Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(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, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, 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, 2019 and December 31, 2018, 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
May 5, 2020

Chartered Professional Accountants

MNP

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

	Note	December 31, 2019	December 31, 2018
Assets			
Current			
Cash		$ 693,245	$ 340,571
Accounts receivable		1,355,071	1,132,435
Inventory	4	3,863,596	2,764,655
Due from related parties	8	706	1,486
Prepaid expenses		124,013	159,055
Total Current Assets		**6,036,631**	**4,398,202**
Long-term			
Investment	5	184,698	220,074
Property, plant and equipment	6	8,788,582	9,042,293
Due from related parties	8	38,000	1,534,977
Deferred tax asset	9	1,297,803	1,236,159
Intangible assets	7	671,170	745,837
Deposits		33,493	47,613
Other assets		6,285	5,385
Total Assets		**$ 17,056,662**	**$ 17,230,540**
Liabilities			
Current			
Accounts payable and accrued liabilities		791,775	909,269
Lease liability	2(t)	217,702	-
Income taxes payable		30,208	8,275
Finance guarantee liability	21	250,000	-
Total Current Liabilities		**$ 1,289,685**	**$ 917,544**
Long Term			
Bank indebtedness	11	1,002,309	-
Lease liability	2(t)	90,535	-
Deferred tax liability	9	2,009,597	1,774,807
Total Liabilities		**$ 4,392,126**	**$ 2,692,351**
Shareholders' Equity			
Share capital	12	8,204,897	8,204,897
Contributed surplus	13	1,846,836	1,812,298
Retained earnings		2,844,116	4,716,931
Accumulated other comprehensive loss		(231,313)	(195,937)
Total Shareholders' Equity		**$ 12,664,536**	**$ 14,538,189**
Total Liabilities and Shareholder's Equity		**$ 17,056,662**	**$ 17,230,540**

Commitments (Note 17)
Subsequent events (Note 21)

On behalf of the Board:

"David Robbins" *signed*
David Robbins
Director

"Roger Dent" *signed*
Roger Dent
Director

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

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

For the years ended December 31	Note	2019	2018
Revenue	15	$ 9,317,608	$ 7,074,908
Cost of goods sold	18	7,416,545	6,519,918
Gross margin		$ 1,901,063	$ 554,990
Overhead expenses			
Selling, general and administrative	18,19	1,821,550	1,441,255
Share-based compensation	12	34,538	62,412
Amortization of intangible assets	7	74,667	21,333
Total overhead expenses		1,930,755	1,525,000
Research and product design		269,630	84,834
Loss from operations		$ (299,322)	$ (1,054,844)
Other income (expense)			
Loan write off	8	(1,088,879)	-
Finance guarantee expense	8,21	(250,000)	-
Impairment of property, plant & equipment	6	-	(5,000,000)
Interest income		7,145	28,122
Interest expense		(46,811)	(1,341)
Gain on disposal of property, plant and equipment		-	2,000
Loss before income taxes		$ (1,677,867)	$ (6,026,063)
Income tax expense (recovery)			
Current	9	21,312	13,452
Deferred	9	173,636	(1,515,476)
		194,948	(1,502,024)
Net loss		$ (1,872,815)	$ (4,524,039)
Other comprehensive loss			
Items that may not be reclassified to profit or loss:			
Loss on investment	5	(35,376)	(210,441)
Comprehensive loss		$ (1,908,191)	$ (4,734,480)
Loss per share - basic	14	(0.17)	(0.43)
- diluted	14	(0.17)	(0.43)
Weighted average shares outstanding - basic	14	11,333,854	10,413,857
- diluted	14	11,333,854	10,413,857

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)	Stockholder's 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	**12**	67,544	(22,545)	-	-	44,999
Shares issued for acquisiiton	**3**	890,000	-	-	-	890,000
Share-based compensation	**12**	-	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**
Share-based compensation	**12**	-	34,538	-	-	34,538
Net loss		-	-	(1,872,815)	-	(1,872,815)
Loss on investment	**5**	-	-	-	(35,376)	(35,376)
Balance at December 31,2019		**$8,204,897**	**$1,846,836**	**$ 2,844,116**	**$ (231,313)**	**$ 12,664,536**

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	2019	2018
Net loss for the year		$ (1,872,815)	$ (4,524,039)
Adjustments for:			
Depreciation	**6**	1,075,927	1,139,786
Allowance for bad debt		53,494	-
Amortization of intangible assets	**7**	74,667	21,333
Deferred tax expense (recovery)	**9**	173,636	(1,515,476)
Share-based compensation	**12**	34,538	62,412
Related party write-off	**8**	1,088,879	-
Finance guarantee liability	**21**	250,000	-
Impairment of property, plant & equipment		-	5,000,000
Gain on disposal of property, plant and equipment		-	(2,000)
Interest income		-	(28,122)
Interest expense		25,977	-
		904,303	153,894
Net change in non-cash working capital items			
Accounts receivable		(264,131)	102,623
Inventory		(1,098,941)	197,199
Prepaid expenses		35,042	18,704
Accounts payable and accrued liabilities		(117,494)	232,462
Deposits		14,120	(47,613)
Income taxes payable		21,933	1,666
Decrease in cash from operating activities		(505,168)	658,935
Cash flows from financing activities			
Payments from related parties	**8**	404,024	5,796
Advances to related parties	**8**	(7,635)	(61,190)
Proceeds from bank indebtedness-City National	**11**	1,002,309	330,000
Proceeds from bank indebtedness-Manufacturers Bank	**11**	700,000	-
Repayments of bank indebtedness-Manufacturers Bank	**11**	(700,000)	(330,000)
Repayment of lease liability		(223,050)	-
Proceeds from exercise of stock options		-	44,999
Increase in cash from financing activities		1,175,648	(10,395)
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(385,231)
Purchase of other assets		(900)	(5,385)
Purchase of property, plant and equipment	**6**	(316,906)	(759,227)
Proceeds from disposal of property, plant and equipment	**6**	-	2,000
Decrease in cash from investing activities		(317,806)	(1,147,843)
Increase/(Decrease) in cash		352,674	(499,303)
Cash, beginning of year		340,571	839,874
Cash, end of year		693,245	340,571

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 year ended December 31, 2019 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on May 5, 2020. Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 18 Kings Street East, Suite 902, Toronto, ON M5C2C4. The Company's core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company's operations is located in the United States ("U.S.") and its functional currency is U.S. dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

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 and the International Financial Reporting Interpretations Committee ("IFRIC") in effect at January 1, 2019. 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.("International"), Omni-Lite Industries California Inc., Formed Fast International Inc. ("Formed Fast"), Monzite Corporation ("Monzite"), and Impellimax, Inc ("Impellimax"). All significant intercompany 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, labor and allocated overheads) and net realizable value. Finished goods inventory is recorded at the average cost of production which approximates actual cost and includes raw materials, labor 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 comprised of cash and other short-term, highly liquid investments with original maturities of 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	7-30 years straight-line
Other equipment	30% declining balance
Non-consumable tooling	2.5 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 and comprehensive loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. In 2019, the Company adjusted the useful life of non-consumable tooling to 2.5 years, in previous years, non-consumable tooling was depreciated over 7 years. This change in estimate has been accounted for prospectively.

(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 income ("FVOCI"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized Cost

The Company classifies its accounts receivable, due from related parties, accounts payable, accrued liabilities, finance guarantee liability, and bank indebtedness 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.

2. Significant Accounting Policies - continued

(h) Financial instruments - continued

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 and comprehensive loss. 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.

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 and comprehensive loss-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 and comprehensive loss.

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.

2. Significant Accounting Policies - continued

(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.

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 vale 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 process, 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, 2019 and December 31, 2018, 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 and comprehensive loss, 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 and comprehensive loss. 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.

2. Significant Accounting Policies - continued

(k) Income taxes - continued

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 functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net loss.

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 acquiree 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 business 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 it’s 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 CGU 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.

2. Significant Accounting Policies - continued

(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 and comprehensive loss 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 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.

(q) Research and product design expenses

Expenses related to research and development activities that do not meet the criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet the 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.

2. Significant Accounting Policies - continued

(s) Significant accounting estimates and judgements – continued

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 one 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.

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 have increased.

2. Significant Accounting Policies - continued

(s) Significant accounting estimates and judgements – continued

Inventory
The amounts for finished goods inventory are based on average costs and includes overhead 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.

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.

2. Significant Accounting Policies - continued

(t) New accounting policies

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.

2. Significant Accounting Policies - continued

(t) New accounting policies - continued

Lease Recognition: Adoption of IFRS 16 - continued

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 & 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 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	$546,843
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.

2. Significant Accounting Policies - continued

(t) Lease Recognition: Adoption of IFRS 16 - continued

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. 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 founder's 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 & accrued liabilities	(133,115)
Deferred tax liability	(215,117)
Fair value of net assets	$912,169
Goodwill	$407,170

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 and comprehensive loss from the acquisition date to December 31, 2018 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 and comprehensive loss were approximately $280,000.

4. Inventory

The major components of inventory are classified as follows:

	December 31, 2019	December 31, 2018
Raw Materials	968,331	653,591
Work in progress	1,498,148	54,237
Finished Goods	1,376,076	1,926,202
Finished Goods mark to market	21,041	130,625
Total	**$ 3,863,596**	**$ 2,764,655**

The cost of inventories recognized as expense and included in cost of goods sold for the year ended December 31, 2019 was $7,416,545 (2018 - $6,519,918 – as reclassified). During the year ended December 31, 2019, the Company recorded a reserve for obsolete inventory of $26,654 (2018 - $522,124) and wrote off nil in 2019 (2018 - $765,001).

5. Investment

At December 31, 2019, 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, 2017	$ 430,515
Loss from market price valuation	(210,441)
Investment at December 31, 2018	$ 220,074
Loss from market price valuation	(35,376)
Investment at December 31, 2019	**$ 184,698**

6. Property, Plant and Equipment

Cost	Land	Building	Production equipment	Other equipment	Non-consumable tooling	Right-of-use assets	Totals
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	**-**	**-**	**299,272**	**17,634**	**-**	**505,310**	**822,216**
Reclassifications	**-**	**4,355**	**(54,500)**	**50,152**	**(7)**	-	**-**
At December 31, 2019	**$770,000**	**$2,158,925**	**$15,808,083**	**$360,459**	**$7,886,562**	**$ 505,310**	**$27,489,339**
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	-	**56,276**	**343,976**	**19,592**	**445,025**	**211,058**	**1,075,927**
Reclassifications	-	**482**	**(9,372)**	**8,890**	**-**	**-**	**-**
At December 31, 2019	$ -	**$847,964**	**$10,083,130**	**$290,766**	**$7,267,839**	**$211,058**	**$18,700,757**
Net Book Value							
At December 31, 2018	$770,000	$1,363,364	$5,814,785	$30,389	$1,063,755	$ -	$9,042,293
At December 31, 2019	**$770,000**	**$1,310,961**	**$5,724,953**	**$69,693**	**$618,723**	**$294,252**	**$8,788,582**

Of the $1,075,927 of depreciation expense in 2019, $1,065,811 (2018 - $1,131,716) was capitalized into inventory and $10,116 (2018 - $8,070) was expensed to selling, general and administration.

As a result of the Company’s market capitalization being less than its net assets, the Company performed an impairment test on the Omni-Lite CGU at December 31, 2019 based on FVLCD analysis. It was determined that no impairment exists as the recoverable amount exceeded the carrying amount of the CGU.

At December 31, 2018 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%).

6. Property, Plant and Equipment – continued

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

	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 December 31, 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	48,000	-	20,000	6,667	74,667
At December 31, 2019	**$ 62,000**	**$ -**	**$ 25,500**	**$ 8,500**	**$ 96,000**
Net book value					
At December 31, 2018	$ 226,000	$ 407,170	$ 94,500	$ 18,167	$ 745,837
At December 31, 2019	**$ 178,000**	**$ 407,170**	**$ 74,500**	**$ 11,500**	**$ 671,170**

All goodwill acquired in the Monzite acquisition was allocated to the Monzite CGU. The Company performed its impairment test at December 31, 2019 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 14.5% (2018 – 22%);
- Average forecasted EBITDA margin of 15.9% (2018 – 22%); and,
- Cash flows were discounted at a after-tax discount rate of 19.8% (2018 – 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 26.4%).

As a result of the impairment test performed, the recoverable amount was determined to be approximately $1,680,000 (2018 - $1,410,000), which exceeds the carrying amount by approximately $350,000 ($169,000), and therefore, did not result in an impairment.

7. Intangible Assets – continued

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

- A 1% increase in the discount rate would not result in an impairment; and,
- A 1% decrease in the average forecasted EBITDA would not result in an impairment

8. Related Party Transactions and Balances

For the year ended December 31, 2019, the Company had the following related party transactions and balances not disclosed elsewhere in these consolidated financial statements:

	December 31, 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 December 31, 2019.	**$ -**	$1,088,879
ii. The Company has provided a guarantee on the bank debt held by California Nano. The bank debt consists of a $250,000 (2018 - $250,000) line of credit and a term loan with a balance of approximately $372,000 at December 31, 2019 (approximately $481,000 at December 31, 2018). Omni-Lite has recorded a finance guarantee liability of $250,000 in the statement of financial position as at December 31, 2019 related to these guarantees. Subsequent to year end, the bank called California Nano's line of credit and Omni-Lite repaid the $250,000 on their behalf.		
A loan receivable from the former Chief Executive Officer including interest at a 2% per annum in the amount of $404,024 which was due on demand. The loan was secured by the former Chief Executive Officer's residential property and was paid in full on December 18, 2019.	**-**	395,356
iii. Earned revenue of $17,750 (2018 – $32,007) and incurred expenses of $7,832 (2018 – $13,139).		
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
An unsecured interest free loan receivable from an employee with a maturity date in 2020.	**706**	2,228
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	**(12,000)**	-
Total due from related parties	**$38,706**	$1,536,463
Current portion	**706**	1,486
Long-term portion	**$38,000**	$1,534,977

8. Related Party Transactions and Balances – continued

Significant subsidiaries:

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

Company (Jurisdiction of Incorporation/ Formation)	Percentage of ownership by Omni-Lite Industries Canada, Inc.	Overview	Market Area
Omni-Lite Industries California Inc. (California, USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc., which was formed and incorporated on October 4, 1985. It is the head office which conducts research and development and production operations.	United States
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. Merged into Omni-Lite Industries Canada Inc. as of December 31, 2019.	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. Merged into Omni-Lite Industries Canada Inc. as of December 31, 2019.	International

9. Income Taxes

For the years ended December 31	**2019**	**2018**
Loss before tax	$ (1,677,867)	$ (6,026,063)
Statutory tax rate	26.50%	27.00%
Income taxes at the statutory rate	(444,635)	(1,627,037)
Rate differential on income earned in foreign jurisdictions	(15,960)	(124,608)
Share-based compensation	9,267	16,851
Change in deferred tax asset not recognized	(44,709)	56,630
Permanent items	2,110	1,244
Tax rate differences	(34,677)	-
Change is estimate from prior year	723,552	174,896
	$ 194,948	$ (1,502,024)
Income tax expense (recovery):		
Current	21,312	13,452
Deferred	173,636	(1,515,476)
	$ 194,948	$ (1,502,024)

Principal components of the net deferred tax liability are:

For the years ended December 31	**2019**	**2018**
Unused tax losses carry forward	$ 844,838	$ 919,606
Share issue costs	-	197
Investment	6,889	82,736
Property, plant and equipment	302	450
Interest Expense	369,079	219,572
Other	311,700	293,312
Total deferred tax asset	1,532,808	1,515,873
Deferred tax asset not recognized	(235,005)	(279,714)
Net deferred tax asset	**$ 1,297,803**	**$ 1,236,159**
Deferred tax liability:		
Property, plant and equipment	(1,944,541)	(1,623,497)
Intangibles	-	(96,450)
Inventory / cost of goods sold	(65,056)	(54,860)
Total deferred tax liability	**(2,009,597)**	**(1,774,807)**
Net deferred tax liability	**$ (711,794)**	**$ (538,648)**

9. Income Taxes – continued

The statutory tax rate decreased due to a decrease in the Alberta provincial tax rate on July 1, 2019 from 12% to 11%.

The Company has non-capital losses of $992,340 in Canada which begin to expire in 2031 and US federal net operating losses of $774,716 which expire from 2032 to 2037 and $1,315,116 with no expiry date. Under the new Tax Cuts and Jobs Act law, net operating losses ("NOL") arising in tax years ending after December 31, 2017 can be carried forward indefinitely but limits the NOL deduction to 80% of taxable income and provided no ability to carryback the NOLs to prior tax years. Under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") the NOLs arising in tax year beginning after December 31, 2017 and before January 1, 2021 are allowed to be carried back 100% to the prior five tax years and temporarily liberalizes the treatment of NOL carryforwards by allowing to take NOL deduction equal to 100% of taxable income, rather than the present 80% limit for tax years beginning before 2021.

10. Compensation of Key Management Personnel

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

	2019	2018
Wages and short-term benefits	$ 676,369	$ 500,233
Share-based compensation	30,074	47,359
	$ 706,443	$ 547,592

Key management personnel of the Company include the Chief Executive Officer, Chief Financial Officer, President, Vice President, and the other members of the Board of Directors. For the year ended December 31, 2019, 275,000 options were granted to key management personnel (2018- $nil). No warrants were granted to key management personnel in 2019 (2018 – 1,052,000).

11. Bank Indebtedness

As of December 18, 2019, the Company replaced its US$700,000 credit facility and entered into a three-year, US$3.0 million revolving credit line with City National Bank, an RBC Company, which expires on December 31, 2022 (the "Credit Agreement"). Interest under the revolving line of credit accrues at the prime rate. The Company drew down $702,309 to repay its pre-existing line of credit and related interest. 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 loan to value, net worth and debt service ratios. At December 31, 2019, the loan balance was $1,002,309 and the Company was in compliance with its covenants. Interest expense of $20,834 (2018 - $nil) related to the Company's line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

12. 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 option exercise	**93,334**	67,544
Shares issued for acquisition	**1,225,000**	890,000
Total issued and outstanding, December 31, 2018 and December 31, 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 $0.60 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 $0.89
Options outstanding at December 31, 2018		434,333	CAD $0.92 to $1.87	CAD $1.53
Options	- granted	575,000	CAD $0.90	CAD $0.90
	- exercised	-		
	- expired	-		
	- forfeited	(95,000)	CAD $1.35 to $1.87	CAD $1.66
Options outstanding at December 31, 2019		914,333	CAD $0.90 to $1.87	CAD $1.12
Options exercisable at December 31, 2019		312,331	CAD $0.92 to $1.85	CAD $1.46

12. Share Capital – continued

The options that are outstanding at December 31, 2019 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price of options outstanding	Weighted Average Remaining Contractual Life
95,000	CAD $0.92 to $1.35	CAD $1.19	0.32 years
244,333	CAD $1.35 to $1.87	CAD $1.63	1.67 years
575,000	CAD $0.90	CAD $0.90	4.91 years
914,333	CAD $0.90 to $1.87	CAD $1.12	3.56 years

Options Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
95,000	CAD $0.92 to $1.35	CAD $1.19	0.32 years
217,331	CAD $1.40 to $1.85	CAD $1.58	1.57 years
312,331	CAD $0.92 to $1.85	CAD $1.46	1.19 years

The options that were 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 $0.92 to $1.87	CAD $1.53	2.41 years

Options Vested	Option price	Weighted Average Exercise Price of Options Vested	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 $0.92 to $1.87	CAD $1.44	2.10 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 $12,313 for the year ended December 31, 2019 (2018 - $42,167).

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

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

12. Share Capital – continued

(d) Warrants

The Company initiated a long-term stock warrant plan in the third quarter of 2018 for key management and employees. On September 21, 2018, 1,200,000 warrants were granted all with an expiry date of September 21, 2026. The remaining contractual life on the warrants is 6.73 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 and December 31, 2019	**1,200,000**	**CAD $1.13 to $2.26**	**CAD $1.67**
Warrants exercisable at December 31, 2019	**79,167**	**CAD $1.27**	**CAD $1.27**

The warrants that are outstanding as of December 31, 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**

500,000 warrants granted have exercise prices ranging from CAD$1.13 – CAD$2.26 and vest one third per year with the first vesting date ranging from December 31, 2019 to December 31, 2022 ("time based"). At December 31, 2019, 79,167 warrants have vested.

700,000 warrants granted have exercise prices ranging from CAD $1.27 – CAD $2.26 and vest upon meeting escalating cumulative three-year EBITDA targets on dates ranging from December 31, 2021 to December 31, 2024 ("performance based"). At December 31, 2019, the Company has determined that the EBITDA targets are not expected to be met and therefore no expense has been recorded. Share-based compensation expense in relation to warrants was $22,225 for the year ended December 31, 2019 (2018 - $20,245).

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

	Performance Based	Time Based
Number of options	700,000	500,000
Weighted average exercise price	CAD$1.78	CAD$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%

13. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	December 31, 2019	December 31, 2018
Balance, beginning of year	**$ 1,812,298**	$ 1,772,431
Shares issued upon options exercise (note 12)	**-**	(22,545)
Share-based compensation (note 12)	**34,538**	62,412
Balance, end of year	**$ 1,846,836**	$ 1,812,298

14. Loss per Common Share

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

914,333 options (2018 – 434,333) and 1,200,000 (2018 – 1,200,000) warrants were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2019 because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

15. 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.

	December 31, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$693,245**	**$693,245**	$ 340,571	$ 340,571
At FVOCI				
Investment	**184,698**	**184,698**	220,074	220,074
At amortized cost				
Accounts receivable	**1,355,071**	**1,355,071**	1,132,435	1,132,435
Due from related parties	**38,706**	**38,706**	1,536,463	1,536,463
Accounts payable and accrued liabilities	**791,775**	**791,775**	909,269	909,269
Finance guarantee liability	**250,000**	**250,000**	-	-
Bank indebtedness	**1,002,309**	**1,002,309**	-	-

15. Financial Instruments – continued

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 693,245	$ 693,245	$ -	$ -
Investment	184,698	184,698	-	-

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 finance guarantee liability approximate their fair value due to their short-term nature.

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

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations 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.

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

(a) Interest rate risk
The Company's line of credit facility discussed in Note 11 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 December 31, 2019, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $10,002 (December 31, 2018 - $nil).

(b) Foreign currency risk
The Company maintains minimal asset and liability balances in non-U.S. dollar currencies and has deminimus foreign currency exposure.

(c) 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 December 31, 2019, a 1% change in the price of the investment would have an impact of $794 (December 31, 2018 - $2,201).

(d) 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.

15. Financial Instruments – continued

(d) Liquidity Risk – continued

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

December 31, 2019	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 791,775	-	-	-	$ 791,775
Finance guarantee liability	250,000	-	-	-	250,000
Bank indebtedness	-	1,002,309	-	-	1,002,309
Total	$1,041,775	$1,002,309	-	-	$ 2,044,084

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

(e) 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 year ended December 31, 2019, the Company was engaged in contracts for products with two (December 31, 2018 – four) customers in excess of 10% of revenue, which accounted for approximately $3.5 million (2018 - $3,792,723) or 38% (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
December 31, 2019	$ 1,355,071	$ 706,728	$ 495,696	$ 89,256	$ 46,816	$ 16,575
December 31, 2018	$ 1,132,435	$ 795,227	$ 269,624	$ 9,932	$ 1,029	$ 56,623

As of December 31, 2019, the average expected credit loss on the Company's accounts receivable was 3.0%, and as a result, the provision for expected credit losses is $41,495.

16. Segment Information

Geographic Segments:

The Company has its operations and subsidiaries in the United States, Canada and Barbados. Operations in Barbados were discontinued at December 31, 2019. 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:

For the year ended December 31, 2019	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 9,312,808	-	$ 254,400	(249,600)	$ 9,317,608
Net loss	(1,550,295)	(314,916)	(7,604)	-	(1,872,815)

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

17. 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:

Year	Amount
2020	$ 231,402
2021	92,391
	$ 323,793

18. Reclassification of Expenses

The Company reclassified certain prior year expenses to align with current year presentation.

	December 31, 2018 (as previously reported)	**Reclassification**	**December 31, 2018 (as reclassified)**
Cost of goods sold	$ 3,591,011	$ 2,928,907	$ 6,519,918
Employee benefits	1,536,705	(1,536,705)	-
Depreciation	1,139,786	(1,139,786)	-
General and administrative	1,683,748	(242,493)	1,441,255
Commissions	5,697	(5,697)	-
Foreign exchange loss	4,226	(4,226)	-

There was no impact on the cash flow statement as all items are within cash flow from operations.

19. Selling, General, and Administrative Expense

Selling, general and administrative expense consist of the following;

	2019	2018
Employee related	$ 972,440	$ 431,994
Outside services	551,154	628,634
Legal settlement	-	171,828
All other	297,956	208,799
	$ 1,821,550	$1,441,255

20. Capital Disclosures

The objective for managing the Company's capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The capital structure of the Company consists of cash and equity comprised of issued capital, contributed surplus and retained earnings. The Company generally relies on operating cash flows and its revolving line of credit to fund the expansion and product development. The Company's financing needs depend on the timing of expected net cash flows from new products and sales of current products. This requires the Company to maintain financial flexibility and liquidity. The Company's capital management policies are aimed at:

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

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.

21. Subsequent Events

Subsequent to year end, California Nano's line of credit was called by its bank and Omni-Lite paid $250,000 to settle their guarantee agreement under the terms of that certain credit agreement. Concurrent with such settlement, Omni-Lite entered into a Promissory Note Agreement with California Nano of $250,000 with an interest rate set at the US Prime Rate plus 1.0%

The Company applied for and received loan proceeds in the amount of $818,700 (the "PPP Funds") and entered into a loan agreement with City National Bank pursuant to the CARES Act. The CARES Act was established in order to enable small businesses to pay employees during the economic slowdown caused by covid-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed by the Company under the CARES Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels.
Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred for six months and will accrue interest at a fixed annual rate of 1% and will carry a two-year maturity date. There is no prepayment penalty on the CARES Act Loan.

The covid-19 virus has severely impacted local economies around the world. In many countries, businesses are being forced to temporarily cease or to various extents limit operations for indefinite periods of time. Measures taken to contain the spread of the covid-19 virus, including travel bans, quarantines, social distancing, and closures of on-essential services have triggered significant disruptions to businesses worldwide, resulting in a severe economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Corporation has determined that this event is a non-adjusting subsequent event. Therefore, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect any impact of this event. The duration and impact of the covid-19 pandemic, as well as the effectiveness of government and central bank responses to covid-19, remains unclear at this time. It is not possible to reliably estimate the duration and severity of the consequences of covid-19, or the impact the event may have on the financial position and results of the Corporation for future periods.

We have been designated a critical business by our defense related customers and as such continue to operate all of the Company's facilities.

We have also created a covid–19 Pandemic Response Team. The focus of this team is to;

- Protect the safety and health of our employees,
- Continue to deliver on our commitments to customers, and,
- Ensure that we are complying with all federal, state and local regulations

We have implemented;

- Enhanced sanitation procedures
- Temperature checks
- Personal protection measures, including masks and social distancing procedures, and,
- Ongoing monitoring of the covid–19 pandemic and our workplace.