesting date ranging from December 31, 2019 to December 31, 2022 (“time based”). At March 31, 2021, 175,833 warrants have vested.

700,000 warrants granted have exercise prices ranging from CAD \$1.27 – CAD \$2.26 and vest upon meeting escalating cumulative three-year EBITDA targets on dates ranging from December 31, 2021 to December 31, 2024 (“performance based”). The Company has determined that the EBITDA targets are not expected to be met and, therefore, no expense has been recorded. Share-based compensation expense in relation to warrants was \$3,751 for the three months ended March 31, 2021 (2020 - \$6,294).

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

10. Share Capital – continued

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

	<u>Time Based</u>
Number of options	500,000
Weighted average exercise price	CAD \$1.52
Weighted average risk-free interest rate	2.28%
Weighted average expected life (years)	3
Weighted average volatility rate	47.57%
Weighted average dividend yield	0.00%
Weighted average forfeiture rate	8.15%

11. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	<u>March 31, 2021</u>	March 31, 2020
Balance, beginning of year	\$ 1,961,473	\$ 1,846,836
Share-based compensation (Note 10(c), (d))	12,351	30,605
Balance, end of period	\$ 1,973,824	\$ 1,877,441

12. Loss per Common Share

The basic (loss)income per common share is calculated using net (loss)income divided by the weighted-average number of common shares outstanding. The diluted (loss)income per common share is calculated using net (loss)income divided by the weighted-average number of diluted common shares outstanding, as adjusted with the treasury stock method.

756,000 options (2020 – 879,333) and 1,200,000 warrants (2020 – 1,200,00) were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2021 and 2020 because the Company was in a net loss position for the three months ended March 31, 2021 and 2020.

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

13. Segment Information

The Company has its operations and subsidiaries in the United States and Canada. All sales are conducted in the United States.

	United States	Canada	Total
For the three months ended March 31, 2021			
Revenue	\$ 1,269,719	\$ -	\$ 1,269,719
Net loss	(283,072)	(70,876)	(353,948)
For the three months ended March 31, 2020			
Revenue	\$ 2,144,870		\$ 2,144,870
Net loss	\$ (7,175)	\$ (79,902)	\$ (87,077)

14. Financial Instruments

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

	March 31, 2021		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 1,760,395	\$ 1,760,395	\$ 1,542,405	\$ 1,542,405
At FVOCI				
Investment	668,545	668,545	471,720	471,720
At Amortized cost				
Accounts receivable	856,895	856,895	976,878	976,878
Due from related parties	23,000	23,000	26,000	26,000
Accounts payable and accrued liabilities	414,099	414,099	576,582	576,582
Finance guarantee liability	-	-	-	-
Bank indebtedness	1,918,936	1,918,436	1,519,349	1,519,349

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 1,760,395	\$ 1,760,395	\$ -	\$ -
Investment	668,545	668,545	-	-

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

14. Financial Instruments – continued

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

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

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

The carrying values of bank indebtedness approximates its fair value due to the market rate of interest applied.

Interest Rate Risk

The Company's line of credit facility discussed in Note 8 may fluctuate in value as a result of change in market price. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at March 31, 2021, the annual increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$15,190 (December 31, 2020 - \$15,139).

Foreign Currency Risk

The Company maintains minimal asset and liability balances in non-U.S. dollar currencies and has de minimus foreign currency exposure.

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 Nano. This investment is recorded on the consolidated statements of financial position at fair value as of the statement of financial position date with changes from the prior period's fair value reported in OCI. As at March 31, 2021, a 1% change in the price of the investment would have an impact of \$6,685 annually (December 31, 2021 - \$4,717).

Liquidity Risk

The Company is exposed to liquidity risk due to the borrowings under the line of credit and accounts payable and accrued liabilities from operations. This risk is mitigated by complying with the covenants on the line of credit and managing the cash flow by controlling accounts receivable and accounts payable. At March 31, 2021, the Company had borrowings under its line of credit in the amount of \$1,519,349 and was in compliance with its debt service and profitability covenants.

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2021 and 2020
United States Dollars
Unaudited

14. Financial Instruments – continued

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

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
March 31, 2021					
Accounts payable and accrued liabilities	\$ 414,099	\$ -	\$ -	\$ -	\$ 414,099
Bank debt		1,918,936			1,918,936
Total	\$ 414,099	\$ 1,918,936	\$ -	\$ -	\$ 2,333,035
December 31, 2020					
Accounts payable and accrued liabilities	\$ 576,583	\$ -	\$ -	\$ -	\$ 576,583
Bank debt	1,519,349				1,519,349
Total	\$ 2,095,932	\$ -	\$ -	\$ -	\$ 2,095,932

Credit Risk

The Company manages credit risk over cash by maintaining its bank accounts with large financial institutions. The Company manages credit risk over accounts receivable by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the three months ended March 31, 2021, the Company had two customers who each accounted for in excess of 10% of revenue for approximately \$578,000 or 45% of sales (December 31, 2020 – three customers totaling \$3.25 million or 49% of sales) The maximum exposure to credit risk is the carrying value of cash, account receivable and due from related parties. The table below provides an analysis of the age of accounts receivable which are not considered impaired.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days
March 31, 2021	\$ 856,895	\$ 816,538	\$ -	\$ 16,571	\$ 9,417	\$ 14,369
December 31, 2020	\$ 976,878	\$ 482,596	\$ 153,246	\$ 29,948	\$ 278,011	\$ 33,077

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 and its revolving line of credit to fund the expansion and product development. The Company's financing needs depend on the timing of expected net cash flows from new products and sales of current products. This requires the Company to maintain financial flexibility and liquidity. The Company's capital management policies are aimed at: Maintaining an appropriate balance between short-term borrowings, long-term debt and 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.

15. Capital Disclosures – continued

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. Subsequent Events

Subsequent to year end 2020, the Company applied for and received loan proceeds in the amount of \$399,587 (the “PPP2 Funds”) and entered into a loan agreement with City National Bank pursuant to the COVID-19 Relief Act. The COVID-19 Relief Act was established in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed by the Company under the COVID-19 Relief Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight-week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, utility costs and certain operating costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels.

Principal and interest payments on any unforgiven portion of the PPP Funds (the “PPP Loan”) will be deferred for six months and will accrue interest at a fixed annual rate of 1% and will carry a two-year maturity date. There is no prepayment penalty on the CARES Act Loan.

In the three-month period ended March 31, 2021, the Small Business Administration notified the Company that it has forgiven \$636,800 of its PPP1 loan funding. When added to the \$182,900 forgiven in 2020, all \$819,700 of its PPP1 loan funding has been forgiven. The \$819,700 was recorded as income in 2020 as the Company believed it had met all of the requirements for loan forgiveness.