Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(in United States Dollars)

Contents

Independent Auditor's Report

To the Shareholders of Omni-Lite Industries Canada Inc.

Opinion

We have audited the consolidated financial statements of Omni-Lite Industries Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of (loss) income and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

MNP LLP

Calgary, Alberta
April 29, 2019

Chartered Professional Accountants

MNP LLP

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

As at	Note	December 31, 2018	December 31, 2017
Assets			
Current			
Cash		**$ 340,571**	$ 839,874
Accounts receivable		**1,132,435**	1,030,258
Inventory	**4**	**2,764,655**	2,442,607
Due from related parties	**8**	**1,486**	7,282
Prepaid expenses		**159,055**	167,082
Total Current Assets		**4,398,202**	4,487,103
Long-term			
Investment	**5**	**220,074**	430,515
Property, plant and equipment	**6**	**9,042,293**	14,301,283
Due from related parties	**8**	**1,534,977**	1,445,665
Deferred tax asset	**10**	**1,236,159**	719,466
Intangible assets	**7**	**745,837**	-
Deposits		**47,613**	-
Other asset		**5,385**	-
Total Assets		**$ 17,230,540**	$ 21,384,032
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 909,269**	$ 543,692
Income taxes payable		**8,275**	6,609
Total Current Liabilities		**917,544**	550,301
Long-term			
Deferred tax liability	**10**	**1,774,807**	2,558,473
Total Liabilities		**2,692,351**	3,108,774
Commitments	**18**		
Shareholders' Equity			
Share capital	**13(b)**	**8,204,897**	7,247,353
Contributed surplus	**14**	**1,812,298**	1,772,431
Retained earnings		**4,716,931**	9,240,970
Accumulated other comprehensive (loss) income		**(195,937)**	14,504
Total Shareholders' Equity		**14,538,189**	18,275,258
Total Liabilities and Shareholders' Equity		**$ 17,230,540**	$ 21,384,032

On behalf of the Board:

signed "David Robbins" Director
David Robbins

signed "Roger Dent" Director
Roger Dent

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

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

For the years ended December 31	Note	2018	2017
Revenue	**17**	**$ 7,074,908**	$ 6,539,934
Cost of goods sold	**4**	**3,591,011**	2,971,976
Gross margin		**3,483,897**	3,567,958
Overhead expenses			
Employee benefits		**1,536,705**	1,071,116
Depreciation	**6**	**1,139,786**	1,149,965
Amortization of intangible assets	**7**	**21,333**	-
General and administrative	**9**	**1,683,748**	1,019,322
Share-based compensation	**14**	**62,412**	118,634
Research and product design		**84,834**	24,611
Commissions		**5,697**	6,235
Foreign exchange loss		**4,226**	800
		4,538,741	3,390,683
(Loss) income from operations		**(1,054,844)**	177,275
Other income (expense)			
Impairment	**6**	**(5,000,000)**	-
Interest income		**28,122**	28,450
Interest expense		**(1,341)**	-
Gain on disposal of property, plant and equipment		**2,000**	-
(Loss) income before income taxes		**(6,026,063)**	205,725
Income tax provision (recovery)			
Current	**10**	**13,452**	64,093
Deferred	**10**	**(1,515,476)**	(596,192)
		(1,502,024)	(532,099)
Net (loss) income		**$ (4,524,039)**	$ 737,824
Other comprehensive (loss) income			
Items that may not be reclassified to profit or loss:			
(Loss) gain on investment	**5**	**(210,441)**	39,877
Comprehensive (loss) income		**$ (4,734,480)**	$ 777,701
(Loss) income per share - basic	**15**	**($ 0.43)**	$ 0.07
- diluted	**15**	**($ 0.43)**	$ 0.07
Weighted average shares outstanding - basic	**15**	**10,413,857**	10,255,472
- diluted	**15**	**10,413,857**	10,514,482

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

Omni-Lite Industries Canada Inc.
Consolidated Statements of Changes in Shareholders' Equity
United States Dollars

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total Shareholders' equity
Balance at December 31, 2016		$ 7,503,223	$ 1,697,529	$ 8,765,705	$ (25,373)	$ 17,941,084
Cash settled options	14	-	(43,732)	-	-	(43,732)
Repurchase under normal course issuer bid	13(b)	(255,870)	-	(262,559)	-	(518,429)
Share-based compensation	14	-	118,634	-	-	118,634
Net income		-	-	737,824	-	737,824
Gain on available for sale financial assets	5	-	-	-	39,877	39,877
Balance at December 31, 2017		$ 7,247,353	$ 1,772,431	$ 9,240,970	$ 14,504	$ 18,275,258
Shares issued upon option exercise	**13(b)**	**67,544**	**(22,545)**	**-**	**-**	**44,999**
Shares issued for acquisition	**3**	**890,000**	-	-	-	**890,000**
Share-based compensation	**14**	**-**	**62,412**	**-**	**-**	**62,412**
Net loss		**-**	**-**	**(4,524,039)**	**-**	**(4,524,039)**
Loss on investment	**5**	**-**	**-**	**-**	**(210,441)**	**(210,441)**
Balance at December 31, 2018		**$ 8,204,897**	**$ 1,812,298**	**$ 4,716,931**	**$ (195,937)**	**$14,538,189**

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

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

For the years ended December 31	Note	2018	2017
Cash flows from operating activities			
Net (loss) income for the year		**$ (4,524,039)**	$ 737,824
Adjustments for:			
Depreciation	**6**	**1,139,786**	1,149,965
Amortization of intangible assets	**7**	**21,333**	-
Deferred tax recovery	**10**	**(1,515,476)**	(596,192)
Share-based compensation	**14**	**62,412**	118,634
Impairment	**6**	**5,000,000**	-
Gain on disposal of property, plant and equipment		**(2,000)**	-
Interest income		**(28,122)**	-
		153,894	1,410,231
Net change in non-cash working capital items			
Accounts receivable		**102,623**	148,555
Inventory		**197,199**	264,634
Prepaid expenses		**18,704**	(5,282)
Income taxes receivable		**-**	59,594
Accounts payable and accrued liabilities		**232,462**	189,083
Deposits		**(47,613)**	10,277
Income taxes payable		**(2,553)**	6,609
Increase in cash from operating activities		**658,933**	2,083,701
Cash flows from financing activities			
Payments from related parties	**8**	**5,796**	50,368
Advances to related parties	**8**	**(61,190)**	(44,947)
Cash settlement of options	**14**	**-**	(43,732)
Proceeds from bank indebtedness		**330,000**	-
Repayments of bank indebtedness		**(330,000)**	-
Proceeds from exercise of stock options		**44,999**	-
Repurchase under normal course issuer bid	**13(e)**	**-**	(518,429)
Decrease in cash from financing activities		**(10,395)**	(556,740)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	**3**	**(385,231)**	-
Purchase of investment	**5**	**-**	(34,728)
Purchase of other asset		**(5,385)**	-
Purchase of property, plant and equipment	**6**	**(759,227)**	(1,129,335)
Proceeds from disposal of property, plant and equipment		**2,000**	-
Decrease in cash from investing activities		**(1,147,843)**	(1,164,063)
(Decrease) increase in cash		**(499,303)**	362,898
Cash, beginning of year		**839,874**	476,976
Cash, end of year		**$ 340,571**	$ 839,874

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

1. Nature of Operations

Omni-Lite Industries Canada Inc. ("Omni-Lite" or the "Company") was incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The consolidated financial statements of the Company for the year ended December 31, 2018 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on April 29, 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 #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 ("U.S.") and its functional currency is denominated in U.S. dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") in effect at January 1, 2018. The principal accounting policies are set out below.

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

(a) Consolidation
These 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., Omni-Lite Properties Inc., Monzite Corporation, and Impellimax, Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Basis of measurement
These consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based compensation and certain financial instruments, which are measured at fair value.

(c) Inventory
Inventory consists of raw materials, work in progress, and finished goods. Inventory is carried at the lower of weighted average actual costs (including materials, labour and allocated overheads) and net realizable value. Finished goods inventory is recorded at the weighted average cost of production which approximates actual cost and includes raw materials, labour and allocated overheads.

2. Significant Accounting Policies - continued

(d) Revenue

The Company recognizes revenue at a point in time 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 control 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.

(e) Cash

Cash is composed of cash and other short-term, highly liquid investments with maturities less than three months from 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 these assets over their estimated useful lives.

Building	4% declining balance
Production equipment	15-30 years straight-line
Other equipment	30% declining balance
Non-consumable tooling	7 years straight-line

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 or 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 within other income in the consolidated statements of (loss) income and comprehensive (loss) income. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(g) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

2. Significant Accounting Policies - continued

(g) Intangible Assets – continued

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization is provided using the following methods and annual rates:

Customer relationships	5 years straight-line
Trademark	5 years straight-line
Non-compete agreements	3 years straight-line

Intangible assets with indefinite lives are not amortized.

(h) Financial instruments

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 (loss) 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 (loss) 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 and accounts payable and accrued liabilities as measured at amortized cost. The contractual cash flows received from these 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 liabilities are initially measured at fair value plus or minus transaction costs directly attributable to the financial asset or liability. 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 consolidated statements of (loss) income and comprehensive (loss) income. Transaction costs relating to financial instruments at FVTPL are expensed as incurred.

FVOCI

The Company elected to classify its equity investment as measured at FVOCI. Financial assets classified as FVOCI are subsequently measured at fair value with changes in fair value charged to OCI.

2. Significant Accounting Policies - continued

(h) Financial instruments – continued

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the consolidated statements of loss (income) and comprehensive (loss) income based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the consolidated statements of loss (income) and comprehensive (loss) income.

Impairment of Financial Assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

(i) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset. 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, referred to as 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.

2. Significant Accounting Policies - continued

(i) Impairment of non-financial assets – continued

The Company's impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

(j) Provisions

A provision is recognized in the 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 December 31, 2018 and December 31, 2017 there were no provisions recognized in the consolidated financial statements.

(k) Income taxes

Income tax expense for the year consists of current and deferred tax. Income tax is recognized in the consolidated statements of (loss) income and comprehensive (loss) income, except to the extent that it relates to a business combination or items recognized in OCI or directly in equity.

Taxable income differs from income as reported in the consolidated statements of (loss) income and comprehensive (loss) 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 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.

(l) Foreign exchange

These consolidated financial statements have been presented in 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 (loss) income.

2. Significant Accounting Policies - continued

(l) Foreign exchange – continued

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 OCI.

(m) 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.

(n) 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 CGUs 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.

(o) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option and warrant plan to its employees, officers, directors and consultants. The Company accounts for these share options and warrants using the graded vesting method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to the consolidated statements of (loss) income and comprehensive (loss) income with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options and warrants granted. The forfeiture rate is based on past experience of actual forfeitures.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services received. 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.

(p) Per share amounts

Basic (loss) 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.

2. Significant Accounting Policies - continued

(q) Research and product design 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 are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and product design expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(r) 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 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.

(s) Significant accounting estimates and judgments

The preparation of 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.

The following are the most significant accounting judgments and estimates made by the Company in applying accounting policies:

Judgments

Determining CGU's

In assessing the recoverability of long-lived and intangible assets, judgment is required in the determination of the appropriate grouping of assets that generate cash inflows or CGU's. The determination of CGU's is based on management's assessment of the independence of revenue earned, operating asset utilization, shared infrastructure, and similarity of risk exposures. Omni-Lite also uses significant judgment in evaluating if a triggering event occurs which would warrant an evaluation of impairment of long - lived and intangible assets based on the identified CGU's.

Prior to the Monzite acquisition the Company had 1 CGU designated "Omni-lite CGU". The Company performed an analysis of the group of assets acquired via the Monzite transaction and determined this group of assets constitutes a new CGU called "Monzite 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.

2. Significant Accounting Policies - continued

(s) Significant accounting estimates and judgments - continued

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

Provisions for expected credit losses
The Company calculates expected credit losses considering historical default rates and forward-looking assumptions to calculate, which is reviewed by management on a quarterly basis. Assessments are made by management after taking into consideration the customer's payment history, the current economic environment, and their credit worthiness. The Company's history of bad debt expense has not been significant; however, a customer's ability to fulfill its payment obligations can change suddenly without notice. Specific provisions may be used where there is information that a specific customer's expected credit losses has increased.

Inventory
The amounts for finished goods inventory is based on average costs and includes cost allocation estimates.

Share-based compensation
The Company uses the Black-Scholes option pricing model to determine the fair value of share-based compensation. 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.

Impairment
The recoverable amount of a CGU is based on estimates and assumptions regarding the expected market outlook and future cash flows. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy or internal forecasts. Although the Company believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Company's reported financial results.

Amortization
The consolidated financial statements include estimates of the useful economic life of intangible assets. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management is based on their best estimate in this regard and may be significantly different from those determined based on future operational results.

2. Significant Accounting Policies - continued

(s) Significant account estimates and judgements – 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 and 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.

(t) 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.

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:

	IAS 39	**IFRS 9**
Financial Assets		
Cash	Held for trading	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

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. 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")

On January 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. 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

(u) 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 quantifying 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, valued at $890,000. The shares were valued using the Black-Scholes model based on the Company's share price on the date of acquisition and the hold period of one year from closing. In addition, Omni-Lite paid $258,224 in cash to repay founders loan and assumed and paid $171,115 of bank indebtedness. 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.

The Company has made a determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the acquisition. The total purchase price has been allocated as follows:

Consideration paid:	
Cash paid for founders loans	$ 258,224
Cash paid for bank indebtedness	171,115
Shares issued	890,000
Total consideration paid	$ 1,319,339
Assets (liabilities) assumed:	
Cash	44,108
Accounts receivable	204,800
Inventory	519,247
Property, plant and equipment	121,569
Prepaid expenses	10,677
Non-compete agreements	20,000
Trademark	100,000
Customer relationships	240,000
Accounts payable and accrued liabilities	(133,115)
Deferred tax liability	(215,117)
Fair value of net assets	$ 912,169
Goodwill	$ 407,170

The goodwill recognized is primarily attributed to the expected synergies arising from the acquisition and the expertise and reputation of the assembled management and workforce.

The purchase agreement included a working capital adjustment requiring the Company to issue additional shares if final working capital at the date of the transaction exceeded $200,000. The final working capital was higher than the agreed collar, however the true-up associated with this excess was waived by the sellers.

3. Acquisition of Subsidiary - continued

The purchase price allocation included an inventory fair value adjustment of $230,589. At the acquisition date, the fair value of the acquired receivables approximated the carrying value and there was no provision for expected credit losses.

Revenue and net loss of Monzite included in the consolidated statements of (loss) income and comprehensive (loss) income from the acquisition date is $413,807 and $47,999, respectively. The net loss includes a finished goods mark to market amount included in cost of sales of $99,964. Had the acquisition occurred on January 1, 2018 the revenue and net loss would have been approximately $1,426,000 and $125,000 respectively. Transaction costs included in the consolidated statements of (loss) income and comprehensive (loss) income were approximately $280,000.

4. Inventory

The major components of inventory are classified as follows:

	December 31, 2018	December 31, 2017
Raw materials	**$ 653,591**	$ 633,359
Work in progress	**54,237**	-
Finished goods	**1,926,202**	2,052,125
Finished goods mark to market	**130,625**	-
Allowance for obsolete inventory	**-**	(242,877)
	$ 2,764,655	$ 2,442,607

The cost of inventories recognized as expense and included in cost of goods sold was $3,591,011 (2017 - $2,971,976). During the year ended December 31, 2018, the Company recorded a reserve for obsolete inventory in the amount of $522,124 (2017 - $242,877) and wrote-off $765,001 in 2018. Also included in the amount of inventories recognized in cost of goods sold is an expense of $99,964 associated with marking up Monzite's finished goods to selling price as required by fair value acquisition accounting (note 3).

5. Investment

As at December 31, 2018, the long-term investment consists of an equity investment in the common shares of California Technologies Corp. ("California Nano"), a public company related through a common director. The Company's investment is recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	Carrying Amount
Investment at December 31, 2016	$ 355,910
Purchase 365,000 shares	34,728
Gain from market price valuation	39,877
Investment at December 31, 2017	$ 430,515
Loss from market price valuation	**(210,441)**
Investment at December 31, 2018	**$ 220,074**

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**	**235,945**	**-**	**501,874**	**759,227**
Acquisition of subsidiary (note 3)	**-**	**-**	**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**
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
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**
Net book value						
At December 31, 2017	$ 770,000	$ 1,398,763	$ 10,225,548	$ 30,759	$ 1,876,213	$ 14,301,283
At December 31, 2018	**$ 770,000**	**$ 1,363,364**	**$ 5,814,785**	**$ 30,389**	**$ 1,063,755**	**$ 9,042,293**

As a result of the Company's market capitalization being less than its net assets, an impairment test was performed at December 31, 2018 for the Omni-lite CGU. The recoverable amount of approximately $11,550,000 for the Omni-lite CGU was determined based on a VIU calculation using the following key assumptions:

- 4 year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 4 years used a terminal growth rate of 2%;
- Forecasted revenue at an average growth rate of 10%;
- Average forecasted earnings before interest, taxes, depreciation and amortization ("EBITDA") of 25%; and,
- Cash flows were discounted at a after-tax discount rate of 14% based on the Company's post-tax weight average cost of capital and risks specific to the particular CGU (pre-tax discount rate of 19%).

As a result of the impairment test performed the Company recognized an impairment of $5,000,000 against property, plant and equipment. The impairment loss was allocated on a pro-rata basis, excluding land and building which had a carrying amount below its fair value less costs of disposal determined using available market data.

7. Intangible Assets

Cost	Customer relationships	Goodwill	Trademark	Non-compete agreements	Totals
At December 31, 2016 and 2017	$ -	$ -	$ -	$ -	$ -
Acquisition of subsidiary (note 3)	240,000	407,170	100,000	20,000	767,170
At December 31, 2018	**$ 240,000**	**$ 407,170**	**$ 100,000**	**$ 20,000**	**$ 767,170**
Accumulated amortization					
At December 31, 2016 and 2017	$ -	$ -	$ -	$ -	$ -
Amortization	14,000	-	5,500	1,833	21,333
At December 31, 2018	**$ 14,000**	**$ -**	**$ 5,500**	**$ 1,833**	**$ 21,333**
Net book value					
At December 31, 2016 and 2017	$ -	$ -	$ -	$ -	$ -
At December 31, 2018	**$ 226,000**	**$ 407,170**	**$ 94,500**	**$ 18,167**	**$ 745,837**

All goodwill acquired in the Monzite acquisition was allocated to the Monzite CGU. The Company performed its impairment test at December 31, 2018 and the recoverable amount of the Monzite CGU was determined based on a VIU calculation using the following key assumptions:

- 4 year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 4 years used a terminal growth rate of 2%;
- Forecasted revenue at an average growth rate of 22%;
- Average forecasted EBITDA of 22%; and,
- Cash flows were discounted at a after-tax discount rate of 40% based on the Company's post-tax weight average cost of capital and risks specific to the particular CGU (pre-tax discount rate of 50%).

As a result of the impairment test performed, the recoverable amount was determined to be approximately $1,410,000, which exceeds the carrying amount by approximately $169,000, and therefore, did not result in an impairment.

The most sensitive inputs to the VIU model are the forecasted EBITDA and discount rate. All else being equal:

- A 4% increase in the discount rate would have resulted in an impairment of approximately $11,000; and,
- A 3% decrease in the average forecasted EBITDA would have resulted in an impairment of approximately $24,000.

8. Related Party Transactions and Balances

During the year ended December 31, 2018, the Company had the following related party transactions and balances not disclosed elsewhere in these consolidated financial statements:

	December 31, 2018	December 31, 2017
California Nano:		
i. A loan receivable including interest at 2% per annum which is due on demand. The loan is secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of California Nano.	**$ 1,088,879**	$1,048,656
ii. Guaranteed a long-term credit facility on behalf of California Nano in the amount of $800,000. At December 31, 2018, the outstanding credit facility balance guaranteed was $718,710 (2017 - $800,000).		
iii. Earned revenue of $32,007 (2017 – $49,377) and incurred expenses of $13,139 (2017 – $33,127).		
Has a loan receivable from the former Chief Executive Officer including interest at a 2% per annum which is due on demand. $361,929 of the loan is secured by the former Chief Executive Officer's residential property.	**395,356**	354,780
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 current portion of $1,486 and a maturity date in 2020.	**2,228**	3,714
Received repayment on an unsecured interest free loan receivable owed at December 31, 2017 from an employee in the amount of $797.	**-**	797
Provided six grants (2017 – five) 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 2021, 2022 and 2023.	**30,000**	25,000
	$1,536,463	$1,452,947
Current portion	**1,486**	7,282
Long-term portion	**$1,534,977**	$ 1,445,665

8. Related Party Transactions and Balances - continued

Significant subsidiaries:

The table set forth 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%	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. During 2018, the Company has settled the claim for approximately $172,000 which is included in general and administrative expenses on the consolidated statements of (loss) income and comprehensive (loss) income.

10. Income Taxes

For the years ended December 31,		2018		2017
(Loss) income before tax	$	(6,026,063)	$	205,725
Statutory tax rate		27.00%		27.00%
Income taxes at the statutory rate		(1,627,037)		55,591
Rate differential on income earned in foreign jurisdictions		(124,608)		(35,824)
Share-based compensation		16,851		32,031
Share issue costs		-		(88)
Change in deferred tax asset not recognized		56,630		2,772
Permanent items		1,244		302
Tax rate differences		-		(719,631)
Change in estimate from prior year		174,896		132,748
	$	(1,502,024)	$	(532,099)
Income tax expense (recovery):				
Current	$	13,452	$	64,093
Deferred		(1,515,476)		(596,192)
	$	(1,502,024)	$	(532,099)

Principal components of the net deferred tax liability are:

As at December 31,		2018		2017
Unused tax losses carry forward	$	919,606	$	301,489
Share issue costs		197		505
Investment		82,736		64,159
Property, plant and equipment		450		615
Interest expense		219,572		267,335
Inventory / cost of goods sold		293,312		293,376
Total deferred tax asset		1,515,873		927,479
Deferred tax asset not recognized		(279,714)		(208,013)
Net deferred tax asset	$	1,236,159	$	719,466
Deferred tax liability:				
Property, plant and equipment	$	(1,623,497)	$	(2,558,473)
Intangibles		(96,450)		-
Inventory / cost of goods sold		(54,860)		-
Total deferred tax liability		(1,774,807)		(2,558,473)
Net deferred tax liability	$	(538,648)	$	(1,839,007)

10. Income Taxes - continued

The Company has non-capital losses of $727,153 in Canada which begin to expire in 2031 and US federal net operating losses of $1,128,353, which expire from 2032 to 2037 and $1,716,108 with no expiry date.

In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law in the U.S. The Tax Act makes changes to U.S. tax law, including a reduction in the top corporate tax rate from 35% to 21%. As a result of the enacted law, the Company was required to revalue its U.S. deferred tax assets and liabilities at the enacted rate. The revaluation resulted in a $927,479 income tax benefit and a corresponding reduction in the Company's net deferred tax liability. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company has made reasonable estimates of the effects and recorded provisional amounts in its consolidated financial statements as at December 31, 2018. As the Company collects and prepares necessary data and interprets the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, securities regulators, and other standard-setting bodies, it may make adjustments to the provisional amounts.

11. Compensation of Key Management Personnel

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

		December 31, 2018		December 31, 2017
Wages and short-term benefits	**$**	**500,233**	$	253,754
Share-based compensation		**47,359**		90,136
	$	**547,592**	$	343,890

Key management personnel of the Company include the Chief Executive Officer, Chief Financing Officer, President, Vice-President, and the other members of the Board of Directors. No options were granted in 2018 to key management personnel (2017 - 195,000). 1,052,000 warrants were granted in 2018 to key management (2017 – nil).

12. Bank Indebtedness

The Company has access to a line of credit facility 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 December 31, 2018 was $1,200,000 (2017 - $1,200,000). 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 December 31, 2018 the Company has not met the Tangible Net Worth requirement of or Profitability covenants and has applied for a waiver. As at the time of issuance of these consolidated financial statements, the waiver had not been received. In the event of a default, the interest rate is increased by 5%, however no amount was owing at December 31, 2018 or 2017. Interest of $1,341 (2017 - $nil) related to the credit line has been recorded as interest expense in the consolidated statements of (loss) income and comprehensive (loss) income for year ended December 31, 2018.

13. 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, 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 14)	**93,334**	**67,544**
Shares issued for acquisition (note 3)	**1,225,000**	**890,000**
Total issued and outstanding, December 31, 2018	**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, 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 $0.62**	**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	**434,333**	**CAD $0.92 to $1.87**	**CAD $1.53**
Options exercisable at December 31, 2018	**286,995**	**CAD $0.92 to $1.87**	**CAD $1.44**

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

13. Share Capital – continued

(c) Share options - continued

The options that are outstanding at 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	1.33 years
324,333	CAD $1.35 to $1.87	CAD $1.63	2.77 years
434,333	**CAD $0.91 to $1.87**	**CAD $1.53**	**2.41 years**

Options 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	1.33 years
176,995	CAD $1.35 to $1.87	CAD $1.58	2.57 years
286,995	**CAD $0.91 to $1.87**	**CAD $1.44**	**2.10 years**

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

Options Outstanding	Option price	Weighted Average Exercise Price of Options Outstanding	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

Options Vested	Option price	Weighted Average Exercise Price of Options Vested	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.

Share-based compensation expense in relation to the options was $42,167 for the year ended December 31, 2018 (2017 - $118,634).

13. Share Capital - continued

(d) Warrants

The Company initiated a long term stock warrant plan in the third quarter of 2018 for key management and employees. On September 21, 2018, 1,200,000 warrants were granted all with an expiry date of September 21, 2026. The remaining contractual life on the warrants is 7.73 years. The warrants are allocated among six tranches with each tranche having specified number of warrants, strike price, and vesting provisions.

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

The warrants that are outstanding at December 31, 2018 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 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:

	December 31, 2018 Performance based	December 31, 2018 Time based
Number of options	700,000	500,000
Weighted average exercise price	$1.78	$1.52
Weighted average risk free interest rate (%)	2.30%	2.28%
Weighted average expected life (years)	8	3
Weighted average volatility rate (%)	57.02%	47.57%
Weighted average dividend yield (%)	0.00%	0.00%
Weighted average forfeiture rate (%)	8.15%	8.15%

Share-based compensation expense in relation to the warrants was $20,245 for the year ended December 31, 2018.

13. Share Capital - continued

(e) Normal course issuer bid

During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired nil (2017 - 353,600) of its issued and outstanding common shares. The Company repurchased the common shares for $nil (2017 – $518,429) resulting in a $nil (2017 – $255,870) reduction in share capital and a $nil reduction (2017 – $262,559 reduction) in retained earnings.

14. Contributed Surplus

The following is a continuity schedule of contributed surplus:

		December 31, 2018		December 31, 2017
Balance, beginning of year	**$**	**1,772,431**	$	1,697,529
Shares issued upon option exercise		**(22,545)**		-
Cash settled options		**-**		(43,732)
Share-based compensation (note 13)		**62,412**		118,634
Balance, end of year	**$**	**1,812,298**	$	1,772,431

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

434,333 options and 1,200,000 warrants were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2018 because the Company was in a net loss position and therefore any exercise would be anti-dilutive. For the year ended December 31, 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 year. Outstanding options and warrants are the only potential dilutive instruments.

16. Financial Instruments

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

	December 31, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 340,571**	**$ 340,571**	$ 839,874	$ 839,874
At FVOCI				
Investment	**220,074**	**220,074**	430,515	430,515
At amortized cost				
Accounts receivable	**1,132,435**	**1,132,435**	1,030,258	1,030,258
Due from related parties	**1,536,463**	**1,536,463**	1,452,947	1,452,947
Accounts payable and accrued liabilities	**909,269**	**909,269**	543,692	543,692

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	$ 340,571	$ 340,571	$ -	$ -
Investment	220,074	220,074	-	-

There have been no transfers during the year 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 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.

(a) 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 believe its exposure to foreign currency risk to be minimal. At December 31, 2018, the Company had the following balances denominated in Canadian dollars which have been translated into U.S. dollars in accordance with the Company’s foreign exchange accounting policy.

	December 31, 2018	December 31, 2017
(Bank overdraft) cash	**$ (10,527)**	$ 20,134
Accounts payable	**108,502**	71,547

16. Financial Instruments - continued

(a) Foreign currency risk - continued

As at December 31, 2018, the increase or decrease in (loss) income before taxes for a 10% change in the U.S Dollar exchange rate amounts to approximately $11,903 (2017 - $7,378).

(b) 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 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 $2,201 (2017 - $4,305).

(c) Interest rate risk

The Company's commercial advance line discussed in Note 12 is subject to floating rates as it is tied to the Prime Rate. 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 December 31, 2018, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $nil (2017 - $nil).

(d) 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:

December 31, 2018	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 909,269**	**$ -**	**$ -**	**$ -**	**$ 909,269**
Total	**$ 909,269**	**$ -**	**$ -**	**$ -**	**$ 909,269**

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

16. Financial Instruments - continued

(e) Credit Risk

The Company manages credit risk over accounts receivables by dealing with financially sound customers, based on an evaluation of the customer's financial condition. The Company manages credit risk over cash by maintaining its bank accounts with large financial institutions. For the year ended December 31, 2018, the Company was engaged in contracts for products with four (2017 – three) customers in excess of 10% of revenue, which accounted for $5,130,320 (2017 - $4,144,604) or 73% (2017 – 63%) 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 our accounts receivables which are not considered impaired.

	Totals	Current	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days
December 31, 2018	**$1,132,435**	**$ 795,227**	**$ 269,624**	**$ 9,932**	**$ 1,029**	**$ 56,623**
December 31, 2017	$1,030,258	$ 674,702	$ 234,139	$ 67,492	$ 46,551	$ 7,374

As at December 31, 2018, the average expected credit loss on the Company's accounts receivable was 0% and as a result the provision for expected credit losses is $nil.

17. Segmented Information

Geographic Segments:

The Company has 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:

December 31, 2018	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$ 6,790,429**	**$ -**	**$ 571,440**	**$ (286,961)**	**$ 7,074,908**
Net (loss) income	**(4,511,206)**	**(272,153)**	**259,320**	**-**	**(4,524,039)**

December 31, 2017	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 6,273,806	$ -	$ 709,928	$ (443,800)	$ 6,539,934
Net (loss) income	665,004	(111,392)	184,212	-	737,824

18. Commitments

The Company has agreements with various customers, in the normal course of operations, to supply components in 2019 through 2020.

Rental payments under non-cancelable operating leases
Omni-Lite has leases for commercial space in Cerritos, California which expire June 30, 2021 and Nashua, New Hampshire which expire March 31, 2020. The following is a schedule of the future minimum rental payments under the commercial space leases:

	Amount
2019	$ 223,050
2020	231,402
2021	92,391
	$ 546,843

19. 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.