Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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
March 30, 2021

Chartered Professional Accountants

MNP LLP

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

	Note	December 31, 2020	December 31, 2019
Assets			
Current			
Cash		$ 1,542,405	$ 693,245
Accounts receivable		976,878	1,355,071
Inventory	**3**	3,252,315	3,863,596
Due from related parties	**7**	-	706
Prepaid expenses		187,251	124,013
Total Current Assets		**$ 5,958,849**	$ 6,036,631
Long-term			
Investment	**4**	471,720	184,698
Property, plant and equipment	**5**	7,757,424	8,788,582
Due from related parties	**7**	26,000	38,000
Deferred tax asset	**8**	-	1,297,803
Intangible assets	**6**	602,788	677,455
Deposits		33,493	33,493
Total Assets		**$ 14,850,274**	$ 17,056,662
Liabilities			
Current			
Accounts payable and accrued liabilities		576,583	791,775
Lease liability		90,535	217,702
Income taxes payable		2,400	30,208
Finance guarantee liability	**7(ii)**	-	250,000
Bank indebtedness	**10**	1,519,349	-
Total Current Liabilities		**$ 2,188,867**	$ 1,289,685
Long Term			
Bank indebtedness	**10**	-	1,002,309
Proceeds from Paycheck Protection Program	**10**	-	-
Lease liability		-	90,535
Deferred tax liability	**8**	213,304	2,009,597
Total Liabilities		**$ 2,402,171**	$ 4,392,126
Shareholders' Equity			
Share capital	**12**	8,204,897	8,204,897
Contributed surplus	**13**	1,961,473	1,846,836
Retained earnings		2,226,024	2,844,116
Accumulated other comprehensive income (loss)	**4**	55,709	(231,313)
Total Shareholders' Equity		**$ 12,448,103**	$ 12,664,536
Total Liabilities and Shareholder's Equity		**$ 14,850,274**	$ 17,056,662

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		2020		2019
Revenue		**$**	**6,683,776**	$	9,317,608
Cost of goods sold	3		6,651,297		7,416,545
Gross margin		**$**	**32,479**	$	1,901,063
Overhead expenses					
Selling, general and administrative	18		1,378,012		1,821,550
Share-based compensation	12		114,637		34,538
Amortization of intangible assets	6		74,667		74,667
Total overhead expenses		**$**	**1,567,316**	$	1,930,755
Research and product design			277,728		269,630
Loss from operations		**$**	**(1,812,565)**	$	(299,322)
Other income (expense)					
Loan write off			-		(1,088,879)
Finance guarantee expense			-		(250,000)
Interest income			7,968		7,145
Interest expense	10		(68,021)		(46,811)
Loan forgiveness	10		819,700		
Other expense			(55,160)		-
Loss before income taxes		**$**	**(1,108,078)**	$	(1,677,867)
Income tax expense (recovery)					
Current			8,504		21,312
Deferred			(498,490)		173,636
		$	**(489,986)**	$	194,948
Net loss		**$**	**(618,092)**	$	(1,872,815)
Other comprehensive income/(loss)					
Items that may not be reclassified to profit or loss:					
Gain (Loss) on investment	4		287,022		(35,376)
Comprehensive loss		**$**	**(331,070)**	$	(1,908,191)
Loss per share - basic	14	$	(0.05)	$	(0.17)
- diluted	14	$	(0.05)	$	(0.17)
Weighted average shares outstanding - basic	14		**11,333,854**		11,333,854
- diluted	14		**11,333,854**		11,333,854

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, 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	**4**	-	-	-	(35,376)	(35,376)
Balance at December 31, 2019		$ 8,204,897	$ 1,846,836	$ 2,844,116	$ (231,313)	$ 12,664,536

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
Balance at December 31,2019		**$ 8,204,897**	**$ 1,846,836**	**$ 2,844,116**	**$ (231,313)**	**$ 12,664,536**
Share-based compensation	**12**	-	114,637	-	-	114,637
Net loss		-	-	(618,092)	-	(618,092)
Gain on investment	**4**	-	-	-	287,022	287,022
Balance at December 31, 2020		**$ 8,204,897**	**$ 1,961,473**	**$ 2,226,024**	**$ 55,709**	**$ 12,448,103**

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	2020	2019
Cash flows from operating activities			
Net loss for the year		$ (618,092)	$ (1,872,815)
Adjustments for:			
Depreciation	5	1,055,008	1,075,927
Allowance for bad debt (reversal)		(34,190)	53,494
Amortization of intangible assets	6	74,667	74,667
Deferred tax (recovery) expense		(498,490)	173,636
Share-based compensation	11	114,637	34,538
Related party write-off		-	1,088,879
Finance guarantee liability			250,000
Forgiveness of Paycheck Protection Loan	10	(819,700)	
Lease interest expense	10	13,700	25,977
		$ (712,460)	$ 904,303
Net change in non-cash working capital items			
Accounts receivable		412,383	(264,131)
Inventory		611,281	(1,098,941)
Prepaid expenses		(63,238)	35,042
Accounts payable and accrued liabilities		(215,192)	(117,494)
Deposits		-	14,120
Income taxes payable		(27,808)	21,933
			-
Increase/(Decrease) in cash from operating activities		$ 4,966	$ (505,168)
Cash flows from financing activities			
Payments from related parties	7	12,706	404,024
Advances to related parties	7	-	(7,635)
Proceeds from bank indebtedness	10	517,040	1,702,309
Repayments of bank indebtedness-Manufacturers Bank	10	-	(700,000)
Proceeds from Paycheck Protection Loan	10	819,700	
			-
Repayment of lease liability	11	(231,402)	(223,050)
Increase in cash from financing activities		$ 1,118,044	$ 1,175,648
Cash flow from investing activities			
Purchase of other assets		-	(900)
Purchase of property, plant and equipment	5	(23,850)	(316,906)
Payment of finance guarantee	7(ii)	(250,000)	
Decrease in cash from investing activities		$ (273,850)	$ (317,806)
Increase in cash		$ 849,160	$ 352,674
Cash, beginning of year		$ 693,245	$ 340,571
Cash, end of year		$ 1,542,405	$ 693,245

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, 2020 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 March 30, 2021. 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.

Impact of the COVID-19 Pandemic

The ongoing COVID-19 pandemic ("pandemic") has caused and may continue to cause governments and businesses around the world to take steps to combat the spread and adverse effects of COVID-19 virus and its variants. Such actions include the implementation of travel bans, stay at home orders, social distancing, quarantines, limits on business activity and other disruptive measures. These actions have resulted in and may continue to result in an economic slowdown. Governments have responded with significant monetary interventions designed to support and stabilize the adverse effects of the pandemic on individuals and businesses.

The pandemic has significantly adversely affected the Company's operations in 2020. The full extent of the effects of the pandemic on the Company's future operations continues to be unknown at this time and is dependent on the duration of the pandemic and future government and customer actions. In response to this uncertainty, the Company has fully availed itself of Paycheck Protection Program, completed a workforce reduction program and implemented other cost saving measures to preserve cash.

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, 2020. 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:

2. Significant Accounting Policies – continued

(a) Consolidation
These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries California Inc. ("California"), 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.

(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

2. Significant Accounting Policies – continued

(f) Property, plant and equipment – continued

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. Other equipment consists of production support equipment.

(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.

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

2. Significant Accounting Policies – continued

(h) Financial instruments – continued

risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

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.

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.

2. Significant Accounting Policies - continued

(h) Financial instruments - continued

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.

(i) 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.

(j) 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

2. Significant Accounting Policies - continued

(j) Impairment of non-financial assets – continued

developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

(k) Leases

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

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

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

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

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

(l) 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

2. Significant Accounting Policies - continued

(l) Provisions - continued

determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2020 and December 31, 2019, there were no provisions recognized in the consolidated financial statements.

(m) 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.

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.

(n) 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.

(o) 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.

2. Significant Accounting Policies - continued

(o) Business combinations – continued

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.

(p) 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 tested 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.

(q) 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.

(r) 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.

(s) 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.

2. Significant Accounting Policies – continued

(t) 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.

(u) Government grants

The Company recognizes government grants as other income when it believes it has fulfilled all of the requirements necessary for the grants to be forgiven.

(v) 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 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.

2. Significant Accounting Policies - continued

(v) Significant accounting estimates and judgements – continued

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.

Government grants
The Company applies judgment in determining whether or not all conditions have been met when recognizing government grants into other income.

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.

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.

2. Significant Accounting Policies - continued

(v) Significant accounting 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.

Leases
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.

(w) New accounting policies

Business Combinations

On January 1, 2020, the Company adopted the amendment, as issued on October 22, 2018, by the IASB related to IFRS 3, “Business Combinations” (“IFRS 3”), revising the definition of a business and providing for the addition of an optional ‘concentration test’ to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input – Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process – Any system, standard, protocol, convention or rules that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output – The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional ‘concentration test’ permits a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other vent. If the concentration test is met, the set of activities and assets is determined to be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the year ended December 31, 2020.

3. Inventory

The major components of inventory are classified as follows:

	December 31, 2020	December 31, 2019
Raw materials	$ 334,148	$ 968,331
Tooling	550,541	-
Work in progress	562,164	1,498,148
Finished goods	1,805,462	1,376,076
Finished goods mark to market	-	21,041
Total	**$ 3,252,315**	$ 3,863,596

The cost of inventories recognized as expense and included in cost of goods sold for the twelve months ended December 31, 2020 was $6,651,297 (2019 - $7,416,545). During the twelve months ended December 31, 2020, the Company recorded a reserve for obsolete inventory of $343,625 (2019 - $26,654).

4. Investment

At December 31, 2020, 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, 2018	$ 220,074
Loss from market price valuation	(35,376)
Investment at December 31, 2019	$ 184,698
Gain from market price valuation	287,022
Investment at December 31, 2020	**$ 471,720**

5. Property, Plant and Equipment

	Land	Building	Production equipment	Other equipment	Non-consumable tooling	Right-of-use assets	Totals
Cost							
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
Additions	**-**	**-**	**23,850**	**-**	**-**	**-**	**23,850**
At December 31, 2020	**$770,000**	**$2,158,925**	**$15,831,933**	**$360,459**	**$7,886,562**	$ 505,310	**$27,513,189**
Accumulated Depreciation							
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
Reclassification	-	482	(9,372)	8,890	-	-	-
At December 31, 2019	$ -	$847,964	$10,083,130	$290,766	$7,267,839	$211,058	$18,700,757
Depreciation	-	56,294	352,152	15,867	419,636	211,059	**1,055,008**
At December 31, 2020	$ -	**$904,258**	**$10,435,282**	**$306,633**	**$7,687,475**	**$422,117**	**$19,755,765**
Net Book Value							
At December 31, 2019	$700,000	$1,310,961	$5,724,953	$69,693	$618,723	$294,252	$8,788,582
At December 31, 2020	**$770,000**	**$1,254,667**	**$5,396,651**	**$53,826**	**$199,087**	**$83,193**	**$7,757,424**

Of the $1,055,008 of depreciation expense in 2020, $1,048,124 (2019 - $1,065,811) was capitalized into inventory and $6,884 (2019 - $10,116) 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, 2020 based on FVLCD analysis. It was determined that no impairment exists as the recoverable amount exceeded the carrying amount of the CGU.

6. Intangible Assets

Cost:	**Customer relationship**	**Goodwill**	**Trademark**	**Non-compete agreements**	**Patents**	**Totals**
At December 31, 2018	**$ 240,000**	**$ 407,170**	**$ 100,000**	**$ 20,000**	**$ 5,385**	**$ 772,555**
Patent costs					900	900
At December 31, 2019 & December 31, 2020	**$ 240,000**	**$ 407,170**	**$ 100,000**	**$ 20,000**	**$ 6,285**	**$ 773,455**
Accumulated amortization						
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**
Amortization	49,000		19,240	6,427		74,667
At December 31, 2020	**$ 111,000**	**-**	**$ 44,740**	**$ 14,927**	**-**	**$ 170,667**
Net book value						
At December 31, 2019	178,000	407,170	74,500	11,500	6,285	677,455
At December 31, 2020	**$ 129,000**	**$ 407,170**	**$ 55,260**	**$ 5,073**	**$ 6,285**	**$ 602,788**

All goodwill has been allocated to the Monzite CGU. The Company performed its impairment test at December 31, 2020 and the recoverable amount of the Monzite CGU was determined based on a FVLCD calculation using the following key assumptions:

- 3-year (2019 – 4 year) cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 3 years used a terminal growth rate of 2%;
- Forecasted revenue at an average growth rate of 8% (2019 – 14.5%);
- Average forecasted EBITDA margin of 18% (2019 – 15.9%); and,
- Cash flows were discounted at an after-tax discount rate of 24% (2019 – 19.8%) based on the Company's weight average cost of capital and risks specific to the particular CGU.

As a result of the impairment test performed, the recoverable amount was determined to be approximately $1,479,000 (2019 - $1,680,000), which exceeds the carrying amount by approximately $100,000 ($350,000), 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 1% increase in the discount rate would not result in an impairment;
- A 1% decrease in the average forecasted EBITDA would not result in an impairment; and,
- A 2% decreased in the average forecasted EBITDA or a 2% increase in the discount rate would result in an insignificant impairment.

7. Related Party Transactions and Balances

For the years ended December 31, 2020 and 2019, the Company had the following related party transactions and balances not disclosed elsewhere in these consolidated financial statements:

	December 31, 2020	**December 31, 2019**
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 during December 31, 2019.	**$ -**	$ -
ii. The Company had provided a guarantee on the bank debt held by California Nanotechnologies Corp. On March 31, 2020, the bank called California Nano's line of credit of $250,000 and Omni-Lite repaid this amount on their behalf. At December 31, 2019 Omni-Lite had recorded this amount as a finance guarantee liability of $250,000 in the statement of financial position with an offsetting charge to other expense. Omni-Lite has a loan receivable with interest at the prime rate plus 1% from California Nanotechnologies Corp.		
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
Had an unsecured interest free loan receivable from an employee which was paid in full as of December 31, 2020.	**-**	706
Provided four grants (December 31, 2019 – 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 four grants outstanding mature in 2021, 2022 and 2023.	**20,000**	30,000
Reserve for earned grants	**(14,000)**	(12,000)
Total due from related parties	**$26,000**	$38,706
Current portion	**-**	706
Long-term portion	**$26,000**	$38,000

7. 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
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

8. Income Taxes

For the years ended December 31	**2020**	**2019**
Loss before tax	$ (1,108,077)	$ (1,677,867)
Statutory tax rate	23.99%	26.50%
Income taxes at the statutory rate	(265,828)	(444,635)
Rate differential on income earned in foreign jurisdictions	(32,945)	(15,960)
Share-based compensation	27,501	9,267
Change in deferred tax asset not recognized	70,640	(44,709)
Permanent items	(226,794)	2,110
Tax rate differences	(26,447)	(34,677)
Change is estimate from prior year	(36,113)	723,552
	$ (489,986)	$ 194,948
Income tax expense (recovery):		
Current	8,504	21,312
Deferred	(498,490)	173,636
	$ (489,986)	$ 194,948

Principal components of the net deferred tax liability are:

For the years ended December 31	**2020**	**2019**
Unused tax losses carry forward	$ 878,286	$ 609,833
Investment		6,889
Property, plant and equipment	260	302
Interest Expense	345,240	369,079
Other	349,177	311,700
Total deferred tax asset	1,572,963	1,297,803
Deferred tax offset	(1,572,963)	-
Net deferred tax asset	**$ -**	**$ 1,297,803**
Deferred tax liability:		
Property, plant and equipment	(1,768,542)	(1,944,541)
Inventory / cost of goods sold	(17,725)	(65,056)
Total deferred tax liability	**(1,786,267)**	**(2,009,597)**
Deferred tax offset	1,572,963	-
Total deferred tax liability	**(213,304)**	**(2,009,597)**
Net deferred tax liability	**$ (213,304)**	**$ (711,794)**

8. Income Taxes – continued

The following provides the details of unrecognized, unused losses for which no deferred tax asset has been recognized:

For the years ended December 31	2020	2019
Unused tax losses carryforward	$1,327,760	$1,020,444
Property, plant and equipment	1,131	1,315

The statutory tax rate decreased due to a decrease in the Alberta provincial tax rate from 11% to 10%, on January 1, 2020 and 10% to 8% on July 1, 2020.

The Company has non-capital losses of $1,445,755 in Canada which begin to expire in 2031 and US federal net operating losses of $531,969 which expire from 2033 to 2037 and $2,391,528 with no expiry date.

9. Compensation of Key Management Personnel

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

	2020	2019
Wages and short-term benefits	$ 649,148	$ 676,369
Share-based compensation	61,671	30,074
	$ 710,819	$ 706,443

Key management personnel of the Company include the Chief Executive Officer, Chief Financial Officer, Vice President, and the other members of the Board of Directors. For the year ended December 31, 2020, no options were granted to key management personnel (2019- 275,000). No warrants were granted to key management personnel in 2020 (2019 – nil).

10. Bank Indebtedness

During 2019, the Company replaced its $700,000 credit facility and entered into a three-year, $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 Credit Agreement is secured by the Company’s accounts receivable, inventory, property, plant and equipment, and general intangibles. The agreement includes certain conditions and financial covenant ratios including, loan to value, net worth and debt service. At December 31, 2020, the loan balance was $1,519,349 (December 31, 2019 - $1,002,309) and the Company was not in compliance with its covenants. Subsequent to year-end 2020, the Company received a waiver for its bank covenants. Interest expense of $54,321 (2019 - $20,834) related to the Company’s line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the twelve months ended December 31, 2020. In addition, the Company recorded $13,700 (2019 - $25,977) of lease interest expense.

10. Bank Indebtedness – continued

During 2020, the Company applied for and received $819,700 in loans from City National Bank under the CARES Act. $636,800 of this amount was for Omni-Lite California, Inc. and the remaining $182,900 was for Monzite, Inc. The Company believes it has met the criteria for forgiveness on both of these loans and has recorded these loans as income in 2020.

11. Lease Liability

	2020	2019
Opening balance January 1	**$ 308,237**	$
Lease liability recognized on adoption of IFRS16 January 1, 2019	**-**	505,310
Interest on lease liability	**13,700**	25,977
Payments	**(231,402)**	(223,050)
Lease liability end of period	**$ 90,535**	$308,237
Less current portion	**90,535**	(217,702
Long-term portion	**$ -**	$ 90,505

On January 1, 2019 the Company adopted IFRS 16 – Leases retrospectively with the cumulative effect on initially applying the standard recognized at the date of initial application.

The lease is for manufacturing and office space that extends to June 30, 2021. The discount rate applied to the lease is 6%. See Note 5 for information related to the lease asset. In addition to the lease payments the Company pays approximately $3,000 in annual operating costs consisting of insurance and real estate taxes related to the leased facility. This amount is re-assessed annually based upon actual costs incurred.

At December 31, 2020 the future minimum lease payments relating to the leased asset of $90,535 are all due in 2021.

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, 2018, 2019 and 2020	**11,333,854**	**$ 8,204,897**

12. Share Capital – continued

(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, 2018	434,333	CAD $0.92 to $1.87	CAD $1.53
Options - granted	575,000	CAD $0.90	CAD $0.90
- expired	-		
- forfeited	(95,000)	CAD $1.35 to $1.48	CAD $0.89
Options outstanding at December 31, 2019	914,333	CAD $0.90 to $1.85	CAD $1.12
Options - granted	-		
- expired	(111,666)	CAD $0.92 to $1.35	CAD $1.25
Options outstanding at December 31, 2020	802,667	CAD $0.90 to $1.85	CAD $1.10
Options exercisable at December 31, 2020	419,331	CAD $0.90 to $1.85	CAD $1.29

The options that are outstanding at December 31, 2020 are summarized as follows:

Options Outstanding	**Option price**	**Weighted Average Exercise Price of options outstanding**	**Weighted Average Remaining Contractual Life**
575,000	CAD $0.90	CAD $0.90	3.90 years
227,667	CAD $1.40 to $1.85	CAD $1.61	.74 years
802,667	CAD $0.90 to $1.85	CAD $1.10	3.01 years

Options Vested	**Option price**	**Weighted Average Exercise Price of Options Currently Exercisable**	**Weighted Average Remaining Contractual Life**
419,331	CAD $0.90 to $1.85	CAD $1.29	2.19 years

The options that were 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

12. Share Capital – continued

Options Vested	Option price	Weighted Average Exercise Price of Options Vested	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

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 stock options was $89,461 for the year ended December 31, 2020 (2019 - $12,313).

The fair value of the stock options granted during 2019 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%

(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, 2018, 2019 and 2020	**1,200,000**	**CAD $1.13 to $2.26**	**CAD $1.67**
Warrants exercisable at December 31, 2020	**175,833**	**CAD $1.27**	**CAD $1.27**

The warrants that are outstanding as of December 31, 2020 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, 2020, 175,833 warrants have vested. Share-based compensation expense in relation to warrants was $25,176 for the year ended December 31, 2020 (2019 - $20,225).

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, 2020 the Company has determined that the EBITDA targets are not expected to be met and therefore, no expense has been recorded.

13. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	December 31, 2020	December 31, 2019
Balance, beginning of year	**$ 1,846,836**	$ 1,812,298
Share-based compensation (note 12(c), 12(d))	**114,637**	34,538
Balance, end of year	**$ 1,961,473**	$ 1,846,836

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.

802,667 options (2019 – 914,333) and 1,200,000 (2019 – 1,200,000) warrants were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2020 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, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$1,542,405**	**$1,542,405**	$ 693,245	$ 693,245
At FVOCI				
Investment	**471,720**	**471,720**	184,698	184,698
At amortized cost				
Accounts receivable	**976,878**	**976,878**	1,355,071	1,355,071
Due from related parties	**26,000**	**26,000**	38,706	38,706
Accounts payable and accrued liabilities	**576,582**	**576,582**	791,775	791,775
Finance guarantee liability	-	-	250,000	250,000
Bank indebtedness	**1,519,349**	**1,519,349**	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	$ 1,542,405	$ 1,542,405	$ -	$ -
Investment	471,720	471,720	-	-

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.

(a) Interest rate risk
The Company's line of credit facility discussed in Note 10 may fluctuate in value as a result of change in interest rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 2020, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $15,139 (December 31, 2019 - $10,002).

(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, 2020, a 1% change in the price of the investment would have an impact of $4,717 (December 31, 2019 - $1,847).

(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, 2020	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	$ 576,583	-	-	-	$ 576.583
Bank indebtedness	1,519,349		-	-	1,519,349
Total	$ 2,095,932	-	-	-	$ 2,095,932

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
Financial guarantee liability	250,000				250,000
Bank indebtedness	-	1,002,309	-	-	1,002,309
Total	$ 1,041,775	$1,002,309	-	-	$ 2,044,084

(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, 2020, the Company was engaged in purchase orders for products with three (December 31, 2019 – two) customers in excess of 10% of revenue, which accounted for approximately $3,246,294 (2019 - $3,520,314) or 49% (2019 – 38%) 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, 2020	$ 976,878	$ 482,596	$ 153,246	$ 29,948	$ 278,011	$ 33,077
December 31, 2019	$ 1,355,071	$ 706,728	$ 495,696	$ 89,256	$ 46,816	$ 16,575

As of December 31, 2020, the average expected credit loss on the Company's accounts receivable was 0.75%, and as a result, the provision for expected credit losses is $7,304.

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, 2020	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 6,683,776	-	-	-	$ 6,683,776
Net loss	(291,744)	(326,348)	-	-	(618,092)

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)

17. Commitments

The Company has agreements with various customers, in the normal course of operations, to supply components 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
2021	92,391

18. Selling, General, and Administrative Expense

Selling, general and administrative expense consist of the following;

	2020	2019
Employee related	$ 804,671	$ 972,440
Outside services	441,774	551,154
All other	131,567	297,956
	$ 1,378,012	**$1,821,550**

19. 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.

20. Subsequent Events

Subsequent to year end 2020, the Company applied for and received loan proceeds in the amount of $399,587 (the "PPP2 Funds") and entered into a loan agreement with City National Bank pursuant to the COVID-19 Relief Act. The COVID-19 Relief 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 COVID-19 Relief Act is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the eight to twenty-four week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, utility costs and certain operating 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.

In January 2021, the Small Business Administration notified the Company that it has forgiven the Monzite portion of the Company's PPP loan or $182,900. The Omni-Lite California portion of the PPP loan or $636,800 has not yet been reviewed by the Small Business Administration. The Company believes it has complied with the forgiveness requirements and has recorded the $636,800 as other income in 2020.