Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2004 and 2003
(in United States Dollars)

Contents

Management Report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the consolidated financial statements. Consolidated financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

Collins Barrow Calgary LLP, the external auditors, conduct an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on the consolidated financial statements.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the consolidated financial statements, including notes thereto, with management and Collins Barrow Calgary LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the audit committee.

June 3, 2005

Collins Barrow
Chartered Accountants & Consultants

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Auditors' Report

To the Shareholders
Omni-Lite Industries Canada Inc.

We have audited the consolidated balance sheet of Omni-Lite Industries Canada Inc. as at December 31, 2004 and the consolidated statements of income and retained earnings and cash flows for the year 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 audit.

We conducted our audit 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative financial statements for the year ended December 31, 2003 were audited by another firm of Chartered Accountants who expressed an opinion, without reservation, on those statements in their report dated March 12, 2004.

(signed) "Collins Barrow Calgary LLP"

CHARTERED ACCOUNTANTS

Calgary, Alberta
May 11, 2005

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

December 31	2004	2003
Assets		
Current		
Cash	$ 66,347	$ 196,764
Accounts receivable	768,215	296,570
Inventory (Note 4)	962,672	948,180
Prepaid expenses	20,864	14,864
	1,818,098	1,456,378
Restricted cash	-	60,026
Investments (Note 5)	106,866	106,866
Property and equipment (Note 6)	6,504,117	6,396,685
Deferred development and patent expenditures (Note 7)	2,255	4,255
	$ 8,431,336	$ 8,024,210

	2004	2003
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 376,482	$ 349,660
Income taxes payable	37,775	77,169
Dividends payable	140,196	-
Deferred revenue (Note 17)	12,500	-
Due to related party (Note 8)	144,986	193,557
Current portion of long-term debt (Note 9)	628,115	509,979
	1,340,054	1,130,365
Long-term debt (Note 9)	2,026,403	2,173,950
Future income taxes (Note 10)	394,000	320,000
	3,760,457	3,624,315
Share capital (Note 11 (b))	2,015,999	2,123,574
Contributed surplus (Note 16)	84,000	44,000
Retained earnings	2,570,880	2,232,321
	4,670,879	4,399,895
	$ 8,431,336	$ 8,024,210

On behalf of the Board:

_____________________Director
David Grant

_____________________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		2004		2003
Revenue	**$**	**3,153,655**	$	2,920,744
Cost of goods sold		**901,472**		818,853
Gross margin		**2,252,183**		2,101,891
Overhead expenses				
Amortization		**303,175**		235,988
General and administrative		**883,391**		944,462
Interest on long-term debt		**100,983**		143,291
Research and product design		**169,600**		27,103
		1,457,149		1,350,844
Income before income taxes		**795,034**		751,047
Income taxes (Note 10)		**26,737**		68,643
Net income		**768,297**		682,404
Retained earnings, beginning of year		**2,232,321**		1,721,434
Common shares repurchased in excess of carrying value (Note 11 (e))		**(289,542)**		(171,517)
Dividends declared		**(140,196)**		-
Retained earnings, end of year	**$**	**2,570,880**	$	2,232,321
Earnings per share - basic	$	0.09	$	0.07
- diluted	$	0.09	$	0.07
Weighted average shares outstanding - basic		**8,558,412**		9,179,677
- diluted		**8,742,752**		9,179,677

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	2004	2003
Cash flows from operating activities		
Net income for the year	**$ 768,297**	$ 682,404
Adjustments for:		
Amortization	**303,175**	235,988
Future income taxes	**74,000**	31,000
Stock based compensation	**40,000**	44,000
	1,185,472	993,392
Net change in non-cash working capital items		
Accounts receivable	**(471,645)**	83,703
Inventory	**(14,492)**	(134,361)
Prepaid expenses	**(6,000)**	(9,912)
Accounts payable and accrued liabilities	**26,822**	22,618
Income taxes payable	**(39,394)**	77,169
Deferred revenue	**12,500**	-
	693,263	1,032,609
Cash flows from financing activities		
Due to related parties	**(48,571)**	(405,590)
Advances of long-term debt	**123,000**	2,680,929
Repayment of long-term debt	**(152,411)**	(2,220,000)
Repurchase of common shares	**(397,117)**	(282,816)
	(475,099)	(227,477)
Cash flows from investing activity		
Purchase of property and equipment	**(408,607)**	(623,719)
Increase (decrease) in cash	**(190,443)**	181,413
Cash, beginning of year	**256,790**	75,377
Cash, end of year	**$ 66,347**	$ 256,790

	2004	2003
Cash consists of:		
Cash	**$ 66,347**	$ 196,764
Restricted cash	**-**	60,026
	$ 66,347	$ 256,790

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, research and development, and production operations are located in Cerritos, California, U.S.A. An international sales office is located in Barbados. A corporate office is located in Calgary. 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) Restricted cash
Restricted cash is to cover certain required renovations required by the bank to the Company's building to comply with city bylaws. As of December 31, 2004, the renovations were completed and the restricted cash was released to the Company.

(d) 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.

2. Significant Accounting Policies - continued

(e) Property and equipment

Property and equipment 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
Non-consumable tooling	-	7 years straight-line

The Company reviews the criteria for capitalization and the useful life of its capital assets on an on-going basis considering changes in circumstances. As a result, effective January 1, 2004, the useful life of non-consumable tooling was determined to be approximately 7 years. This cost has been capitalized, whereas in the past, non-consumable tooling was inventoried. This change in accounting policy did not have a significant effect on the current or past years' financial position or results of operation and consequently did not require retroactive application.

(f) Investments

Investments are accounted for by the cost method, as the Company does not have significant influence over the investees, and are only written down if there is 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.

(g) 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.

(h) Long-lived assets

Long-lived assets, such as patents 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.

(i) Future income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Significant Accounting Policies - continued

(j) 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.
- amortization of assets translated at historical exchange rates are translated at the same rates as the assets to which they relate.

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

Foreign currency accounts are translated into United States dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into United States dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into United States dollars by using the exchange rate in effect at that date.

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

(k) Financial instruments

The Company carries a number of financial instruments. The Company is exposed to 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 Company has conducted a study of its internal policies with respect to transfer pricing within the consolidated group. The consolidated income tax provision provided herein has been based on management's best estimate of the pricing that is equivalent to comparative uncontrolled pricing for the same or similar products and is subject to assessment by taxation authorities. Until the time frame for reassessment has been statute barred or the taxation authorities have reviewed and not objected to the tax filings, there is a possibility that a reassessment can occur.

The consolidated financial statements include estimates of the useful economic life of property and equipment. 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 changes in estimates, if any, will be reflected in the period a determination is made that the change in estimate is warranted. The effect on the consolidated financial statements for changes in estimates, in future periods, could be significant.

2. Significant Accounting Policies - continued

(m) Stock-based compensation plan
The Company accounts for all stock options granted to employees, officers, directors and consultants on or after January 1, 2003 using the fair value method of accounting and recognizes the compensation expense. The Company implemented this amended standard in 2003 in accordance with the early adoption provisions of the standard. Per the transitional provisions, early adoption requires that compensation expense be calculated and recorded in the income statement for options and warrants issued on or after January 1, 2003. For stock options granted to employee, officers and directors prior to January 1, 2003, the Company used the intrinsic value method whereby no compensation expense is recorded for stock options granted at prevailing market prices.

(n) Per share amounts
Basic earnings per common share is computed by dividing income from operations by the weighted average number of common shares outstanding for the year. 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 standards approved by the Canadian Institute of Chartered Accountants.

(o) Asset retirement obligations
Effective January 1, 2004 the Company adopted the CICA Handbook Section 3110, “Asset Retirement Obligations.” The new standard requires recognition of a liability at its fair value for any legal obligation associated with the retirement of property and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. A corresponding asset retirement cost is required to be added to the carrying amount of the related asset and amortized to expense on a systematic and rational basis. The adoption of this new accounting standard resulted in no additional liabilities.

3. Change in Accounting Policy

On January 1, 2004, the Company adopted the recommendations of the CICA as they relate to share purchase loans. Under the recommendations, loans made to employees, officers and directors of the Company to assist in the purchase of the Company’s own stock, are presented as reductions to shareholders’ equity, rather than assets, unless there is substantial evidence that the borrower, and not the Company, is at risk for any decline in the price of the shares. When the loans are presented as reductions of shareholders’ equity, the Company considers the shares purchased with the loaned funds to be stock options in substance.

The change in accounting policy, in the consolidated financial statements at December 31, 2004, has resulted in the decrease of $49,043 in both the loan receivable and share capital. Previous periods have been reclassed. The 60,001 shares previously issued related to the share purchase loan are considered to be options in substance and are included in the disclosure in note 11.

4. Inventory

The major components of inventory are classified as follows:

	2004	2003
Raw materials	$ 169,009	$ 150,220
Finished goods	793,663	797,960
	$ 962,672	$ 948,180

5. Investments

As at December 31, 2004, investments in the amount of $106,866 (2003 - $106,866) was made up of investments in the common shares of public companies which have a fair market value of $269,751 (2003 – $285,720) at December 31, 2004.

6. Property and Equipment

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 770,000	$ -	$ 770,000	$ -
Building	1,451,010	202,746	1,415,528	150,031
Production and other equipment	4,734,114	687,311	4,656,405	528,790
Computer equipment	85,465	61,319	77,814	40,531
Non consumable tooling	484,055	69,151	196,290	-
	$ 7,524,644	$ 1,020,527	$ 7,116,037	$ 719,352
Net book value	$ 6,504,117		$ 6,396,685	

7. Deferred Development and Patent Expenditures

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Deferred development and patent expenditures	$ 1,134,693	$ 1,132,438	$ 1,134,693	$ 1,130,438
Net book value	$ 2,255		$ 4,255	

8. Due to Related Party

Due to related party represents an amount of $144,986 (2003 - $193,557) due to a director and shareholder of the Company, which is unsecured, non-interest bearing and has no set terms of repayment. This loan was repaid in full on February 3, 2005.

9. Long-term Debt

		2004		2003
Revolving line of credit, maximum $500,000 (2003 - $500,000) secured by a general security agreement over all the assets of the Company, bearing interest at Union Bank of California's reference rate (4.25%) or LIBOR plus 2.5% (2003 – 2.5%). Maturity date: September 26, 2005; Renewed yearly.	**$**	**479,000**	**$**	**356,000**
Term loan, secured by related property, bearing interest at LIBOR plus 2%. As at December 31, 2004, the LIBOR rate of interest was approximately 2.56%. Maturity date: September 18, 2028, repayable in monthly blended installments of $9,406. The carrying value of the collateralized property is $2,018,264.		**1,888,976**		**1,940,221**
Term loan, secured by all assets of the Company, bearing interest at Union Bank of California's reference rate (4.25%), repayable in monthly installments of $8,430 plus interest due October 31, 2007.		**286,542**		**387,708**
	$	**2,654,518**	$	**2,683,929**
Less : current portion		**(628,115)**		**(509,979)**
	$	**2,026,403**	**$**	**2,173,950**

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

Estimated principal repayments over the next five years as detailed below:

2005	$	628,115
2006		151,102
2007		136,218
2008		54,164
2009		56,411
2010 and thereafter		1,628,508
	$	2,654,518

10. Income Taxes

		2004		2003
Statutory tax rate		**39.0%**		39.0%
Income taxes at the statutory rate	**$**	**310,000**	$	292,000
Rate differential on income earned in foreign jurisdictions		**(240,263)**		(130,000)
Change in future tax rate		**-**		78,000
Other		**-**		12,643
Change in valuation allowance		**(43,000)**		(184,000)
	$	**26,737**	$	68,643

Principal components of the net future tax liability are:

		2004		2003
Future tax asset:				
Unused tax losses carryforward [1]	**$**	**927,000**	$	291,000
Future tax liability:				
Property and equipment		**(1,073,000)**		(320,000)
		(146,000)		(29,000)
Valuation allowance		**(248,000)**		(291,000)
Net future tax liability	**$**	**394,000**	$	320,000
Income tax expense (recovery):				
Current	**$**	**(47,263)**	$	64,643
Future		**74,000**		31,000
Utilization of loss carryovers		**-**		(27,000)
	$	**26,737**	$	68,643

(1) *Consists of US tax losses in the approximate amount of Federal $2,315,000 expiring at various dates commencing 2019 and State $1,077,000 expiring at varying dates commencing 2004 (2003 – Federal $2,215,000 and State $977,000) Canadian tax losses in the approximate amount of Cdn$82,000 (2003 – Cdn$113,000) expiring at varying dates commencing 2008.*

11. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	2004		2003	
	Number of Shares	**Amount**	Number of Shares	Amount
Total issued and outstanding, beginning of year	**8,784,269**	**$ 2,172,617**	9,234,269	$ 2,283,916
Issued upon conversion of predecessor shares	**35**	**-**	-	-
Cancelled on repurchase under normal course issuer bid (Note 11(e))	**(347,300)**	**(85,885)**	(267,500)	(66,161)
	8,437,004	**2,086,732**	8,966,769	2,217,755
To be cancelled from repurchase under normal course issuer bid (Note 11(e))	**(87,700)**	**(21,690)**	(182,500)	(45,138)
	8,349,304	**2,065,042**	8,784,269	2,172,617
Share purchase loan (Note 11(d))	**(60,001)**	**(49,043)**	(60,001)	(49,043)
Total issued and outstanding, end of year	**8,289,303**	**$ 2,015,999**	8,724,268	$ 2,123,574

In 2002, 76,667 shares were issued in exchange for notes receivable from employees aggregating $58,000. Of this amount, $8,957 was collected by December 31, 2002 with $49,043 remains outstanding at December 31, 2004 and 2003, representing 60,001 common shares.

(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, 2002	626,667	CDN $0.98 to $1.97	CDN $1.40
Options - granted	658,000	CDN $0.60 to $0.85	CDN $0.75
- cancelled	(388,333)	CDN $0.85 to $1.97	CDN $1.25
Options outstanding at Dec. 31, 2003	896,334	CDN $0.60 to $1.91	CDN $0.95
Options - granted	**113,333**	**CDN $1.04 to $1.19**	**CDN $1.15**
- cancelled	**(173,334)**	**CDN $0.80 to $1.40**	**CDN $1.14**
Options outstanding at Dec. 31, 2004	**836,333**	**CDN $0.60 to $1.91**	**CDN $0.96**
Options exercisable at Dec. 31, 2004	**394,329**	**CDN $0.60 to $1.91**	**CDN $1.05**
Options exercisable at Dec. 31, 2003	298,334	CDN $0.98 to $1.91	CDN $1.26

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. During the year, the Company issued 113,333 (2003 – 658,000) stock options to employees, directors and consultants with exercise prices ranging from Cdn$1.04 to Cdn$1.19 (2003 - Cdn$0.60 to Cdn$0.85). These options will expire on dates ranging from January 21, 2005 to August 9, 2009.

11. Share Capital – continued

The options that are exercisable at December 31, 2004 are summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
477,999	CDN $0.60 to $0.85	CDN $0.71	3.38 years
288,334	CDN $0.98 to $1.28	CDN $1.16	2.86 years
70,000	CDN $1.72 to $1.91	CDN $1.86	2.33 years
836,333	CDN $0.60 to $1.91	CDN $0.96	3.13 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
172,662	CDN $0.60 to $0.85	CDN $0.72	3.36 years
175,001	CDN $0.98 to $1.28	CDN $1.17	1.28 years
46,666	CDN $1.72 to $1.91	CDN $1.86	2.33 years
394,329	CDN $0.60 to $1.91	CDN $1.05	2.50 years

(d) Share purchase loans receivable
The Company took promissory notes from the 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 outstanding promissory notes were repaid subsequently on March 31, 2005.

(e) Normal course issuer bid
On January 21, 2004, the Company adopted a resolution to commence a normal course issuer bid (the "Bid"). The Company acquired 435,000 (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 Company repurchased the 435,000 common shares for $397,117 resulting in a $107,575 reduction in share capital and a $289,542 decrease in retained earnings.

12. 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 allocates its revenues between countries based on location that has title to the contract. The Company has utilized and reported revenues based on the Company locations for each of these segments as follows:

Inter-corporate

December 31, 2004	**United States**	**Canada**	**Barbados**	**elimination**	**Total**
Revenues	**$ 2,638,229**	**$ -**	**$ 874,080**	**$ (358,654)**	**$ 3,153,655**
Property and equipment	**$ 6,500,744**	**$ 3,373**	**$ -**	**$ -**	**$ 6,504,117**

December 31, 2003	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	$ 2,334,917	$ -	$ 984,112	$ (398,285)	$ 2,920,744
Property and equipment	$ 6,388,585	$ 8,100	$ -	$ -	$ 6,396,685

During 2004, the Company was engaged in contracts for products with seven (2003 – five) customers, which accounted for $2,166,893 (2003 - $2,386,280) or 69% (2003 – 82%) of the Company's total revenue. During the same period, export sales to three (2003 – two) customers in various international countries (outside of the United States) amounted to $831,340 (2003- $831,929) or 26% (2003 – 28%) of the Company’s total revenue.

13. 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.

14. Statement of Cash Flows

Interest and income taxes paid (recovery)

	2004	2003
Interest paid	**$ 100,450**	$ 143,291
Income taxes paid (recovery)	**$ (7,870)**	$ 8,450

15. 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 does not use off balance sheet contracts to manage these risks.

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, 2004, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $27,000 (2003 - $27,000). The related disclosures regarding these debt instruments are included in Note 9 of these financial statements.

A significant portion of the Company's operations are 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. The Company reports in its functional currency, the United States dollar.

16. Stock Compensation

The Company did not record compensation expense when stock options were issued to employees for options granted in 2002.

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 years ended December 31, 2004 and 2003 would have been reduced to the pro forma amounts indicated below:

			2004		2003
Net income (loss)	- as reported	**$**	**768,297**	$	682,404
	- pro forma	**$**	**758,297**	$	662,404
Income (loss) per share	- basic and diluted				
	- as reported	**$**	**0.09**	$	0.07
	- pro forma	**$**	**0.09**	$	0.07

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.53 to 0.59), risk-free interest rate (5.0%), and weighted average life of 5 years.

16. Stock Compensation - continued

The following is a continuity schedule of contributed surplus:

		2004		2003
Balance, beginning of year	**$**	**44,000**		-
Stock-based compensation expense	**$**	**40,000**	$	44,000
Balance, end of year	**$**	**84,000**	$	44,000

The fair value of share options granted in 2004 was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil) (2003 – (Nil)), Expected volatility 0.58 (2003 - (0.53 to 0.59)), risk-free interest rate 3.69% to 5% (2003 - (3.66% to 4.16%)), and weighted average life of 5 (2003 - 5 years).

17. Deferred Revenue

During 2004, the Company entered into Research and Development contracts for manufacturing new components. Payments were received for engineering and were recorded as deferred revenue until customer acceptance of the first component was received. As of December 31, 2004, the amount of revenue deferred was $12,500.

18. Related Party Transactions

For 2004, the Company did not pay the Chief Executive Officer ("CEO"). It is management's estimate that the fair value of the salary would approximate $85,000. Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of $nil.

19. Subsequent Events

(a) On January 4, 2005, the Company issued 90,000 options exercisable at $0.94 per share expiring January 4, 2010.

(b) The dividend of $0.02 CDN per share was paid January 31, 2005 to shareholders of record as of December 29, 2004.

(c) On February 9, 2005, the Company received gross proceeds of $1,800,000 in consideration for the issuance of 1,500,000 units of the Company (the "Units") at a price of $1.20 per Unit. Each Unit consists of one common share of the Company ("Common Share") and one-half of one Common Share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to acquire one Common Share at a price of $1.60 for a period of eighteen months following the closing date. If each Warrant is exercised, an additional $1,200,000 in total gross proceeds will be realized upon the issuance of 750,000 additional Common Shares. The Common Shares and Warrants comprising the Units are subject to a four-month hold period which expires on June 9, 2005. Acumen was paid a cash commission of $135,000 or 7.5% of the gross subscription proceeds and was granted non-transferable compensation options exercisable to acquire up to 112,500 Units. The compensation options are exercisable for a period of eighteen months following the closing date at an exercise price of $1.20 per Unit. In addition to the Brokered Deal, the Company completed a concurrent non-brokered private placement for additional gross proceeds of $180,000 in consideration for the issuance of 150,000 Units at a price of $1.20 per Unit. Each Unit has the same terms and conditions as the Units issued under the brokered deal. If each Warrant issued pursuant to the non-brokered private placement is exercised, an additional $120,000 in total gross proceeds will be realized upon the issuance of 75,000 additional Common Shares. The Common Shares and Warrants comprising the Units issued pursuant to the non-brokered private placement are also subject to a four-month hold period which expires on June 9, 2005. No commission was paid or compensation granted for the non-brokered private placement. The net proceeds from the financing were used to pay off the balances of the revolving line of credit and the term loan of $286,542. The remaining funds were used to pay down the principal on the greater term loan of $1,888,976 to $1,212,699.

20. Comparative Figures

Certain comparative figures have been restated to conform to the current year's presentation.