



**Omni-Lite Industries Canada Inc.  
Unaudited Condensed Consolidated Financial Statements  
For the interim three months ended March 31, 2018 and 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 March 31, 2018.

### 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 March 31, 2018 and the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three 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").

***"Charles Samkoff" signed***

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Charles Samkoff  
Director  
Cerritos, California, USA  
May 29, 2018

***"Roger Dent" signed***

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Roger Dent  
Director  
Cerritos, California, USA  
May 29, 2018

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

| As at   | Note     | March 31, 2018<br>(unaudited) | December 31, 2017 |
|---|----------|-------------------------------|-------------------|
| <b>Assets</b>                                 |          |                               |                   |
| <b>Current</b>                                |          |                               |                   |
| Cash  |          | \$ 503,463                    | \$ 839,874        |
| Accounts receivable                           | 12       | 946,117                       | 1,030,258         |
| Inventory                                     | 3        | 2,628,013                     | 2,442,607         |
| Current portion of due from related parties   | 6        | 6,855                         | 7,282             |
| Prepaid expenses                              |          | 173,555                       | 167,082           |
|   |          | 4,258,003                     | 4,487,103         |
| <b>Investment</b>                             |          |                               |                   |
| Property, plant and equipment                 | 4        | 382,680                       | 430,515           |
| Due from related parties                      | 5        | 14,231,599                    | 14,301,283        |
| Deferred tax asset                            | 6        | 1,452,072                     | 1,445,665         |
|   |          | 788,966                       | 719,466           |
|   |          | \$ 21,113,320                 | \$ 21,384,032     |
| <b>Liabilities</b>                            |          |                               |                   |
| <b>Current</b>                                |          |                               |                   |
| Accounts payable and accrued liabilities      | 11       | \$ 478,414                    | \$ 543,692        |
| Income taxes payable                          |          | 8,209                         | 6,609             |
|   |          | 486,623                       | 550,301           |
| <b>Long-term</b>                              |          |                               |                   |
| Deferred tax liability                        |          | 2,558,473                     | 2,558,473         |
|   |          | 3,045,096                     | 3,108,774         |
| <b>Commitments</b>                            |          |                               |                   |
| Subsequent event                              | 11<br>16 |                               |                   |
| <b>Shareholders' Equity</b>                   |          |                               |                   |
| Share capital                                 | 9(b)     | 7,247,353                     | 7,247,353         |
| Contributed surplus                           | 13       | 1,801,114                     | 1,772,431         |
| Retained earnings                             |          | 9,053,087                     | 9,240,970         |
| Accumulated other comprehensive (loss) income |          | (33,330)                      | 14,504            |
|   |          | 18,068,224                    | 18,275,258        |
|   |          | \$ 21,113,320                 | \$ 21,384,032     |

On behalf of the Board:

signed "Charles Samkoff" Director  
Charles Samkoff

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)

| For the three month periods ended March 31         | Note      | 2018                | 2017         |
|--|-----------|---------------------|--------------|
| <b>Revenue</b>                                     | <b>10</b> | <b>\$ 1,341,690</b> | \$ 1,724,239 |
| <b>Cost of goods sold</b>                          | <b>3</b>  | <b>540,012</b>      | 666,668      |
| <b>Gross margin</b>                                |           | <b>801,678</b>      | 1,057,571    |
| <b>Overhead expenses</b>                           |           |                     |              |
| Depreciation                                       | 5         | 281,847             | 270,313      |
| Foreign exchange loss                              |           | 1,935               | 1,112        |
| General and administrative                         | 16        | 418,482             | 234,555      |
| Employee benefits                                  |           | 327,868             | 285,842      |
| Commissions  |           | 1,072               | 2,177        |
| Share-based compensation                           | 13        | 28,683              | 12,456       |
| Research and product design                        |           | 4,495               | 10,014       |
|  |           | <b>1,064,382</b>    | 816,469      |
| <b>(Loss) income from operations</b>               |           | <b>(262,704)</b>    | 241,102      |
| <b>Other income</b>                                |           |                     |              |
| Interest income                                    |           | 6,921               | 7,083        |
| <b>(Loss) income before income taxes</b>           |           | <b>(255,783)</b>    | 248,185      |
| Income tax provision (recovery)                    |           |                     |              |
| Current  |           | 1,600               | 1,690        |
| Deferred   |           | (69,500)            | (121,700)    |
|  |           | <b>(67,900)</b>     | (120,010)    |
| <b>Net (loss) income</b>                           |           | <b>\$ (187,883)</b> | \$ 368,195   |
| Other comprehensive (loss) income                  |           |                     |              |
| Items that may be reclassified to profit or loss:  |           |                     |              |
| (Loss) gain on available for sale financial assets | 4         | (47,834)            | 46,153       |
| <b>Comprehensive (loss) income</b>                 |           | <b>\$ (235,717)</b> | \$ 414,348   |
| (Loss) income per share - basic                    | 14        | <b>\$ (0.02)</b>    | \$ 0.04      |
| - diluted  | 14        | <b>\$ (0.02)</b>    | \$ 0.04      |
| Weighted average shares outstanding - basic        | 14        | <b>10,015,520</b>   | 10,369,120   |
| - diluted  | 14        | <b>10,197,672</b>   | 10,648,450   |

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

|  | Note      | Share<br>capital    | Contributed<br>surplus | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total                |
|--|-----------|---------------------|------------------------|----------------------|--|----------------------|
| Balance at December 31, 2017                   |           | \$ 7,247,353        | \$ 1,772,431           | \$ 9,240,970         | \$ 14,504  | \$ 18,275,258        |
| <b>Share-based compensation</b>                | <b>13</b> | -                   | <b>28,683</b>          | -                    | -  | <b>28,683</b>        |
| <b>Net loss</b>                                |           | -                   | -                      | <b>(187,883)</b>     | -  | <b>(187,883)</b>     |
| <b>Available for sale financial<br/>assets</b> | <b>4</b>  | -                   | -                      | -                    | <b>(47,834)</b>  | <b>(47,834)</b>      |
| <b>Balance at<br/>March 31 , 2018</b>          |           | <b>\$ 7,247,353</b> | <b>\$ 1,801,114</b>    | <b>\$ 9,053,087</b>  | <b>\$ (33,330)</b>                                     | <b>\$ 18,068,224</b> |

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

| For the three month periods ended March 31         | Note | 2018              | 2017              |
|--|------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>        |      |                   |                   |
| Net (loss) income for the period                   |      | \$ (187,883)      | \$ 368,195        |
| Adjustments for:                                   |      |                   |                   |
| Depreciation                                       |      | 281,847           | 270,313           |
| Deferred taxes                                     |      | (69,500)          | (121,700)         |
| Share-based compensation                           | 13   | 28,683            | 12,456            |
|  |      | <u>53,147</u>     | <u>529,264</u>    |
| Net change in non-cash working capital items       |      |                   |                   |
| Accounts receivable                                |      | 84,141            | (204,032)         |
| Inventory  |      | (185,406)         | 61,359            |
| Prepaid expenses                                   |      | (6,472)           | 16,466            |
| Accounts payable and accrued liabilities           |      | (190,278)         | 70,985            |
| Income taxes payable                               |      | 1,600             | 4,944             |
| <b>(Decrease) increase in cash from operations</b> |      | <u>(118,268)</u>  | <u>\$ 478,986</u> |
| <b>Cash flows from financing activities</b>        |      |                   |                   |
| Payments from related parties                      |      | 770               | 861               |
| Advances to related parties                        |      | (6,750)           | (4,927)           |
| <b>Decrease in cash from financing activities</b>  |      | <u>(5,980)</u>    | <u>(4,066)</u>    |
| <b>Cash flows from investing activities</b>        |      |                   |                   |
| Purchase of equipment                              | 5    | (212,163)         | (332,361)         |
| <b>Decrease in cash from investing activities</b>  |      | <u>(212,163)</u>  | <u>(332,361)</u>  |
| <b>(Decrease) increase in cash</b>                 |      | <u>(336,411)</u>  | <u>142,559</u>    |
| <b>Cash, beginning of period</b>                   |      | <u>839,874</u>    | <u>476,976</u>    |
| <b>Cash, end of period</b>                         |      | <u>\$ 503,463</u> | <u>\$ 619,535</u> |
| <b>Supplemental Cash Flow Information:</b>         |      |                   |                   |
| Income taxes paid                                  |      | -                 | 7,058             |

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

**For the interim three months ended March 31, 2018 and 2017**

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**1. Nature of Operations**

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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 March 31, 2018 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 May 29, 2018. 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 - 10<sup>th</sup> 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 is 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.

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**2. Significant Accounting Policies**

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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, 2018. 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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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 three 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 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.



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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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 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.

(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 March 31, 2018 and December 31, 2017 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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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 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.

(m) Per share amounts

Basic income 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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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 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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**2. Significant Accounting Policies - continued**

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(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

**IFRS 15 Revenue from Contracts with Customers**

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.

The Company adopted IFRS 15 on January 1, 2018 using the retrospective with cumulative effect method. Under the standard, the Company is required to provide additional disclosure of disaggregated revenue by major product type. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15.

**IFRS 9 Financial Instruments**

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 Company retrospectively adopted the amendment to IFRS 9 on January 1, 2018 and elected to apply the limited exemption in IFRS 9 relating to transition for impairment. Accordingly, provisions for impairment have not been restated in the comparative periods. Adoption of the amendment did not have a significant impact on the Company's previous accounting for impairment of financial assets.

Effective January 1, 2018, the Company's accounting policy for impairment of financial assets is as follows:

At each reporting date, on a forward looking basis, the Company assesses the expected credit losses associated with its debt instruments carried at amortized cost. For trade accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Credit risk is assessed based on the number of days the receivable has been outstanding and an internal credit assessment of the customer. Credit risk for longer-term receivables is assessed based on an internal credit assessment and where available, an external credit rating of the counterparty.

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**2. Significant Accounting Policies - continued**

(r) Recent accounting pronouncements

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>March 31, 2018</u> | <u>December 31, 2017</u> |
|----------------------------------|-----------------------|--------------------------|
| Raw materials                    | \$ 609,668            | \$ 633,359               |
| Finished goods                   | 2,018,345             | 2,052,125                |
| Allowance for obsolete inventory | -                     | (242,877)                |
|                                  | <u>\$ 2,628,013</u>   | <u>\$ 2,442,607</u>      |

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold, net of write-down and reversals of write-downs was \$540,012 (2017 - \$666,668). For the three months ended March 31, 2018, the Company did not record a reserve for obsolete inventory in the amount (2017 - \$242,877).

**4. Investments**

As at March 31, 2018, 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, 2016        | \$ 355,910             |
| Purchase 365,000 shares, May/June 2017  | 34,728                 |
| Gain from market price valuation        | 39,877                 |
| Investments at December 31, 2017        | 430,515                |
| <b>Loss from market price valuation</b> | <b>(47,835)</b>        |
| <b>Investments at March 31, 2018</b>    | <b>\$ 382,680</b>      |

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**5. Property, Plant and Equipment**

|                                 | Land           | Building         | Production and other equipment | Computer equipment | Vehicle       | Non-consumable tooling | Totals            |
|---------------------------------|----------------|------------------|--------------------------------|--------------------|---------------|------------------------|-------------------|
| <b>Cost</b>                     |                |                  |                                |                    |               |                        |                   |
| At December 31, 2016            | 770,000        | 1,771,044        | 15,052,719                     | 210,741            | 28,400        | 6,826,088              | 24,658,992        |
| Additions                       | -              | 362,118          | 188,880                        | 28,102             | -             | 550,235                | 1,129,335         |
| At December 31, 2017            | 770,000        | 2,133,162        | 15,241,599                     | 238,843            | 28,400        | 7,376,323              | 25,788,327        |
| Additions                       | -              | <b>10,580</b>    | <b>73,105</b>                  | -                  | -             | <b>128,478</b>         | <b>212,163</b>    |
| At March 31, 2018               | <b>770,000</b> | <b>2,143,742</b> | <b>15,314,704</b>              | <b>238,843</b>     | <b>28,400</b> | <b>7,504,801</b>       | <b>26,000,490</b> |
| <b>Accumulated Depreciation</b> |                |                  |                                |                    |               |                        |                   |
| At December 31, 2016            | -              | 700,819          | 4,460,662                      | 191,887            | 28,400        | 4,955,311              | 10,337,079        |
| Depreciation                    | -              | 33,580           | 555,389                        | 16,197             | -             | 544,799                | 1,149,965         |
| At December 31, 2017            | -              | 734,399          | 5,016,051                      | 208,084            | 28,400        | 5,500,110              | 11,487,044        |
| Depreciation                    | -              | <b>10,691</b>    | <b>128,763</b>                 | <b>4,691</b>       | -             | <b>137,702</b>         | <b>281,847</b>    |
| At March 31, 2018               | -              | <b>745,090</b>   | <b>5,144,814</b>               | <b>212,775</b>     | <b>28,400</b> | <b>5,637,812</b>       | <b>11,768,891</b> |
| <b>Net Book Value</b>           |                |                  |                                |                    |               |                        |                   |
| At December 31, 2017            | 770,000        | 1,398,763        | 10,225,548                     | 30,759             | -             | 1,876,213              | 14,301,283        |
| At March 31, 2018               | <b>770,000</b> | <b>1,398,652</b> | <b>10,169,890</b>              | <b>26,068</b>      | -             | <b>1,866,989</b>       | <b>14,231,599</b> |

Equipment not in service and not subject to depreciation in the amount of \$614,044 (December 31, 2017 - \$597,244) 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 \$1,048,656 (December 31, 2017 - \$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 Inc. In September, 2016, the Company guaranteed a long-term credit facility with an advance line in the amount of \$250,000, which increased to \$800,000 in February 2017. At March 31, 2018, the credit line balance was \$800,000 (December 31, 2017 - \$800,000). This related entity also engaged with the Company for revenue of \$4,434 (2017 - \$10,879) and incurred expenses of \$2,639 (2017 - \$6,401). The transactions are considered to be in the normal course of operations and are recognized at their fair value.

For the three month period ended March 31, 2018, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value salary would approximate \$40,000 (March 31, 2017 - \$40,000). 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.



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**6. Related Party Transactions - continued**

The Company has outstanding an unsecured interest free loan to one employee in the amount of \$20,000 (December 31, 2016 - \$nil), forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022. Six employees have 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 each. The six grants outstanding mature in 2018, 2021, 2022 and 2023. Two current employees have received unsecured interest free loans from the Company with amounts due totalling \$3,741 (December 31, 2017 - \$4,511), with a current portion of \$1,855 (December 31, 2017 - 2,282), with maturity dates in 2018 and 2020. The Company has issued a loan due on demand to the Chief Executive Officer for \$356,530 (December 31, 2017 - \$354,780) at a 2% interest rate. The loan is secured by the Chief Executive Officer's related residential property.

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.

| <b>Company<br/>(Jurisdiction of<br/>Incorporation/<br/>Formation)</b> | <b>Percentage of<br/>ownership by Omni-<br/>Lite Industries<br/>Canada Inc</b> | <b>Overview</b>   | <b>Market Area</b> |
|---|--|---|--------------------|
| 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 segment.    | 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      |

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**7. Compensation of Key Management Personnel**

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

|                          | <b>March 31, 2018</b>    | March 31, 2017   |
|--------------------------|--------------------------|------------------|
| Short-term benefits      | <b>\$ 98,728</b>         | \$ 67,054        |
| Share-based compensation | <b>23,623</b>            | 10,258           |
|                          | <b><u>\$ 122,351</u></b> | <u>\$ 77,312</u> |

Key management personnel of the Company include the Chief Executive Officer, President, Vice-president and the other members of the Board of Directors. No share options were granted in 2018 to key management personnel and Directors (2017 - nil).

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**8. Long-term Debt**

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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%), (4.75% 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, 2018 was \$1,200,000 (December 31, 2017 - \$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 which have been met. The profitability covenant has not been met and a waiver has been applied for. Advances are automatically repayable daily with available funds after clearing operating disbursements.

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**9. Share Capital**

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

(b) Issued

**Share capital**

|   | <b>Number of<br/>Shares</b> | <b>Amount</b>       |
|---|-----------------------------|---------------------|
| Total issued and outstanding, December 31, 2016                               | 10,369,120                  | \$ 7,503,223        |
| Cancelled on repurchase under normal course issuer bid                        | (353,600)                   | (255,870)           |
| <b>Total issued and outstanding, December 31, 2017 and<br/>March 31, 2018</b> | <b>10,015,520</b>           | <b>\$ 7,247,353</b> |

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

|  | Number         | Option Price<br>per Share Range | Weighted Average<br>Exercise Price |
|--|----------------|---------------------------------|------------------------------------|
| Options outstanding at December 31, 2016                               | 1,045,488      | CAD \$0.60 to \$2.00            | CAD \$1.15                         |
| Options - granted  | 233,000        | CAD \$1.35 to \$1.98            | CAD \$1.85                         |
| - expired  | (145,000)      | CAD \$1.38 to \$2.00            | CAD \$1.41                         |
| - forfeited  | (137,434)      | CAD \$0.60 to \$1.85            | CAD \$0.89                         |
| <b>Options outstanding at December 31,<br/>2017 and March 31, 2018</b> | <b>996,054</b> | <b>CAD \$0.60 to \$2.00</b>     | <b>CAD \$1.31</b>                  |
| <b>Options exercisable at March 31, 2018</b>                           | <b>505,057</b> | <b>CAD \$0.60 to \$2.00</b>     | <b>CAD \$0.98</b>                  |

The weighted average fair value of options granted during the period ended March 31, 2018 was \$nil CAD (December 31, 2017 - \$1.85 CAD)

**Omni-Lite Industries Canada Inc.**  
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**9. Share Capital - continued**

The options that are outstanding at March 31, 2018 are summarized as follows:

| Options<br>Outstanding | Option price                | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life |
|------------------------|-----------------------------|------------------------------------|---|
| 281,721                | CAD \$0.60 to \$0.90        | CAD \$0.62                         | 0.14 years  |
| 155,000                | CAD \$0.91 to \$1.37        | CAD \$1.35                         | 2.20 years  |
| 559,333                | CAD \$1.38 to \$2.00        | CAD \$1.64                         | 3.59 years  |
| <b>996,054</b>         | <b>CAD \$0.60 to \$2.00</b> | <b>CAD \$1.31</b>                  | <b>2.40 years</b>                                 |

  

| Number of<br>Options Currently<br>Vested | Option price                | Weighted Average<br>Exercise Price of Options<br>Currently Exercisable | Weighted Average<br>Remaining<br>Contractual Life |
|--|-----------------------------|--|---|
| 281,721                                  | CAD \$0.60 to \$0.90        | CAD \$0.62   | 0.14 years  |
| 95,000                                   | CAD \$0.91 to \$1.37        | CAD \$1.35   | 2.20 years  |
| 128,336                                  | CAD \$1.38 to \$2.00        | CAD \$1.49   | 3.13 years  |
| <b>505,057</b>                           | <b>CAD \$0.60 to \$2.00</b> | <b>CAD \$0.98</b>  | <b>1.28 years</b>                                 |

The options that are outstanding at December 31, 2017 are summarized as follows:

| Options<br>Outstanding | Option price         | Weighted Average Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life |
|------------------------|----------------------|------------------------------------|---|
| 281,721                | CAD \$0.60 to \$0.90 | CAD \$0.62                         | 0.38 years  |
| 155,000                | CAD \$0.91 to \$1.37 | CAD \$1.35                         | 2.45 years  |
| 559,333                | CAD \$1.38 to \$2.00 | CAD \$1.64                         | 3.83 years  |
| 996,054                | CAD \$0.60 to \$2.00 | CAD \$1.31                         | 2.64 years  |

  

| Number of Options<br>Currently Vested | Option price         | Weighted Average Exercise<br>Price of Options Currently<br>Exercisable | Weighted Average<br>Remaining<br>Contractual Life |
|---------------------------------------|----------------------|--|---|
| 281,721                               | CAD \$0.60 to \$0.90 | CAD \$0.62   | 0.38 years  |
| 95,000                                | CAD \$0.91 to \$1.37 | CAD \$1.35   | 2.45 years  |
| 101,670                               | CAD \$1.38 to \$2.00 | CAD \$1.49   | 3.44 years  |
| 478,391                               | CAD \$0.60 to \$2.00 | CAD \$0.95   | 1.44 years  |

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

|                             | March 31, 2018      | December 31, 2017 |
|-----------------------------|---------------------|-------------------|
| Risk free interest rate (%) | <b>0.99 – 1.47%</b> | 0.99 – 1.47%      |
| Expected life (years)       | <b>5</b>            | 5                 |
| Volatility rate (%)         | <b>50 – 61%</b>     | 50 – 61%          |
| Dividend yield (%)          | <b>0.00%</b>        | 0.00%             |
| Forfeiture rate (%)         | <b>7.8%</b>         | 7.8%              |

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

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**9. Share Capital - continued**

(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, 2017 – 353,600) of its issued and outstanding common shares. In 2017, the Company repurchased the common shares for \$518,429 resulting in a \$255,870 reduction in share capital and a \$262,559 decrease 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:

| March 31, 2018    | United States | Canada   | Barbados  | Inter-corporate<br>elimination | Total        |
|-------------------|---------------|----------|-----------|--------------------------------|--------------|
| Revenue           | \$ 1,338,011  | \$ -     | \$ 9,840  | \$ (6,161)                     | \$ 1,341,690 |
| Net loss          | (154,428)     | (33,045) | (410)     | -                              | (187,883)    |
|                   |               |          |           |                                |              |
| March 31, 2017    | United States | Canada   | Barbados  | Inter-corporate<br>elimination | Total        |
| Revenue           | \$ 1,714,210  | \$ -     | \$ 26,979 | \$ (16,950)                    | \$ 1,724,239 |
| Net income (loss) | 380,002       | (14,477) | 2,670     | -                              | 368,195      |

**11. Commitments**

The Company has agreements with various customers, in the normal course of operations, to supply components in 2018 through 2019.

Rental payments under Non-cancelable Operating leases

Omni-Lite has leases for commercial space in Cerritos, which expire June 30, 2021. The following is a schedule of the future minimum rental payments under the commercial space leases:

| March 31, |            |
|-----------|------------|
| 2019      | \$ 128,184 |
| 2020      | 130,748    |
| 2021      | 133,363    |
| 2021+     | 33,670     |
|           | \$ 425,965 |

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**12. Financial Instruments**

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

|   | March 31, 2018 |            | December 31, 2017 |            |
|---|----------------|------------|-------------------|------------|
|   | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| <b>At fair value through profit or loss</b> |                |            |                   |            |
| Cash  | \$ 503,463     | \$ 503,463 | \$ 839,874        | \$ 839,874 |
| <b>Loans and receivable</b>                 |                |            |                   |            |
| Accounts receivable                         | 946,117        | 946,117    | 1,030,258         | 1,030,258  |
| Due from related parties                    | 1,458,927      | 1,458,927  | 1,452,947         | 1,452,947  |
| <b>Available for sale</b>                   |                |            |                   |            |
| Investment                                  | 382,680        | 382,680    | 430,515           | 430,515    |
| <b>Other financial liabilities</b>          |                |            |                   |            |
| Accounts payable and accrued liabilities    | 478,414        | 478,414    | 543,692           | 543,692    |

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

|               | Total      | Level 1    | Level 2 | Level 3 |
|---------------|------------|------------|---------|---------|
| <b>Assets</b> |            |            |         |         |
| Cash          | \$ 503,463 | \$ 503,463 | \$ -    | \$ -    |
| Investment    | 382,680    | 382,680    | -       | -       |

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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**12. Financial Instruments - continued**

Interest rate risk

The Company's revolving line of credit is 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 March 31, 2018, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$nil (December 31, 2017 - \$nil). The related disclosures regarding these debt instruments are included in Note 8 of these condensed consolidated financial statements.

Foreign currency risk

A 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 March 31, 2018, 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.

|                  | <b>USD</b>            | <b>USD</b>        |
|------------------|-----------------------|-------------------|
|                  | <b>March 31, 2018</b> | December 31, 2017 |
| Cash             | \$ 36,115             | \$ 20,134         |
| Accounts payable | 18,419                | 71,547            |

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:

|  | <b>Impact on Net Income</b> |
|--|-----------------------------|
| U.S. Dollar Exchange Rate – 10% increase | \$ 1,770                    |
| U.S. Dollar Exchange Rate – 10% decrease | (1,770)                     |

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**12. Financial Instruments - continued**

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 1% change in the price of the investment would have an impact of \$3,827 (December 2017 - \$4,305).

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 March 31, 2018:

|  | ≤ 1 year   | > 1 year<br>≤ 3 years | > 3 year<br>≤ 4 years | > 5<br>years | Total      |
|--|------------|-----------------------|-----------------------|--------------|------------|
| Accounts payable and accrued liabilities | \$ 478,414 | \$ -                  | \$ -                  | \$ -         | \$ 478,414 |
| Total                                    | \$ 478,414 | \$ -                  | \$ -                  | \$ -         | \$ 478,414 |

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 fiscal period ended March 31, 2018, the Company was engaged in contracts for products with four (March 31, 2017 – five) customers in excess of 10% of revenue, which accounted for \$1,160,391 (March 31, 2017 - \$1,432,519) or 87% (March 31, 2017 – 83%) of the Company's total revenue. During the same fiscal period, there were no export sales (March 31, 2017 – 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<br>≤ 60 days | 60 days<br>≤ 90 days | > 90<br>days     |
|-----------------------|-------------------|-------------------|-------------------|------------------------|----------------------|------------------|
| <b>March 31, 2018</b> | <b>\$ 946,117</b> | <b>\$ 734,335</b> | <b>\$ 181,829</b> | <b>\$ -</b>            | <b>\$ 959</b>        | <b>\$ 28,994</b> |
| December 31, 2017     | 1,030,258         | 674,702           | 234,139           | 67,492                 | 46,551               | 7,374            |



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### 13. Contributed Surplus

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The following is a continuity schedule of contributed surplus:

|                              | <b>March 31, 2018</b> | December 31, 2017 |
|------------------------------|-----------------------|-------------------|
| Balance, beginning of period | <b>\$ 1,772,431</b>   | \$ 1,697,529      |
| Cash settled options         | -                     | (43,732)          |
| Share-based compensation     | <b>28,683</b>         | 118,634           |
| Balance, end of period       | <b>\$ 1,801,114</b>   | \$ 1,772,431      |

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### 14. Income per Common Share

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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.

399,333 (March 31, 2017 – 93,766) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended March 31, 2018, 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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### 15. Capital Disclosures

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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 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.

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

**For the interim three months ended March 31, 2018 and 2017**

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**16. Subsequent event**

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A claim was made by a former employee on December 5, 2017 alleging certain acts occurred during and after the employee's employment with a subsidiary. On May 16, 2018, the matter was settled with a release of all claims and the Company recorded a provision for all related expenses in the amount of \$139,330 as at March 31, 2018.