OMNI-LITE INDUSTRIES

Omni-Lite Industries Canada Inc.
Unaudited Condensed Consolidated Financial Statements
For the interim three and nine months ended September 30, 2019 and 2018
(in United States Dollars)

Contents

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018.

NOTICE TO THE READER OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of Omni-Lite Industries Canada Inc. including the consolidated statements of financial position as at September 30, 2019 and 2018 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the nine months ended September 30, 2019 and 2018 are the responsibility of the Company's management.

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

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

"David Robbins" *signed*

David Robbins
Director and Chief Executive Officer
Cerritos, California, USA
November 19, 2019

*"**Roger Dent**" signed*

Roger Dent
Director
Cerritos, California, USA
November 19, 2019

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

As at	Note	September 30, 2019 (unaudited)	December 31, 2018
Assets			
Current			
Cash		$ 329,334	$ 340,571
Accounts receivable		1,532,052	1,132,435
Inventory	**3**	3,964,492	2,764,655
Due from related parties	**6**	1,080	1,486
Prepaid expenses		123,109	159,055
Total Current Assets		5,950,067	4,398,202
Long-term			
Investment		136,031	220,074
Property, plant and equipment	**4**	9,032,244	9,042,293
Due from related parties	**6**	435,862	1,534,977
Deferred tax asset		1,530,711	1,236,159
Intangible assets		689,837	745,837
Deposits	**6**	22,008	47,613
Other asset		5,385	5,385
Total Assets		$ 17,802,145	$ 17,230,540
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 1,180,396	$ 909,309
Bank indebtedness	**7**	700,000	–
Lease liability		178,597	–
Income taxes payable		25,296	8,275
Total Current Liabilities		2,084,289	917,584
Long-term			
Lease liability		180,491	–
Deferred tax liability		2,104,963	1,774,807
Total Liabilities		4,369,743	2,692,391
Shareholders' Equity			
Share capital	**8**	8,204,897	8,204,897
Contributed surplus	**11**	1,904,027	1,812,298
Retained earnings		3,603,458	4,716,891
Accumulated other comprehensive loss		(279,980)	(195,937)
Total Shareholders' Equity		13,432,402	14,538,149
Total Liabilities and Shareholders' Equity		$ 17,802,145	$ 17,230,540

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

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

	Note	**For the nine month period ended September 30, 2019**	For the nine month period ended September 30, 2018	**For the three month period ended September 30, 2019**	For the three month period ended September 30, 2018
Revenue	**9**	**$ 7,141,121**	$ 4,929,254	**$ 2,123,087**	**$ 1,965,233**
Cost of goods sold		**5,416,450**	2,427,547	**1,876,406**	1,238,214
Gross margin		**1,724,671**	2,501,707	**246,681**	**727,019**
Operating expenses					
Selling, general and administrative		**1,443,230**	1,326,937	**499,201**	593,665
Depreciation	**4**	**-**	850,711	**-**	281,971
Foreign exchange loss		**-**	3,699	**-**	1,519
Employee benefits		**-**	890,114	**-**	360,063
Commissions		**-**	3,968	**-**	1,901
Share-based compensation	**8**	**-**	75,017	**-**	18,965
Amortization of intangibles		**56,000**	–	**18,667**	–
Total overhead expenses		**1,499,230**	3,150,446	**517,868**	1,258,084
Research and product design		**168,179**	21,240	**58,680**	12,017
Total Operating Expenses		**1,667,409**	3,171,686	**576,548**	1,270,101
(Loss) Income from operations		**57,262**	(669,979)	**(329,867)**	(543,082)
Other income (expense)					
Loan write off		**(1,088,879)**		**(1,088,879)**	
Interest income		**5,507**	21,020	**1,905**	7,092
Interest expense		**(35,408)**	–	**(13,759)**	–
(Loss) Income before income taxes		**(1,061,518)**	(648,959)	**(1,430,600)**	(535,990)
Income tax expense (recovery)					
Current		**1,600**	5,750	**-**	3,165
Deferred		**50,315**	4,495	**37,165**	45,595
		51,915	10,245	**37,165**	48,760
Net (loss) income		**$ (1,113,433)**	$ (659,204)	**$ (1,467,765)**	$ (584,750)
Other comprehensive loss					
Items that may be reclassified to profit or loss:					
Gain (loss) on investment		**(279,980)**	(151,583)	**(38,159)**	(39,524)
Comprehensive (Loss) income		**$ (1,393,413)**	$ (810,787)	**$ (1,505,924)**	$ (624,274)
(Loss) income per share - basic	**12**	**$(.10)**	$(0.07)	**$(.13)**	$ (0.06)
- diluted	**12**	**$(.10)**	$(0.07)	**$(.13)**	$ (0.06)
Weighted average shares outstanding					
- basic	**12**	**11,333,854**	10,102,701	**11,333,854**	10,228,694
- diluted	**12**	**11,336,639**	10,102,701	**11,338,220**	10,228,694

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total Shareholders' Equity
Balance at December 31, 2017		$ 7,247,353	$ 1,772,431	$ 9,240,970	$ 14,504	$ 18,275,258
Shares issued upon option exercise		67,544	(22,545)	-	-	44,999
Shares issued for acquisition	**8**	1,073,062	-	-	-	1,073,062
Warrants issued for acquisition	**8**	-	92,202	-	-	92,202
Share-based compensation	**8**	-	75,017	-	-	75,017
Net (loss) income		-	-	(659,204)	-	(659,204)
Loss on investment	**10**	-	-	-	(151,583)	(151,583)
Balance at September 30, 2018		$ 8,387,959	$ 1,917,105	$ 8,581,766	$ (137,079)	$ 18,749,751

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total Shareholders' Equity
Balance at December 31, 2018		$ 8,204,897	$ 1,812,298	$ 4,716,891	$ (195,937)	$ 14,538,149
Share-based compensation	**8**		91,729			91,729
Net (loss) income				(1,113,433)		(1,113,433)
Loss on investment	**10**				(84,043)	(84,043)
Balance at September 30, 2019		**$ 8,204,897**	**$ 1,904,027**	**$3,603,458**	**$ (279,980)**	**$ 13,432,402**

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

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

	Note	For the nine month period ended September 30, 2019	For the nine month period ended September 30, 2018
Cash flows from operating activities			
Net (loss) income for the period		**$ (1,113,433)**	$ (659,204)
Adjustments for:			
Depreciation	**4**	**806,667**	850,711
Allowance for Bad Debt		**41,494**	-
Amortization of intangibles		**56,000**	-
Deferred tax expense (recovery)		**35,604**	4,495
Share-based compensation	**12**	**91,729**	75,017
Loan Receivable write-off		**1,088,879**	
Interest expense		**20,591**	-
		1,027,531	271,019
Net change in non-cash working capital items			
Accounts receivable		**(441,111)**	(304,564)
Inventory		**(1,199,837)**	165,757
Prepaid expenses		**35,945**	17,378
Accounts payable and accrued liabilities		**271,086**	220,621
Deposits		**25,605**	-
Income taxes payable		**17,021**	(2,036)
Increase (decrease) in cash from operating activities		**(263,760)**	**368,175**
Cash flows from financing activities			
Payments from related parties		**16,148**	570
Advances to related parties		**(5,507)**	(14,248)
Proceeds from bank indebtedness		**700,000**	330,000
Cash settled options		**-**	44,999
Repayment of lease liability		**(166,810)**	-
Increase (decrease) in cash from financing activities		**543,831**	**361,321**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash		**-**	(385,231)
Purchase of patent		**-**	(5,385)
Purchase of property, plant and equipment	**4**	**(291,308)**	(465,368)
Decrease in cash from investing activities		**(291,308)**	(855,984)
(Decrease) increase in cash		**(11,237)**	(126,488)
Cash, beginning of period		**340,571**	839,874
Cash, end of period		**329,334**	$ 713,386

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 interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2019 include the accounts of the Company and its wholly-owned subsidiaries. The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 19, 2019. 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 18 Kings Street East, Suite 902, Toronto, ON M5C2C4. The Company's core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company's operations is located in the United States ("U.S.") and its functional currency is denominated in U.S. dollars, these condensed consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

2. Significant Accounting Policies

These condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee ("IFRIC") in effect at January 1, 2019. The principal accounting policies are set out below. These condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting.

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended December 31, 2018 and 2017 except as noted below. These policies have been consistently applied to each of the periods presented, unless otherwise indicated except as noted below.

(a) Change in estimate

As a result of the Company's $5,000,000 impairment expense recorded during the year ended December 31, 2018, the Company reviewed the useful lives of its property, plant and equipment and has revised the useful life for its non-consumable tooling from 7 years to 2.5 years. The change was effective January 1, 2019 and was accounted for on a prospective basis.

(b) Lease Recognition: Adoption of IFRS 16

IFRS 16 replaces the previous guidance on lease recognition under IAS 17 and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on to the statement of financial position for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, will remain largely unchanged. The amendments were effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 – Revenue from Contracts with Customers, had also been applied.

Adoption:

The Company adopted IFRS 16 effective January 1, 2019 using a modified retrospective approach whereby the consolidated financial statements of prior periods presented were not restated and continue to be reported under IAS 17 and related interpretations, as permitted by the specific transition provisions of IFRS 16.

The Company recognized lease liabilities at January 1, 2019 for leases previously classified as operating leases, measured at the present value of lease payments using the Company's incremental borrowing rate at that date. Property, plant and equipment includes the corresponding right-of-use assets also recognized at January 1, 2019. The right-of-use assets were measured at an amount equal to the lease liability recognized in the consolidated statement of financial position as at December 31, 2018.

As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets which will continue to be expensed on a straight-line basis over the lease term. The following practical expedients to facilitate the initial adoption of IFRS 16 have also been applied:

- The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019;
- Each lease component and any associated non-lease components are accounted for as a single lease component;
- A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics;
- Right-of-use assets and lease liabilities were not recognized for leases with a remaining term of 12 months or less as of January 1, 2019; and
- Hindsight was used when determining the lease term when the lease contracts contain options to extend or terminate the lease.

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

	January 1, 2019 prior to adoption of IFRS 16	Adjustments	January 1, 2019 after adoption of IFRS 16
Property, plant and equipment	$9,042,293	$505,310	$9,547,603
Lease liabilities	-	$505,310	$505,310

The following table reconciles the operating lease commitments at December 31, 2018 as disclosed in the audited consolidated financial statements to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	$546,643
Discounted using the incremental borrowing rate of 6% at January 1, 2019	$505,310

Accounting policy:

The following accounting policy applies as of January 1, 2019 following the adoption of IFRS 16. Prior to January 1, 2019, the Company continued to apply IAS 17 and related interpretations as disclosed in the audited annual consolidated financial statements as at and for the year-ended December 31, 2018, as permitted by the specific transition provisions of IFRS 16.

The Company enters into leases for office space in the normal course of business which expire at various times through 2021. Lease contracts are typically made for fixed periods and may contain a renewal option, but renewal is not considered reasonably certain. Leases are negotiated on an individual basis and each contain different terms and conditions. The Company does not have any contingent rental or sublease payments, nor any sublease income.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Lease liabilities are recognized with corresponding right-of-use assets for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company’s incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the lease liability comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related lease liabilities. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

Estimates and judgments:

The application of IFRS 16 requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

3. Inventory

The major components of inventory are classified as follows:

	September 30, 2019	December 31, 2018
Raw materials	$ 989,866	$ 653,591
Work in progress	1,561,449	54,237
Finished goods	1,382,615	1,926,202
Finished goods mark to market	30,562	130,625
	$ 3,964,492	$ 2,764,655

There was no provision for obsolescence recorded during the nine months ended September 30, 2019 or 2018.

4. Property, Plant and Equipment

	Land	Building	Production equipment	Other equipment	Non-consumable tooling	Right-of-use assets	Totals
Cost							
At December 31, 2017	$770,000	$2,133,162	$15,241,599	$267,243	$7,376,323	-	$25,788,327
Additions	-	21,408	235,945	-	501,874	-	759,227
Acquisition of subsidiary	-	-	87,767	25,430	8,372	-	121,569
Disposals	-	-	(2,000)	-	-	-	(2,000)
At December 31, 2018	$770,000	$2,154,570	$15,563,311	$292,673	$7,886,569	$ -	$26,667,123
Additions	**-**	**4,355**	**218,303**	**68,650**	**-**	507,054	**798,362**
Reclassifications	**-**	**-**	**17,469**	**(17,463)**	**(6)**	(1,744)	**(1,744)**
At September 30, 2019	**$770,000**	**$2,158,925**	**$15,799,083**	**$343,860**	**$7,886,563**	$ 505,310	**$27,463,741**
Accumulated Depreciation							
December 31, 2017	$ -	$734,399	$5,016,051	$236,484	$5,500,110	-	$11,487,044
Impairment	-	-	4,213,895	9,405	776,700	-	5,000,000
Depreciation	-	56,807	520,580	16,395	546,004	-	1,139,786
Disposals	-	-	(2,000)	-	-	-	(2,000)
At December 31, 2018	$ -	$791,206	$9,748,526	$262,284	$6,822,814	-	$17,624,830
Depreciation	-	**42,688**	**244,526**	**25,030**	**336,130**	**158,293**	**806,667**
Reclassifications	-	**-**	**67,064**	**(67,064)**	**-**	**-**	**-**
At September 30, 2019	$ -	**$833,894**	**$10,060,116**	**$220,250**	**$7,158,944**	**$158,293**	**$18,431,497**
Net Book Value							
At December 31, 2018	$770,000	$1,363,364	$5,814,785	$30,389	$1,063,755	$ -	$9,042,293
At September 30, 2019	**$770,000**	**$1,325,031**	**$5,738,967**	**$123,610**	**$727,619**	**$347,017**	**$9,032,244**

5. Intangible Assets

	Customer relationships	Goodwill	Trademark	Non-compete agreements	Totals
Cost					
At December 31, 2017	$ -	$ -	$ -	$ -	$ -
Acquisition of subsidiary	240,000	407,170	100,000	20,000	767,170
At December 31, 2018 and September 30, 2019	**$ 240,000**	**$ 407,170**	**$ 100,000**	**$ 20,000**	**$ 767,170**
Accumulated amortization					
At December 31, 2017	$ -	$ -	$ -	$ -	$ -
Amortization	14,000	-	5,500	1,833	21,333
At December 31, 2018	$ 14,000	$ -	$ 5,500	$ 1,833	$ 21,333
Amortization	36,000		15,000	5,000	56,000
At September 30, 2019	**$ 50,000**	**$ -**	**$ 20,500**	**$ 6,833**	**$ 77,333**
Net book value					
At December 31, 2018	$ 226,000	$ 407,170	$ 94,500	$ 18,167	$ 745,837
At September 30, 2019	**$ 190,000**	**$ 407,170**	**$ 79,500**	**$ 13,167**	**$ 689,837**

6. Related Party Transactions and Balances

During the three and nine months ended September 30, 2019, the Company had the following related party transactions and balances not disclosed elsewhere in these condensed consolidated financial statements:

	September 30, 2019	December 31, 2018
California Nano: i. A loan receivable including interest at 2.89% per annum which is due on demand. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable was fully impaired as of September 30, 2019.	**$ 0**	$1,088,879
ii. Guaranteed a long-term credit facility on behalf of California Nano in the amount of $800,000. At September 30, 2019, the outstanding credit facility balance guaranteed was $684,984 based upon the last reporting date of May 31, 2019 (2018 $800,000).		
Has a loan receivable from the former Chief Executive Officer including interest at a 2% per annum in the amount of $400,863 which is due on demand. The loan is secured by the former Chief Executive Officer's residential property.	**400,862**	395,356
Has an unsecured interest free loan receivable from an employee, forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022.	**20,000**	20,000
Has an unsecured interest free loan receivable from an employee with a maturity date in 2020.	**1,080**	2,228
Provided six grants (December 31, 2018 – six) related to the purchases of hybrid/electric cars under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of $5,000 each. The six grants outstanding mature in 2021, 2022 and 2023.	**30,000**	30,000
Reserve for earned grants	**(15,000)**	-
Total due from related parties	**$436,942**	$1,536,463
Current portion	**1,080**	1,486
Long-term portion	**$435,862**	$1,534,977

Significant subsidiaries:

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

Company (Jurisdiction of Incorporation/ Formation)	Percentage of ownership by Omni-Lite Industries Canada, Inc.	Overview	Market Area
Omni-Lite Industries California Inc. (California, USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc, which was formed and incorporated on October 4, 1985. It is the head office which conducts research and development, and production operations.	United States
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. This entity was merged with Omni-Lite Industries California, Inc. as of September 9, 2019.	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
Monzite Corporation (New Hampshire, USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Impellimax, Inc.	United States
Impellimax, Inc. (New Hampshire, USA)	100%	Wholly-owned subsidiary of Monzite Corporation which was acquired on September 21, 2018. It designs, manufactures, and contract manufactures electronic sub-components.	United States
Formed Fast International Inc. (Barbados)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada, Inc., formed and incorporated in Barbados on February 24, 1998. It is an investment holding company.	International

7. Bank Indebtedness

The Company has access to a line of credit facility of up to $700,000 for operating purposes, bearing interest at the Prime Rate maturing on January 31, 2020 (the "Credit Agreement"), (December 31, 2018 - $1,200,000). $700,000 was outstanding against the line of credit at September 30, 2019 (December 31, 2018 – nil). The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and 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. At September 30, 2019 the Company was not in compliance with the debt service and profitability covenants and has applied for a waiver. In the event of a default, the interest rate is increased by 5%. During the three and nine months ended September 30, 2019, interest expense of $7,622 and $14,817, respectively (2018 - $nil) related to the credit line has been recorded in the consolidated statements of income (loss) and comprehensive income (loss).

8. Share Capital

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

(b) Issued

	Number of Shares	Amount
Total issued and outstanding, December 31, 2017	**10,015,520**	$ 7,247,353
Shares issued upon exercise (note 11)	**93,334**	67,544
Shares issued for acquisition	**1,225,000**	890,000
Total issued and outstanding, December 31, 2018 and September 30, 2019	**11,333,854**	$ 8,204,897

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

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, 2017	996,054	CAD $0.62 to $1.87	CAD $1.31
Options - exercised	(93,334)	CAD $0.62	CAD $0.62
- expired	(188,387)	CAD $0.62	CAD $0.62
- forfeited	(280,000)	CAD $1.35 to $1.85	CAD $1.58
Options outstanding at December 31, 2018 and September 30, 2019	434,333	CAD $0.92 to $1.87	CAD $1.53
Options exercisable at September 30, 2019	382,328	CAD $0.92 to $1.87	CAD $1.48

The Company did not grant options during the three and nine months ended September 30, 2019 or 2018.

The options that are outstanding at September 30, 2019 and December 31, 2018 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price of options outstanding	Weighted Average Remaining Contractual Life
110,000	CAD $0.92 to $1.35	CAD $1.21	0.59 years
324,333	CAD $1.35 to $1.87	CAD $1.63	2.03 years
434,333	CAD $0.91 to $1.87	CAD $1.53	1.66 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
110,000	CAD $0.92 to $1.35	CAD $1.21	0.62 years
272,328	CAD $1.40 to $1.87	CAD $1.60	1.95 years
382,328	CAD $0.92 to $1.87	CAD $1.49	1.56 years

In estimating expected stock price volatility at the time of a particular share option grant, the Company relies on observations of historical volatility trends. Share-based compensation expense in relation to the options was $5,316 and $18,250 for the three and nine months ended September 30, 2019, respectively (2018 - $18,965 and $75,017, respectively).

(d) Warrants

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

	Number	Warrant Price per Share Range	Weighted Average Exercise Price
Warrants outstanding at December 31, 2017	-	-	-
Warrants granted	1,200,000	CAD $1.13 to $2.26	CAD $1.67
Warrants outstanding at December 31, 2018 and September 30, 2019	**1,200,000**	**CAD $1.13 to $2.26**	**CAD $1.67**

The warrants that are outstanding as of September 30, 2019 are summarized as follows:

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

There were no warrants exercisable as at September 30, 2019 or December 31, 2018.

500,000 warrants granted have exercise prices ranging from CAD$1.13 – CAD$2.26 and vest one third per year with the first vesting date ranging from December 31, 2019 to December 31, 2022 ("time based").

700,000 warrants granted have exercise prices ranging from CAD $1.27 – CAD $2.26 and vest upon meeting escalating cumulative three-year EBITDA targets on dates ranging from December 31, 2021 to December 31, 2024 ("performance based").

The fair value of the warrants granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions, as of 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 relation to the warrants in the amount of $24,493 and $73,479 was recorded in the three and nine months ended September 30, 2019.

9. Segment Information

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, 2019	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$ 7,136,321**		**$ 254,400**	**(249,600)**	**$ 7,141,121**
Net (loss) income	**(781,572)**	**(323,404)**	**(8,457)**	**0**	**(1,113,433)**

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)

10. 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, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$329,334**	**$329,334**	$ 340,571	$ 340,571
At FVOCI				
Investment	**136,031**	**136,031**	220,074	220,074
At amortized cost				
Accounts receivable	**1,532,052**	**1,532,052**	1,132,435	1,132,435
Due from related parties	**436,942**	**436,943**	1,536,463	1,536,463
Accounts payable and accrued liabilities	**1,180,396**	**1,180,396**	909,309	909,309
Bank indebtedness	**700,000**	**700,000**	-	-

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 329,334	$ 329,334	$ -	$ -
Investment	136,031	136,031	-	-

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 bank indebtedness 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 amounts being due on demand.

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

Interest rate risk
The Company's line of credit facility discussed in Note 7 may fluctuate in value as a result of change in market price. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at September 30, 2019, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $7,000 (December 31, 2018 - $nil).

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

Other price risk
The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nano. This investment is recorded on the consolidated statements of financial position at fair value as of the statement of financial position date with changes from the prior period's fair value reported in OCI. As at September 30, 2019, a 1% change in the price of the investment would have an impact of $1,360 annually (December 31, 2018 - $2,201).

Liquidity Risk
The Company is exposed to liquidity risk due to the borrowings under the line of credit and accounts payable and accrued liabilities from operations. This risk is mitigated by complying with the covenants on the line of credit and managing the cash flow by controlling accounts receivable and accounts payable. At September 30, 2019 the Company had borrowings under its line of credit in the amount of $700,000 and was not in compliance with its debt service and profitability covenants and has applied for a waiver.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at September 30, 2019:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable & accrued liabilities	$ 1,180,396	-	-	-	$ 1,180,396
Bank indebtedness	700,000	-	-	-	700,000
Total	$ 1,880,396	-	-	-	$ 1,880,396

Credit Risk

The Company manages credit risk over cash by maintaining its bank accounts with large financial institutions. The Company manages credit risk over accounts receivable by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the nine months ended September 30, 2019, the Company was engaged in contracts for products with three (September 30, 2018 – four) customers in excess of 10% of revenue, which accounted for $3,502,888 (2018 - $3,792,723) or 47% (2018 – 77%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of cash, account receivable and due from related parties The table below provides an analysis of the age of accounts receivable which are not considered impaired.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
September 30, 2019	**$ 1,532,052**	**$ 792,277**	**$ 435,170**	**$ 150,253**	**$ 115,086**	**$ 39,266**
December 31, 2018	$ 1,132,435	$ 795,227	$ 269,624	$ 9,932	$ 1,029	$ 56,623

11. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	September 30, 2019	December 31, 2018
Balance, beginning of period	**$ 1,812,298**	$ 1,772,431
Shares issued upon options exercise		(22,545)
Share-based compensation	**91,729**	62,412
Balance, end of period	**$ 1,904,027**	$ 1,812,298

12. Income (loss) per Common Share

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

399,333 options (2018 – 759,333) and 500,000 warrants (2018 – nil) were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months and nine months ended September 30, 2019 because their exercise price was greater than the annual average common share market price for the period. 700,000 performance-based warrants (2018-nil) were excluded as the EBITDA target conditions were not satisfied. Outstanding options and warrants are the only potential dilutive instruments.

759,333 options were excluded in calculating 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.

13. Capital Disclosures

The objective for managing the Company’s capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The capital structure of the Company consists of cash and equity comprised of issued capital, contributed surplus and retained earnings. The Company generally relies on operating cash flows to fund 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.