Omni-Lite Industries Canada Inc.
Condensed Consolidated Interim Financial Statements
For the three and nine month periods ended September 30, 2018
(Unaudited, in United States Dollars)

Contents

Condensed Consolidated Interim Financial Statements:

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

As at	Note	September 30, 2018 (unaudited)	December 31 , 2017 (audited)
Assets			
Current			
Cash		**$ 713,386**	$ 839,874
Accounts receivable	**14**	**1,539,622**	1,030,258
Inventory	**4**	**2,796,097**	2,442,607
Due from related parties	**8**	**6,712**	7,282
Prepaid expenses		**150,380**	167,082
Total Current Assets		**5,206,197**	4,487,103
Long-term			
Investment	**5**	**278,932**	430,515
Property, plant and equipment	**6**	**14,037,509**	14,301,283
Due from related parties	**8**	**1,459,913**	1,445,665
Deferred tax asset		**798,922**	719,466
Intangible assets	**7**	**1,059,236**	-
Other assets		**15,385**	-
Total Assets		**$ 22,856,094**	$ 21,384,032
Liabilities			
Current			
Accounts payable and accrued liabilities	**14**	**$ 855,595**	$ 543,692
Income taxes payable		**4,574**	6,609
Bank indebtedness	**10**	**330,000**	-
Total Current Liabilities		**1,190,169**	550,301
Long-term			
Deferred tax liability		**2,916,174**	2,558,473
Total Liabilities		**4,106,343**	3,108,774
Commitments	**13**		
Shareholders' Equity			
Share capital	**11(b)**	**8,387,959**	7,247,353
Contributed surplus	**15**	**1,917,105**	1,772,431
Retained earnings		**8,581,766**	9,240,970
Accumulated other comprehensive (loss) income		**(137,079)**	14,504
Total Shareholders' Equity		**18,749,751**	18,275,258
Total Liabilities and Shareholders' Equity		**$ 22,856,094**	$ 21,384,032

On behalf of the Board:

signed "David Robbins" CEO
David Robbins

signed "Carl L. Lueders" CFO
Carl L. Lueders

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

Omni-Lite Industries Canada Inc.
Condensed Consolidated Interim Statements of (Loss) Income, and Comprehensive (Loss) Income
United States Dollars
(Unaudited)

	Note	**For the nine month period ended September 30, 2018**	For the nine month period ended September 30, 2017	**For the three month period ended September 30, 2018**	For the three month period ended September 30, 2017
Revenue	**12**	**$ 4,929,254**	$ 5,496,097	**$ 1,965,233**	$ 2,016,906
Cost of goods sold	**4**	**2,427,547**	2,173,165	**1,238,214**	784,109
Gross margin		**2,501,707**	3,322,932	**727,019**	1,232,797
Overhead expenses					
Depreciation	**6**	**850,711**	810,902	**281,971**	270,546
Foreign exchange loss (gain)		**3,699**	(607)	**1,519**	793
General and administrative		**1,326,937**	788,450	**593,665**	289,654
Employee benefits		**890,114**	818,663	**360,063**	286,909
Commissions		**3,968**	5,485	**1,901**	1,610
Share-based compensation	**15**	**75,017**	50,837	**18,965**	23,499
Research and product design		**21,240**	19,439	**12,017**	4,727
		3,171,686	2,493,169	**1,270,101**	877,738
(Loss) income from operations		**(669,979)**	829,763	**(543,082)**	355,059
Other income					
Interest income		**21,020**	21,384	**7,092**	7,097
(Loss) income before income taxes		**(648,959)**	851,147	**(535,990)**	362,156
Income tax provision (recovery)					
Current		**5,750**	6,240	**3,165**	3,550
Deferred		**4,495**	(290,100)	**45,595**	(86,400)
		10,245	(283,860)	**48,760**	(82,850)
Net (loss) income		**$ (659,204)**	$ 1,135,007	**$ (584,750)**	$ 445,006
Other comprehensive (loss) income					
(Loss) gain on investment	**5**	**(151,583)**	139,603	**(39,524)**	(115,212)
Comprehensive (loss) income		**$ (810,787)**	$ 1,274,610	**$ (624,274)**	$ 329,794
(Loss) income per share - basic	**16**	**($ 0.07)**	$ 0.11	**($ 0.06)**	$ 0.04
- diluted	**16**	**($ 0.07)**	$ 0.11	**($ 0.06)**	$ 0.04
Weighted average shares outstanding					
basic	**16**	**10,102,701**	10,327,777	**10,228,694**	10,245,988
diluted	**16**	**10,102,701**	10,596,222	**10,228,694**	10,620,877

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

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2016		$ 7,503,223	$ 1,697,529	$ 8,765,705	$ (25,373)	$ 17,941,084
Cash settled options		-	(43,732)	-	-	(43,732)
Repurchase under normal course issuer bid		(142,045)	-	(160,034)	-	(302,079)
Share-based compensation		-	50,837	-	-	50,837
Net income		-	-	1,135,007	-	1,135,007
Gain on available for sale financial assets		-	-	-	139,603	139,603
Balance at September 31, 2017		$ 7,361,178	$ 1,704,634	$ 9,740,678	$ 114,230	$ 18,920,720
Balance at December 31, 2017		**$ 7,247,353**	**$ 1,772,431**	**$ 9,240,970**	**$ 14,504**	**$ 18,275,258**
Shares issued upon option exercise	**11(b)**	**67,544**	**(22,545)**	**-**	**-**	**44,999**
Shares issued for acquisition	**3**	**1,073,062**	**-**	**-**	**-**	**1,073,062**
Warrants issued for acquisition	**3**	**-**	**92,202**	**-**	**-**	**92,202**
Share-based compensation	**15**	**-**	**75,017**	**-**	**-**	**75,017**
Net loss		**-**	**-**	**(659,204)**	**-**	**(659,204)**
Loss on investment	**5**	**-**	**-**	**-**	**(151,583)**	**(151,583)**
Balance at September 30, 2018		**$ 8,387,959**	**$ 1,917,105**	**$ 8,581,766**	**$ (137,079)**	**$18,749,751**

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

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

	Note	**For the nine month period ended September 30, 2018**	For the nine month period ended September 30, 2017	**For the three month period ended September 30, 2018**	For the three month period ended September 30, 2017
Cash flows from operating activities					
Net (loss) income for the period		**$ (659,204)**	$ 1,135,007	**$ (584,750)**	$ 445,006
Adjustments for:					
Depreciation	**6**	**850,711**	810,902	**281,971**	270,546
Deferred tax expense (recovery)		**4,495**	(290,100)	**45,595**	(86,400)
Share-based compensation	**15**	**75,017**	50,837	**18,965**	23,499
		271,019	1,706,646	**(238,219)**	652,651
Net change in non-cash working capital items					
Accounts receivable		**(304,564)**	(14,786)	**(153,276)**	198,327
Income taxes receivable		**-**	9,253	**-**	3,550
Inventory		**165,757**	102,054	**534,834**	254,161
Prepaid expenses		**17,378**	29,523	**13,815**	5,097
Accounts payable and accrued liabilities		**220,621**	20,037	**221,081**	44,825
Income taxes payable		**(2,036)**	-	**3,164**	-
Increase in cash from operating activities		**368,175**	1,852,727	**381,399**	1,158,611
Cash flows from financing activities					
Payments from related parties		**570**	49,469	**343**	44,793
Advances to related parties		**(14,248)**	(29,168)	**(1,807)**	(22,092)
Proceeds from bank indebtedness		**330,000**	-	**330,000**	-
Cash settled options		**-**	(43,732)	**-**	(17,467)
Repurchase of common shares		**-**	(302,079)	**-**	(302,079)
Option exercised		**44,999**	-	**-**	-
Increase (decrease) in cash from financing activities		**361,321**	(325,510)	**328,536**	(296,845)
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired	**3**	**(385,231)**	-	**(385,231)**	-
Purchase of common shares	**5**	**-**	(34,728)	**-**	-
Purchase of patent		**(5,385)**	-	**(5,385)**	-
Purchase of property, plant and equipment	**6**	**(465,368)**	(778,265)	**(125,554)**	(215,676)
Decrease in cash from investing activities		**(855,984)**	(812,993)	**(516,170)**	(215,676)
(Decrease) increase in cash		**(126,488)**	712,224	**193,765**	646,090
Cash, beginning of period		**839,874**	476,976	**519,621**	545,110
Cash, end of period		**$ 713,386**	$ 1,191,200	**$ 713,386**	$ 1,191,200

The accompanying notes are an integral part of these condensed consolidated interim 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 condensed consolidated interim financial statements of the Company for the three and nine month periods ended September 30, 2018 include the accounts of the Company and its wholly-owned subsidiaries. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 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 - 10th Avenue S.W., Calgary, Alberta T2R 0A8. The Company's core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company's operations are located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated interim financial statements are stated in United States dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

2. Significant Accounting Policies

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, 2017 and 2016 except as noted in note 2(a). These policies have been consistently applied to each of the periods presented, unless otherwise indicated.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in effect at January 1, 2018. These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting".

(a) New accounting policies

IFRS 9 Financial Instruments ("IFRS 9")

On January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures using the modified retrospective approach. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. On the adoption date of January 1, 2018, IFRS 9 did not result in any adjustments to the opening consolidated statement of financial position.

2. Significant Accounting Policies - continued

Classification and Measurement of Financial Instruments

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

Amortized Cost

The Company classifies its accounts receivable, due from related parties, accounts payable and accrued liabilities, and bank indebtedness as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

FVTPL

The Company classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the condensed consolidated interim statements of (loss) income and comprehensive (loss) income. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets.

FVOCI

The Company classifies its investment as measured at FVOCI. Financial assets classified as FVOCI are subsequently measured at fair value with changes in fair value charged to other comprehensive (loss) income.

The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

2. Significant Accounting Policies – continued

	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Investment	Available for sale	FVOCI
Financial Liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable.

The Company's financial assets are subject to the expected credit loss model under IFRS 9. For the accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

Revenue Recognition

On January 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. Upon adoption of IFRS 15, the Company recognizes revenue from the sale of products, which include components for the aerospace, military, specialty automotive and sports and recreational industries, when the performance obligations have been completed, as custody of these products transfer to the customer, and collectability is reasonably assured. The consideration for product sales rendered is measured at the fair value of the consideration received and allocated based on their individual selling prices. The individual selling prices are determined based on the agreed upon prices at which the Company sells in separate transactions.

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

The adoption of IFRS 15 did not result in any changes in the timing or amount of revenue recognized for the Company's goods and services.

2. Significant Accounting Policies - continued

Business combinations
The Company uses the acquisition method of accounting to account for business combinations. At the acquisition date, the Company recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interests of the acquire at fair value. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred. If the business combination results in a contingent consideration being transferred to the acquirer, it is recognized at fair value at acquisition date.

Goodwill
Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating unit's ("CGU") expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(b) 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. Acquisition of Subsidiary

On September 21, 2018, the Company acquired 100% of the issued and outstanding shares of Monzite Corporation ("Monzite") in exchange for 1,225,000 shares and 200,000 warrants of Omni-Lite valued at $1,073,062 and $92,202 respectively. The shares were valued based on the Company's share price on the date of acquisition. The warrants vest one third per year and have an exercise price of CAD$1.13 and were valued using the Black-Scholes option pricing model using a risk free rate of 2.30% and volatility of 60%. In addition, Omni-Lite paid $258,224 in cash to repay founders loan and assumed and paid $171,115 of bank debt. Monzite designs and manufactures drivers and contract manufactures electronic sub-components primarily for defense applications. The primary reason for the acquisition of Monzite was growth potential and workforce.

3. Acquisition of Subsidiary - continued

The Company has made a preliminary determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the acquisition. The fair value of the assets has been measured provisionally and if new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of the acquisition identifies adjustments to the amounts then the accounting for the acquisition will be revised. The final allocation of the fair value of the net assets acquired and aggregate consideration may be significantly different from the preliminary allocation as presented below:

Total purchase price has been allocated as follows:

Consideration paid:	
Cash paid for founders loans	$ 258,224
Cash paid for bank indebtedness	171,115
Warrants	92,202
Shares	1,073,062
Total consideration paid	$ 1,594,603
Assets (liabilities) assumed:	
Cash	44,108
Accounts receivable	204,800
Inventory	519,247
Property, plant and equipment	121,569
Prepaid expenses and other assets	10,677
Non compete agreements	20,000
Trademark	100,000
Customer relationships	500,000
Accounts payable and accrued liabilities	(91,282)
Deferred tax on acquisition	(273,752)
Fair value of net assets	$ 1,155,367
Goodwill	$ 439,236

The purchase price allocation included an inventory fair value adjustment of $297,687.

Revenue and net income of Monzite included in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income from the acquisition date is $43,634 and $5,440, respectively. Had the acquisition occurred on January 1, 2018 the revenue and net loss would have been $1,013,037 and $40,615 respectively. Transaction costs included in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income were approximately $294,000.

4. Inventory

The major components of inventory are classified as follows:

	September 30, 2018	December 31, 2017
Raw materials	**$ 864,498**	$ 633,359
Work in progress	**84,725**	-
Finished goods	**2,419,585**	2,052,125
Finished goods mark to market	**230,589**	-
Allowance for obsolete inventory	**(803,300)**	(242,877)
	$ 2,796,097	$ 2,442,607

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold was $2,427,547 (2017 - $2,173,165). In the three and nine month periods ended September 30, 2018, the Company recorded a reserve for obsolete inventory in the amount of $560,423 (2017 three and nine month periods - $nil). The finished goods mark to market is due to adjusting Monzite finished goods inventory to selling price as required by fair value acquisition accounting.

5. Investment

As at September 30, 2018, the long-term investment consists of an equity investment in the common shares of a public company related through common management. The Company's investment is recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	Carrying Amount
Investment at December 31, 2016	$ 355,910
Purchase 365,000 shares, May/June 2017	34,728
Gain from market price valuation	39,877
Investment at December 31, 2017	430,515
Loss from market price valuation	**(151,583)**
Investment at September 30, 2018	**$ 278,932**

6. Property, Plant and Equipment

Cost	Land	Building	Production equipment	Other equipment	Non-consumable tooling	Totals
At December 31, 2016	$ 770,000	$ 1,771,044	$ 15,052,719	$ 239,141	$ 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	267,243	7,376,323	25,788,327
Additions	**-**	**21,408**	**86,185**	**-**	**357,775**	**465,368**
Acquisition of subsidiary (note 3)	**-**	**-**	**87,867**	**25,430**	**8,272**	**121,569**
At September 30, 2018	**$ 770,000**	**$ 2,154,570**	**$ 15,415,651**	**$ 292,673**	**$ 7,742,370**	**$ 26,375,264**
Accumulated depreciation						
At December 31, 2016	$ -	$ 700,819	$ 4,460,662	$ 220,287	$ 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	236,484	5,500,110	11,487,044
Depreciation	**-**	**42,605**	**388,346**	**12,207**	**407,553**	**850,711**
At September 30, 2018	**$ -**	**$ 777,004**	**$ 5,404,397**	**$ 248,691**	**$ 5,907,663**	**$ 12,337,755**
Net book value						
At December 31, 2017	$ 770,000	$ 1,398,763	$ 10,225,548	$ 30,759	$ 1,876,213	$ 14,301,283
At September 30, 2018	**$ 770,000**	**$ 1,377,566**	**$ 10,011,254**	**$ 43,982**	**$ 1,834,707**	**$ 14,037,509**

Equipment not in service and not subject to depreciation in the amount of $nil (December 31, 2017 - $597,244) is included in production equipment.

7. Intangible Assets

Cost	Customer list	Goodwill	Trademark	Non-compete agreements	Totals
At December 31, 2016, and 2017	$ -	$ -	$ -	$ -	$ -
Acquisition of subsidiary (note 3)	**500,000**	**439,236**	**100,000**	**20,000**	**1,059,236**
At September 30, 2018	**$ 500,000**	**$ 439,236**	**$ 100,000**	**$ 20,000**	**$ 1,059,236**
Accumulated amortization					
At December 31, 2016, and 2017, September 30, 2018	$ -	$ -	$ -	$ -	$ -
Net book value					
At December 31, 2016, and 2017	$ -	$ -	$ -	$ -	$ -
At September 30, 2018	**$ 500,000**	**$ 439,236**	**$ 100,000**	**$ 20,000**	**$ 1,059,236**

8. Related Party Transactions and Balances

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 Corp. bearing interest at 2% per annum and due on demand. Included in accounts receivable at September 30, 2018 is interest receivable in the amount of $26,260 (December 31, 2017 - $10,573). The loan is secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nanotechnologies Corp. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of California Nanotechnologies Corp. The Company has guaranteed a long-term credit facility with an advance line in the amount of $800,000. At September 30, 2018, the credit facility balance was $751,688 (December 31, 2017 - $800,000). This related entity also engaged with the Company for revenue of $17,897 (2017 – $42,106) and incurred expenses of $13,139 (2017 – $9,076). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

The Company has outstanding an unsecured interest free loan to one employee in the amount of $20,000 (December 31, 2017 - $20,000), forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022. Seven employees (December 31, 2017 – five) 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 seven 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 $2,855 (December 31, 2017 - $4,511), with a current portion of $1,712 (December 31, 2017 – 7,282), with maturity dates in 2018 and 2020. The Company has issued a loan due on demand to the former Chief Executive Officer for $360,114 representing principal and interest (December 31, 2017 - $354,780) at a 2% interest rate. The loan is secured by the former Chief Executive Officer's related residential property.

8. Related Party Transactions and Balances - continued

Significant subsidiaries:

The tables set forth below provide 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 United States 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%	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%	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%	Formed and incorporated in Barbados on February 8, 2005. It conducts all international sales in the sports and recreation division.	International
Monzite Corporation (New Hampshire, USA)	100%	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 sub-components.	United States
Formed Fast International Inc. (Barbados)	100%	Formed and incorporated in Barbados on February 24, 1998. It is an investment holding company.	International

9. Contingencies

A subsidiary was named in a claim on December 5, 2017 for damages caused by a wrongful termination of an employee. In the nine months ending September 30, 2018 the Company has settled the claim for $172,000.

10. Bank Indebtedness

The Company has access to a commercial advance line of up to $1,200,000 for operating purposes, bearing interest at the Prime Rate maturing on September 30, 2019 (the "Credit Agreement"). The available credit line at September 30, 2018 was $870,000 (December 31, 2017 - $1,200,000). The Credit Agreement is secured by the Company's accounts receivable, inventory, equipment, and general intangibles. Under this agreement, the Company has agreed to certain conditions and financial covenant ratios, based on financial results including net worth, current and debt service ratios, and profitability, which have been met as at September 30, 2018.

	September 30, 2018	December 31, 2017
Credit line	**$ 330,000**	$ -
Less: current portion	**(330,000)**	-
	$ -	$ -

Interest of $275 (2017 - $nil) related to the credit line has been recorded as interest expense in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income for the three and nine month periods ended September 30, 2018.

11. Share Capital

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

(b) Issued

Share capital	**Number of Shares**	**Amount**
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)
Total issued and outstanding, December 31, 2017	10,015,520	$ 7,247,353
Shares issued upon option exercise (note 15)	**93,334**	**67,544**
Shares issued upon subsidiary acquisition (note 3)	**1,225,000**	**1,073,062**
Total issued and outstanding, September 30, 2018	**11,333,854**	**$ 8,387,959**

(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 February 15, 2018 and acceptance by the TSX Venture Exchange has been applied for.

11. Share Capital – continued

(c) Share options - 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
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
Options outstanding at December 31, 2017	966,054	CAD $0.60 to $2.00	CAD $1.31
Options - exercised	**(93,334)**	**CAD $0.60 to $0.90**	**CAD $0.62**
- expired	**(188,387)**	**CAD $0.60 to $0.90**	**CAD $0.62**
- forfeited	**(5,000)**	**CAD $1.38 to $2.00**	**CAD $1.48**
Options outstanding at September 30, 2018	**709,333**	**CAD $0.91 to $2.00**	**CAD $1.54**
Options exercisable at September 30, 2018	**476,998**	**CAD $0.91 to $2.00**	**CAD $1.44**

The weighted average fair value of options granted during the period ended September 30, 2018 was $nil CAD (December 31, 2017 - $1.85 CAD)

The options that are outstanding at September 30, 2018 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
205,000	CAD $0.91 to $1.37	CAD $1.25	1.61 years
554,333	CAD $1.38 to $2.00	CAD $1.65	3.09 years
759,333	**CAD $0.91 to $2.00**	**CAD $1.54**	**2.69 years**

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
205,000	CAD $0.91 to $1.37	CAD $1.25	1.61 years
271,998	CAD $1.38 to $2.00	CAD $1.57	2.90 years
476,998	**CAD $0.91 to $2.00**	**CAD $1.42**	**2.34 years**

11. Share Capital - continued

(c) Share options - continued

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

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining 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 Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining 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:

	December 31, 2017
Risk free interest rate (%)	0.99 – 1.47%
Expected life (years)	5
Volatility rate (%)	50 – 61%
Dividend yield (%)	0.00%
Forfeiture rate (%)	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.

(d) Warrants

The Company initiated a long term stock warrant plan in the third quarter of 2018 for the Chief Executive Officer and Chief Financial Officer. Under the plan, 1,000,000 warrants were granted in addition to the 200,000 warrants granted as disclosed in note 3. The warrants are allocated among six(6) tranches with each tranche having specified number of warrants, strike price, and vesting provisions.

300,000 warrants granted have exercise prices ranging from CAD$1.27 – CAD$2.26 and vest one third per year with the first vesting date ranging from December 31, 2019 to December 31, 2022 and all have an expiry date of September 21, 2026.

700,000 warrants granted have exercise prices ranging from CAD$1.27 – CAD$2.26 and vest upon meeting certain performance provisions on dates ranging from December 31, 2021 to December 31, 2024.

11. Share Capital - continued

(d) Warrants - continued

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

	September 30, 2018
Risk free interest rate (%)	2.30%
Expected life (years)	2-8
Volatility rate (%)	45 – 57%
Dividend yield (%)	0.00%
Forfeiture rate (%)	0.00%

Share-based compensation expense in the amount of $4,432 was recorded in the three and nine months ended September 30, 2018.

12. 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:

Nine months ended September 30, 2018	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$ 4,733,575**	**$ -**	**$ 393,840**	**$ (198,161)**	**$ 4,929,254**
Net (loss) income	**(577,207)**	**(262,724)**	**180,727**	**-**	**(659,204)**

Nine months ended September 30, 2017	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 5,067,319	$ -	$ 659,228	$ (230,450)	$ 5,496,097
Net (loss) income	812,936	(43,560)	365,631	-	1,135,007

Three months ended September 30, 2018	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$ 1,817,633**	**$ -**	**$ 295,200**	**$ (147,600)**	**$ 1,965,233**
Net (loss) income	**(529,789)**	**(195,365)**	**140,404**	**-**	**(584,750)**

Three months ended September 30, 2017	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 1,639,206	$ -	$ 523,550	$ (145,850)	$ 2,016,906
Net (loss) income	130,198	(13,740)	328,548	-	445,006

13. 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:

September 30,	
2019	$ 221,767
2020	227,845
2021	158,323
	$ 607,935

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.

	September 30, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 713,386**	**$ 713,386**	$ 839,874	$ 839,874
At amortized cost				
Accounts receivable	**1,539,622**	**1,539,622**	1,030,258	1,030,258
Due from related parties	**1,466,625**	**1,466,625**	1,452,947	1,452,947
At FVOCI				
Investment	**278,932**	**278,932**	430,515	430,515
At amortized cost				
Accounts payable and accrued liabilities	**855,595**	**855,595**	543,692	543,692
Bank indebtedness	**330,000**	**330,000**	-	-

The table below sets out fair value measurements of financial instruments carried at fair value using the fair value hierarchy.

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 713,386	$ 713,386	$ -	$ -
Investment	278,932	278,932	-	-

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

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

The fair value of the Company's due from related parties and bank indebtedness 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.

14. Financial Instruments - continued

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and accounts receivable to offset foreign currency accounts payables and planned expenditures. At September 30, 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.

	September 30, 2018	December 31, 2017
Cash	**$ 3,851**	$ 20,134
Accounts payable	**193,799**	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 cash and accounts payable, as follows:

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	**$ 18,995**
U.S. Dollar Exchange Rate – 10% decrease	**(18,995)**

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 interim 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 $2,789 (December 2017 - $4,305).

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 September 30, 2018, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $3,300 (December 31, 2017 - $nil). The related disclosures regarding these debt instruments are included in Note 10 of these condensed consolidated interim financial statements.

14. Financial Instruments - continued

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 accounts receivable and accounts payable.

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

September 30, 2018	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 855,595**	**$ -**	**$ -**	**$ -**	**$ 855,595**
Bank indebtedness	**330,000**	**-**	**-**	**-**	**330,000**
Total	**$ 1,185,595**	**$ -**	**$ -**	**$ -**	**$ 1,185,595**

December 31, 2017	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 543,692	$ -	$ -	$ -	$ 543,692
Total	$ 543,692	$ -	$ -	$ -	$ 543,692

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the period ended September 30, 2018, the Company was engaged in contracts for products with four (September 30, 2017 – four) customers in excess of 10% of revenue, which accounted for $3,792,723 (September 30, 2017 - $4,114,026) or 77% (September 30, 2017 – 75%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of the age of our accounts receivables which are not considered impaired.

	Totals	Current	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days
September 30, 2018	**$ 1,539,622**	**$ 1,294,139**	**$ 176,678**	**$ 7,434**	**$ 8,014**	**$ 53,357**
December 31, 2017	$ 1,030,258	$ 674,702	$ 234,139	$ 67,492	$ 46,551	$ 7,374

15. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	September 30, 2018	December 31, 2017
Balance, beginning of period	**$ 1,772,431**	$ 1,697,529
Shares issued upon option exercise	**(22,545)**	-
Warrants issued upon subsidiary acquisition	**92,202**	-
Cash settled options (Note 11(b))	**-**	(43,732)
Share-based compensation	**75,017**	118,634
Balance, end of period	**$ 1,917,105**	$ 1,772,431

16. (Loss) Income 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 income per common share is calculated using net income divided by the weighted-average number of diluted common shares outstanding.

759,333 options were excluded in calculated the weighted-average number of diluted common shares outstanding for the period ended September 30, 2018 because the Company was in a net loss position and therefore any exercise would be anti-dilutive. For the period ended September 30, 2017, 233,000 options were excluded in calculating the weighted-average number of diluted common shares outstanding 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.

17. Capital Disclosures

The objective of managing the Company's capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The capital structure of the Company consists of cash, and equity comprised of issued capital, contributed surplus and retained earnings. The Company generally relies on operating cash flows to fund the expansion and product development. However, given the long cycle time of some of the development projects which require significant capital investment prior to cash flow generation, it is not unusual for capital expenditures to exceed cash flow from operating activities in any given period. The Company's financing needs depend on the timing of expected net cash flows from new products and sales of current products. This requires the Company to maintain financial flexibility and liquidity. The Company's capital management policies are aimed at:

Maintaining an appropriate balance between short-term borrowings, long-term debt and shareholders' equity; maintaining sufficient undrawn committed credit capacity to provide liquidity; ensuring ample covenant room to draw credit lines as required; and ensuring the Company maintains a credit rating that is appropriate for their circumstances.

The Company monitors the leverage in its capital structure by reviewing the ratio of net debt to cash flow from operating activities and interest coverage ratios.