OMNI-LITE INDUSTRIES CANADA INC.

2002 ANNUAL REPORT

of

Omni-Lite Industries Canada Inc.
for the year ending December 31, 2002

Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2002 and 2001
(in United States Dollars)

Contents

BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Auditors' Report

To the Shareholders of
Omni-Lite Industries Canada Inc.

We have audited the consolidated balance sheets of Omni-Lite Industries Canada Inc. as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"signed BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
May 7, 2003

Omni-Lite Industries Canada Inc.
Consolidated Balance Sheets
United States Dollars

December 31	2002	2001
Assets		
Current		
Cash	**$ 75,377**	$ 40,331
Accounts receivable	**380,273**	505,207
Inventory (Note 3)	**813,819**	789,570
Prepaid expenses	**4,952**	5,556
	1,274,421	1,340,664
Investments (Note 4)	**106,866**	84,846
Capital assets (Note 5)	**5,524,954**	4,576,020
Deposit on equipment (Note 2(j))	**484,000**	-
Deferred development and patent expenditures (Note 6)	**4,255**	715,942
	$ 7,394,496	$ 6,717,472
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 327,042**	$ 280,409
Income taxes payable	**-**	33,535
Due to related party (Note 7)	**599,147**	359,576
Current portion of long-term debt (Note 8)	**324,000**	913,555
	1,250,189	1,587,075
Long-term debt (Note 8)	**1,899,000**	444,445
Future income taxes (Note 10)	**289,000**	412,000
	3,438,189	2,443,520
Share capital (Note 9 (b))	**2,283,916**	2,183,114
Subscriptions receivable (Notes 16 and 9(d))	**(49,043)**	-
Retained earnings	**1,721,434**	2,090,838
	3,956,307	4,273,952
	$ 7,394,496	$ 6,717,472

On behalf of the Board:

"signed David Grant" Director
David Grant

"signed Don Kelly" Director
Don Kelly

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

Omni-Lite Industries Canada Inc.
Consolidated Statements of Income and Retained Earnings
United States Dollars

For the years ended December 31	2002	2001
Revenue	$ **2,296,254**	$ 2,231,704
Cost of goods sold	**804,047**	643,487
Gross margin	**1,492,207**	1,588,217
Overhead expenses		
Amortization	**908,075**	251,751
General and administrative	**810,254**	523,116
Interest on long-term debt	**85,432**	102,287
Research and product design	**190,465**	-
	1,994,226	877,154
Income (loss) before the undernoted	**(502,019)**	711,063
Other (expenses) income		
Foreign exchange	**(29,903)**	8,871
Gain on sale of investments	**-**	1,775
Rental	**42,531**	211,828
	12,628	222,474
Income (loss) before income taxes	**(489,391)**	933,537
Income taxes (recovery) (Note 10)	**(119,987)**	113,651
Net income (loss) for the year	**(369,404)**	819,886
Retained earnings, beginning of year	**2,090,838**	1,511,851
Purchase price of common shares repurchased in excess of carrying value (note 2 (b))	**-**	(240,899)
Retained earnings, end of year	$ **1,721,434**	$ 2,090,838
Earnings (loss) per share - basic	$ **(0.04)**	$ 0.08
- diluted (1)	**-**	$ 0.08
Weighted average shares outstanding - basic	**9,194,679**	9,721,454
- diluted (1)	**9,485,931**	9,753,391

(1) **Diluted per share amounts for the year ended December 31, 2002 have not been disclosed as such would be anti-dilutive.**

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	2002	2001
Cash flows from operating activities		
Net (loss) income for the year	**$ (369,404)**	$ 819,886
Adjustments for:		
Amortization	**908,075**	251,751
Future income taxes	**(123,000)**	82,000
Gain on sale of investment	**-**	(1,775)
Cash flow from operations	**415,671**	1,151,862
Net change in assets and liabilities		
Accounts receivable	**124,949**	170,412
Inventory	**(24,249)**	(269,375)
Prepaid expenses	**606**	(1,604)
Accounts payable and accrued liabilities	**34,565**	89,405
Income taxes payable	**(21,467)**	24,600
	530,075	1,165,300
Cash flows from financing activities		
Due to related parties	**239,571**	(342,190)
Repayment of long-term debt	**865,000**	(34,000)
Repurchase of common shares	**-**	(315,708)
Issue of share capital, net of share issue costs	**51,759**	8,000
	1,156,330	(683,898)
Cash flows from investing activities		
Deferred development and patent expenditures	**-**	(241,120)
Purchase of capital assets	**(1,145,339)**	(341,728)
Deposits on equipment	**(484,000)**	-
Proceeds on sale of investments	**-**	19,915
Purchase of investments	**(22,020)**	-
	(1,651,359)	(562,933)
Increase (decrease) in cash	**35,046**	(81,531)
Cash, beginning of year	**40,331**	121,862
Cash, end of year	**$ 75,377**	$ 40,331

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

1. Nature of Operations

Omni-Lite Industries Canada Inc. (the "Company") is a public company incorporated under the Laws of the Business Corporations Act of Alberta in 1992. Its head office operations are located in Calgary, with research and development and production operations in Cerritos, California, U.S.A. and an international office in Barbados. The Company's activities consist of developing, producing and marketing specialized metal matrix composite, aluminum and carbon steel products. These products include components for the sports and recreation, automobile, aerospace, military and commercial industries. Since the most significant portion of the Company's operations are located in the United States and its transaction currency is usually denominated in United States dollars, these consolidated financial statements are stated in United States dollars.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements requires management to make estimates and assumptions 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 judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Consolidation
These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc. and Omni-Lite Properties Inc. All significant inter-company transactions have been eliminated.

(b) Inventory
Inventory consists of raw materials, work-in-progress and finished goods. Inventory is carried at the lower of average actual costs (including materials, labour and allocated overhead) and net realizable value. Finished goods inventory is recorded at average standard costs of production and includes raw materials, labour and attributed overheads.

(c) Revenue recognition
Revenue is recognized when goods are shipped to the customer, all significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured.

(d) Capital assets
Capital assets are carried at cost less accumulated amortization. Amortization is provided for using the following methods and annual rates (one-half the normal amortization is provided for in the year of acquisition):

Building	-	4% declining balance
Production and other equipment	-	30 year straight-line
Computer equipment	-	30% declining balance

2. Significant Accounting Policies - continued

(e) Investments
Investments are carried at original cost and are only written down if there is a decline in value other than a temporary decline in value. Realized gains and losses are recognized when shares are actually disposed. The Company's investment is recorded as long-term as it is the intention of management to hold the investments for a period in excess of 12 months.

(f) Deferred development and patent expenditures
Patents are recorded at cost and are amortized on a straight-line basis over a period of ten years based on management's analysis of the market and competition. Patents represent accumulated costs and are not intended to reflect present or future values. The recoverability of these amounts is dependent upon future profitable operations.

Certain expenditures on development of new product lines were being capitalized as incurred. These deferred costs were being amortized over 10 years using the straight-line basis. During 2002, the Company changed its estimate for the remaining amortization period of these costs to one year. As a result these costs were fully amortized by December 31, 2002 (Note 6). Commencing 2002 the Company has started to expense all product design and development costs. The costs currently being incurred are a part of the Company's ongoing business.

(g) Long-lived assets
Long-lived assets, such as patents, goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows resulting from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. No impairment losses have been recorded to date.

(h) Future income taxes
The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities.

(i) Foreign exchange
Foreign currency balances of foreign subsidiaries are translated using the temporal method for integrated operations on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- non-monetary assets, liabilities and related amortization expense are translated at historical rates;
- sales, other revenue, royalties and all other expenses are translated at the average rate of exchange during the month in which they are recognized.

The resulting foreign exchange gains and losses are included in earnings.

2. Significant Accounting Policies - continued

(j) Deposit
Deposit relates to the purchase of 3 new cold forging systems for $852,000. As at December 31, 2002 the company has made aggregate payments amounting to $484,000 to a related party in respect of the above purchase commitment. The balance has been financed by bank term loans subsequent to year end.

(k) Financial instruments
The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(l) Measurement uncertainty
The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements for changes in estimates, in future periods, could be significant.

The Company has conducted a study for 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 same or similar products.

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

The effect on the financial statements, resulting from such adjustments required to the above estimates, if any, will be reflected in the period a determination is made that an adjustment is warranted.

(m) Stock-based compensation plan
Effective January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of income and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the company's stock, and as a result, the implementation of the section has no impact on the financial statements. The Company has chosen not to use the fair value method to account for stock-based employee compensation plans, but to disclose pro-forma information for options granted after January 1, 2002. The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock

2. Significant Accounting Policies - continued

(n) Per share amounts
Basic earnings per common share is computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with recent standards approved by the Canadian Institute of Chartered Accountants.

3. Inventory

The major components of inventory are classified as follows:

	2002	2001
Raw materials	**$ 287,277**	$ 225,242
Work in progress	**27,755**	5,100
Finished goods	**498,787**	559,228
	$ 813,819	$ 789,570

4. Investments

Investments are accounted for by the cost method, as the Company does not have significant influence over the investee. As at December 31, 2002, investments in the amount of $106,866 (2001 - $84,846) was made up of an investment in a private company accounted for at a cost of $31,424 and an investment of $75,442 in the common shares of a public company which shares are traded on the TSX Venture Exchange and which had a fair market value of $ 51,000 (2001 – $113,199) as at December 31, 2002. Of the 899,998 shares held in the public company, 333,332 remain in escrow releasable in tranches of 166,666 shares in February 2003 and February 2004 respectively. As this decline in value is considered to be temporary, no write down has been recorded.

5. Capital Assets

	2002		2001	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 770,000**	**$ -**	$ 770,000	$ -
Building	**1,415,528**	**96,889**	1,209,549	48,381
Production and other equipment	**3,782,052**	**367,157**	2,878,100	255,969
Computer equipment	**54,943**	**33,523**	45,115	22,394
	$ 6,022,523	**$ 497,569**	$ 4,902,764	$ 326,744
Net book value	**$ 5,524,954**		$ 4,576,020	

All of the above assets have been pledged as security against the Company's indebtedness (Note 8).

6. Deferred Development and Patent Expenditures

	2002		2001	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Deferred development and patent expenditures	**$ 1,134,693**	**$ 1,130,438**	$ 1,134,693	$ 418,751
Net book value	**$ 4,255**		$ 715,942	

During 2002, all of the Company's deferred development were fully amortized as the Company amended its amortization rates (Note 2 (f)).

7. Due to Related Party

Due to related party includes an amount of $ 599,147 (2001 - $359,576) due to a director and shareholder of the Company, which is unsecured, non-interest bearing and has no set terms of repayment.

8. Long-term Debt

	2002	2001
Revolving line of credit, maximum $500,000 (2001 - $1,000,000) secured by a general security agreement over all the assets of the Company, bearing interest at bank's reference rate or LIBOR plus 2.5% (2001 – plus .50%)	**$ 3,000**	$ 958,000
Term loans, up to $2.5 million, secured by all of the assets of the Company, an assignment of insurance and interoperate guarantees, bearing interest at the banks reference rate, repayable in monthly installments of approximately $46,300 per month commencing June 1, 2003.	**2,220,000**	-
Purchase money note, 8% secured by land and building to be acquired by the Company	**-**	400,000
	2,223,000	1,358,000
Less current portion	**(324,000)**	(913,555)
	$ 1,899,000	$ 444,445

8. Long-term Debt - continued

The credit facilities of the Company are subject to annual review.

The term loan is to be amortized over the next six years as detailed below:

2003	$ 324,000
2004	555,600
2005	555,600
2006	555,600
2007	555,600
2008	173.600

9. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	2002		2001	
	Number of Shares	**Amount**	Number of Shares	Amount
Total issued and outstanding, beginning of year	**9,084,602**	**$ 2,183,114**	9,903,902	$2,249,923
Issued upon exercise of stock options (1)	**149,667**	**100,802**	10,000	8,000
Repurchase of shares under normal course issuer bid (3)			(183,300)	(41,641)
Returned to treasury (2)	**-**	**-**	(500,000)	-
			9,230,602	(2,216,282)
To be cancelled from repurchase under normal course issuer bid (3)	**-**	**-**	(146,000)	(33,168)
Total issued and outstanding, end of year	**9,234,269**	**$ 2,283,916**	9,084,602	$2,183,114

(1) Of the shares issued in 2002, $58,000 was issued in exchange for notes receivable from employees. Of this amount, $8,957 was collected by December 31, 2002 and $49,043 remains outstanding.

(2) Originally, 1,500,000 shares were held subject to a performance escrow. During the prior year, 500,000 shares were returned to treasury. At December 31, 2001, nil shares remain in escrow.

(3) During the prior year, the Company repurchased 329,300 of its common shares at a purchase cost of $315,708 resulting in a $74,809 reduction in share capital and a $240,899 decrease in retained earnings.

9. Share Capital - continued

(c) Stock options

The Company has granted stock options to directors, consultants, and employees of the Company as follows:

	Number of Shares	Option Price per Share Range	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2000	726,333	CDN $ 0.60 to $ 2.50	CDN $ 1.27
Options - exercised	(10,000)	CDN $1.20	CDN $ 1.20
- granted	210,000	CDN $ 0.98 to $ 1.30	CDN $ 1.16
- cancelled	(20,000)	CDN $ 2.10	CDN $ 2.10
Options outstanding, Dec. 31, 2001	906,333	CDN $ 0.60 to $ 2.50	CDN $ 1.26
Options - exercised	**(149,667)**	**CDN $ 0.60 to $ 1.40**	**CDN $ 1.06**
- granted	**125,000**	**CDN $ 1.72 to $ 1.97**	**CDN $ 1.90**
- cancelled	**(315,000)**	**CDN $ 1.20 to $ 2.50**	**CDN $ 1.30**
Options outstanding at Dec. 31, 2002	**566,666**	**CDN $0.98 to 1.97**	**CDN $ 1.40**
Options exercisable at Dec. 31, 2002	**404,999**	**CDN $0.98 to 1.40**	**CDN $ 1.28**
Options exercisable at Dec. 31, 2001	578,555	CDN $0.60 to 2.50	CDN $ 1.28

The Company established a stock 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. Vesting of options is determined on a grant-by-grant basis. Options granted can have expiry dates up to 5 years from the date of grant. The options expire on dates ranging from August 06, 2003 to May 22, 2007. During the year, the Company issued 125,000 (2001 – 210,000) stock options to employees, directors and consultants with exercise prices ranging from Cdn$1.72 to Cdn$1.97 (2001 - Cdn$0.98 to Cdn$1.30). These options will expire on dates ranging from January 10, 2004 to May 22, 2007.

The options that are exercisable at December 31, 2002 are summarized as follows:

Options outstanding	**Option price**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Number of Options Currently Vested**	**Weighted Average Exercise Price of Options Currently Exercisable**
50,000	**CDN $0.98**	**CDN $ 0.98**	**1.8 years**	**10,000**	**CDN $ 0.98**
483,333	**CDN $1.00 to $1.99**	**CDN $ 1.40**	**2.5 years**	**361,666**	**CDN $ 1.21**
33,333	**CDN $2.01**	**CDN $ 2.01**	**3.8 years**	**33,333**	**CDN $ 2.01**
566,666				**404,999**	

The options that are exercisable at December 31, 2001 may be summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Vested	Weighted Average Exercise Price of Options Currently Exercisable
93,000	CDN $0.60 to $0.99	CDN $ 0.85	2.0 years	33,000	CDN $0.66
756,667	CDN $1.00 to $1.99	CDN $ 1.22	2.8 years	500,000	CDN $1.21
56,666	CDN $2.00 to $2.50	CDN $ 2.11	2.6 years	45,555	CDN $2.12
906,333				578,555	

9. Share Capital – continued

(d) Subscriptions receivable
During the period, the Company issued promissory notes to options holders totaling $58,000 to exercise stock options to acquire an aggregate of 76,667 common shares at exercise prices ranging from CDN$0.98 to CDN$1.40 per common share. Of this amount $8,957 was collected in 2002, leaving a balance outstanding as at December 31, 2003 of $49,043. The promissory notes are non-interest bearing and have a repayment date of 1 year from the date of the note.

(e) On January 15, 2003, the Company adopted a resolution to commence a normal course issuer bid (the "Bid"). The Company intends to acquire up to 450,000 (approximately 5%) of the issued and outstanding common shares, being the maximum number of shares it is permitted to acquire pursuant to a normal course issued bid under applicable securities legislation. The Bid will expire on the earlier of December 31, 2003 or the date upon which the Company acquires the maximum number of common shares subject to the Bid.

10. Income Taxes

	2002	2001
Statutory tax rate	**41.0%**	41.0%
Income taxes at the statutory rate	**$ (200,650)**	$ 382,700
Rate differential on income earned in foreign jurisdictions	**106,800**	(254,349)
Other	**(13,137)**	-
Utilization of loss carryovers	**(13,000)**	(14,700)
	$ (119,987)	$ 113,651

Principal components of the net future tax liability are:

	2002	2001
Future tax asset:		
Unused tax losses carryforward [1]	**$ -**	$ -
Future tax liability:		
Capital assets	**289,000**	412,000
Net future tax liability	**$ 289,000**	$ 412,000
Income tax expense (recovery):		
Current	**$ 16,013**	$ 46,351
Future	**(123,000)**	82,000
Utilization of loss carryovers	**(13,000)**	(14,700)
	$ (119,987)	$ 113,651

(1) *Consists of US tax losses in the approximate amount of Federal $1,260,000 and State $630,000 (2001 – Federal $822,000 and State $411,000) expiring at varying dates commencing 2002 and Canadian tax losses in the approximate amount of Cdn$175,000 (2001 - Cdn$188,000) expiring at varying dates commencing 2002. The tax losses have currently not been recognized as a future tax asset.*

11. Segmented Information

Operating Segments:

The Company operates as one operational segment selling specialized products to the sports and recreation, automobile, aerospace, military and commercial industries.

Geographic Segments:

The Company has its operations and subsidiaries in the United States, Canada and in Barbados. The Company has utilized and reported revenues based on the Company locations for each of these segments as follows:

December 31, 2002	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 883,734**	**$ -**	**$ 2,204,604**	**$ (792,084)**	**$ 2,296,254**
Capital assets	**$ 5,420,640**	**$ 6,787**	**$ 97,527**	**$ -**	**$ 5,524,954**

December 31, 2001	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	$ 879,298	$ -	$ 2,157,058	$ (804,652)	$ 2,231,704
Capital assets	$ 4,563,689	$ 12,331	$ -	$ -	$ 4,576,020

During 2002, the Company was engaged in contracts for services and products with four customers, which accounted for $1,655,648 (2001 - $1,199,872) or 75% (2001 – 62 %) of the Company's total revenue. During the same period, export sales to nine customers in various international countries amounted to $994,348 (2001- $1,054,078) or 45% (2001 – 54%) of the Company’s total revenue.

12. Commitments

(a) Pursuant to existing employment contracts dated July 1, 1999, the Company is committed to paying bonuses based on sales and profitability.

(b) The Company has agreed to pay a consultant a 5% commission for a period of 10 years, ending December 31, 2009, for the sale of a certain product.

(c) The Company agreed to make payments to a consultant in the amount of $3,000 per month and also issued a total of 55,000 stock options to the consultant during 2002. This contract terminated March 31, 2003.

13. Statement of Cash Flows

(a) Interest and income taxes paid

	2002	2001
Interest	**$ 85,519**	$ 102,287
Income taxes paid	**$ -**	$ 17,235

13. Statement of Cash Flows - continued

(b) Long-term debt

During 2002, the Company advanced cash for the purchase of manufacturing equipment financed through bank term loans (Note 8) in the amount of $ 720,000. The balance of the equipment was received subsequent to year-end and financed through additional cash advanced on the bank term loans of $ 280,000.

14. Financial Instruments

As disclosed in Note 2(k), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, industry credit risk and foreign currency risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The Company's short and long-term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 2002, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $22,200 (2001 - $13,600). The related disclosures regarding these debt instruments are included in Note 8 of these financial statements.

A significant portion of the Company's operations is located outside of Canada and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures.

15. Stock Compensation

The Company does not record compensation expense when stock options are issued to employees, as disclosed in Note 2(m).

Had compensation expense related to employees been determined based on the fair value at the grant dates, the net income and earnings per share for the year ended December 31, 2002 would have been reduced to the pro forma amounts indicated below:

Net loss	- as reported	$	(381,471)
	- pro forma	$	(397,213)
Loss per share	- basic and diluted		
	- as reported	$	(0.04)
	- pro forma	$	(0.04)

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.35 to 0.48), risk-free interest rate (5.0%), and average life of 2 to 4 years.

16. Subsequent Events

(a) Subsequent to the year-end, the Company issued 350,000 options to employees, directors and consultants of the Company. The exercise price of the options was set at CDN $ 0.85 (market value).

(b) Subsequent to the end of the year, the Company repurchased 52,000 shares under the normal course issuer bid (Note 9(e)) for CDN $36,930 at an average price of CDN $0.71 per share.

Omni-Lite Industries Canada Inc.
Schedule "C"
British Columbia Form 51-901F
For the Year Ended December 31, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

Item 1 General

A. Discussion of Operations and Financial Condition

Revenue from operations for fiscal 2002 was $2,296,254US from $2,231,704US, an increase of 3%. Total revenue (including rental income) for the year was $2,338,785 US down from $2,443,532US EBITDA over the period was $ 504,116US from $1,287,575 US, a decrease of approximately 60 %. Over this same period, cash flow from operations decreased to $415,671US from $1,151,862US, a decrease of approximately 64%. Net Loss of $369,404US from net income of $819,886US. Loss per share was $ 0.04US a decrease from Earnings per share of $ 0.08US.

The loss in 2002 was due primarily to a non-cash item. The Company has amortized all deferred development expenses in the current year. The total amortization of deferred development expenses was $711,687US. Beginning in 2002, the Company has started to expense all product design and development costs as period costs.

Other one-time costs incurred in 2002 include prior years Business Property Taxes assessed and expensed in the current year of $80,000US and higher building expenses relating to the move into the new premises. These costs impacted the cash flow from Operations.

All figures are in US dollars except as noted.

SUMMARY OF FINANCIAL HIGHLIGHTS (US $)

Weighted Average Shares Issued And Outstanding : 9,234,269	**For the year ended December 31, 2002**	**For the year ended December 31, 2001**	**% Increase (Decrease)**
Revenue and Rental	$2,338,785	$2,443,532	(4)
EBITDA	$504,116	$1,287,575	(60)
Cash flow from operations	$415,671	$1,151,862	(64)
Net Income (Loss)	($369,404)	$819,886	(145)
EPS (US) (Loss)	($0.04)	$0.08	(150)
EPS (CDN) (Loss)	($0.06)	$0.13	(150)

B. Omni-Lite as a Business

Omni-Lite's key competitive strengths include the development and manufacture of specialized products utilizing advanced materials and precision computer controlled cold forging techniques. Combining these advantages and a team of key design and material engineers, production technicians, marketing and administrative support personnel has enabled Omni-Lite to prosper in the competitive environment of the 21st century. This strategy has quickly brought Omni-Lite to the forefront of technological development.

In fiscal 2002, the company successfully completed the development of 12 components for Monogram Aerospace Fasteners with approximately 3,900,000 parts shipped. These products from the Aerospace division will be utilized in the products of Boeing, Airbus, Bombardier and other aircraft manufacturers. The successful implementation of this project has made the Aerospace division the fastest growing in the company.

Sales in the Military division were disrupted by changes in the distribution channel when a customer's business was sold to another company. Problems stemming from the transfer of technology from one company to the other have caused delays in the production of the completed assembly. This has created a substantial backlog for the assembly for which Omni-Lite manufactures a crucial component. It is estimated that full production will resume by second quarter 2003 and that the customer's inventory of Omni-Lite's component will be depleted around that time. Omni-Lite continues to build inventory for this crucial component in anticipation of a surge in orders when the customer's production problems are solved. It is anticipated that revenues, cash flow, and profits will increase substantially when the issues are resolved.

In the Automotive Division, Omni-Lite restructured the transmission component program and began supplying Borg-Warner directly. This restructuring has allowed the unit price of this product line to double. To become a supplier to Borg-Warner, many new services have been added to Omni-Lite's capabilities, such as, Electronic Data Interchange (EDI), automated vision inspection, and Eddy-current analysis. The production costs at Omni-Lite have also risen as requirements for inspection of the components have increased. Some of these costs will be minimized as the new processes are fully integrated into production. It is anticipated that other opportunities with BorgWarner will arise from Omni-Lite's dedication to customer service and quality.

Ongoing Research and Development into the metallurgy, structural design and production of these and other complex components will be the key to the company's financial success.

C. Omni-Lite's Markets

Omni-Lite's primary market is the development of precision components utilized by many of the world's largest corporations. In 2002, Omni-Lite's components were utilized in the products of Daimler-Chrysler, GM, Ford, Mazda, Nike, adidas, Reebok, the U.S. Army and NATO and the aircraft manufacturers mentioned above. The requirements and stature of these customers necessitates that the company operate at a very high level of engineering and production efficiency. To this end the company has added, in 2002, a full-time quality manager and full-time tool and die support. These initiatives, coupled with the move to the new facility in Q3 should provide improved efficiencies for the corporation. During 2003 the company will continue enhancing its key strength areas by implementing an expansion to the on-site lab for testing and the implementation of a fully computerized manufacturing control system.

Omni-Lite's Sports and Recreation products are marketed in over 140 countries worldwide through the catalogs of Nike, adidas, Eastbay, M-F Athletics and Springco. 2003 is a pre-olympic year and we expect to see increase in the market for this year.

D. Growth Record

January 1998 saw the initiation of an expansion program during which Omni-Lite's manufacturing capability increased from two production systems to ten by April 2000. During 2000, the company commenced discussions towards purchasing a larger cold forging system. This equipment with a retail price of over $520,000US was purchased in February 2001 for approximately $280,000US. In July, equipment for creating a metallurgical lab was purchased. Omni-Lite moved into the new production facility in August 2002. In March 2003, the company received shipment for the final three of the five progressive forging systems that were negotiated for purchase for $1,420,000US in March 2002. The company now has 16 cold forging systems of various sizes. These machines were all purchased at a significant discount to retail list value and included favorable financing terms.

E. Growth Expectations

In 2002, Omni-Lite continued a period of expansion and development. Several new projects were initiated in the Aerospace and Automotive Divisions. In support of these projects, a metallurgical laboratory and other test equipment were purchased. These long-term developments bode well for the company's future growth. With the new technical services, new facilities, and increased forging capabilities, Omni-Lite is attracting new business from the various market segments, mainly in aerospace and automotive. The new facilities should result in increased efficiencies, increased cost control, and ability to expand the diversity of the client base.

F. Risk Factors

The business climate of the 21st century presents risks that include the development of competition on a worldwide basis.

As Omni-Lite grows in revenue the company becomes subject to increasing interest from corporations that would like to imitate the successes that have been achieved. The company has and will continue to aggressively protect itself through a variety of means that include:

1. patent and trademark protection
2. license agreements
3. joint venture agreements
4. development of proprietary technology and products

Of particular significance is the fact that Omni-Lite has received five U.S. patents to date. The company is in the process of applying for two additional patents.

While key individuals are continuously trained in the critical aspects of the company's technology, providing redundancy at the production level, retaining highly skilled staff is a challenge in the marketplace in which the company operates.

G. International Operations

To support the international scope of the market place Omni-Lite has established two wholly owned subsidiaries in Barbados. These complement the production center in Cerritos, California. The staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

Item 2 Quarterly Information

The following table summarizes the company's financial performance over the last eight quarters. All figures in US dollars unless noted.

ALL FIGURES IN US DOLLARS UNLESS NOTED

	Dec 31/02	Sept 30/02	June 30/02	Mar 31/02	Dec 31/01	Sept 30/01	June 30/01	Mar 31/01
Total Revenue	487,569	673,822	445,833	731,561	374,935	979,123	591,263	498,211
Cash Flow	(234,220)	199,463	60,841	389,587	(39,288)	622,406	349,267	219,477
Net Income	(611,551)	25,600	(58,418)	274,965	(101,409)	532,214	269,217	119,864
EPS(US)	(0.02)	0.00	(0.01)	0.03	(0.01)	0.05	0.03	0.01
EPS(CDN)	(0.11)	0.01	(0.01)	0.05	(0.02)	0.08	0.04	0.01

Item 3 Liquidity and Capital Resources

The company anticipates that cash flow will meet the on going working capital requirements of the company. The company will continue the repayment of long-term debt with excess funds. Subsequent to year-end a lease was signed for a portion of the new facility for a period of three years and a total value of $313,200US to the company.

The information contained in this discussion may be considered to contain forward-looking statements. Such forward-looking statements address future events and conditions and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. There is no representation by the Company that actual results will be the same in whole or in part as implied by the forward-looking statements provided.