Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2005 and 2004
(in United States Dollars)

Contents

Management Report

The accompanying consolidated financial statements 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.

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.

Meyers Norris Penny 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 Meyers Norris Penny LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the audit committee.

March 24, 2006

Auditors' Report

To the Shareholders of
Omni-Lite Industries Canada Inc.

We have audited the consolidated balance sheet of Omni-Lite Industries Canada Inc. as at December 31, 2005 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 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, 2005 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, 2004 were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated May 11, 2005.

Meyers Norris Penny LLP

Calgary, Alberta
March 24, 2006

Chartered Accountants

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

December 31		**2005**		2004
Assets				
Current				
Cash	**$**	**456,676**	$	66,347
Accounts receivable		**1,049,729**		768,215
Inventory (Note 3)		**1,066,972**		962,672
Prepaid expenses		**32,177**		20,864
		2,605,554		1,818,098
Deferred acquisition (Note 18)		**411,800**		-
Investments (Note 4)		**106,866**		106,866
Property, plant and equipment (Note 5 and 11)		**6,647,786**		6,504,117
Deferred development and patent expenditures (Note 6)		**1,785**		2,255
	$	**9,773,791**	$	8,431,336

Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	**$**	**476,732**	$	376,482
Income taxes payable		**48,405**		37,775
Dividends payable		**176,690**		140,196
Deferred revenue (Note 19)		**-**		12,500
Due to related party (Note 7)		**-**		144,986
Current portion of long-term debt (Note 8)		**436,680**		628,115
		1,138,507		1,340,054
Long-term debt (Note 8)		**414,233**		2,026,403
Future income taxes (Note 9)		**722,000**		394,000
Non-controlling interest (Note 17)		**221,484**		-
		2,496,224		3,760,457
Share capital (Note 10 (b))		**3,803,003**		2,015,999
Contributed surplus (Note 15)		**164,000**		84,000
Retained earnings		**3,310,564**		2,570,880
		7,277,567		4,670,879
	$	**9,773,791**	$	8,431,336

On behalf of the Board:

"signed" Director
David Grant

"signed" 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	2005	2004
Revenue (Note 11)	**$ 4,360,046**	$ 3,153,655
Cost of goods sold	**1,243,429**	901,472
Gross margin	**3,116,617**	2,252,183
Overhead expenses		
Amortization	**324,778**	303,175
General and administrative	**1,070,156**	883,391
Interest on long-term debt	**72,707**	100,983
Research and product design	**53,986**	169,600
	1,521,627	1,457,149
Income before income taxes	**1,594,990**	795,034
Provision for income taxes (Note 9)		
Current	**38,090**	(47,263)
Future	**328,000**	74,000
	366,090	26,737
Income before non-controlling interest	**1,228,900**	768,297
Non-controlling interest (Note 17)	**20,516**	-
Net income	**1,249,416**	768,297
Retained earnings, beginning of year	**2,570,880**	2,232,321
Common shares repurchased in excess of carrying value (Note 10 (g))	**(171,907)**	(289,542)
Dividends declared	**(337,825)**	(140,196)
Retained earnings, end of year	**$3,310,564**	$2,570,880
Earnings per share - basic	**$ 0.13**	$ 0.09
- diluted	**$ 0.12**	$ 0.09
Weighted average shares outstanding - basic	**9,854,497**	8,558,412
- diluted	**10,151,406**	8,742,752

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	**2005**	2004
Cash flows from operating activities		
Net income for the year	**$ 1,249,416**	$ 768,297
Adjustments for:		
Amortization	**324,778**	303,175
Future income taxes	**328,000**	74,000
Non-controlling interest	**(20,516)**	-
Stock based compensation	**80,000**	40,000
	1,961,678	1,185,472
Net change in non-cash working capital items		
Accounts receivable	**(281,514)**	(471,645)
Inventory	**(104,300)**	(14,492)
Prepaid expenses	**(11,313)**	(6,000)
Accounts payable and accrued liabilities	**(18,050)**	26,822
Income taxes payable	**10,630**	(39,394)
Deferred revenue	**(12,500)**	12,500
	1,544,631	693,263
Cash flows from financing activities		
Due to related parties	**(144,986)**	(48,571)
(Repayment) advancement of long-term debt	**(1,803,605)**	123,000
Issue of common shares	**2,021,210**	(152,411)
Share issuance costs	**(178,840)**	-
Repurchase of common shares	**(108,973)**	(397,117)
Dividends on common shares	**(301,330)**	-
	(516,524)	(475,099)
Cash flows from investing activity		
Cash received from subscription of E-FORM	**242,000**	-
Deferred acquisition	**(411,800)**	-
Purchase of property, plant and equipment	**(467,978)**	(408,607)
	(637,778)	408,607)
Increase (decrease) in cash	**390,329**	(190,443)
Cash, beginning of year	**66,347**	256,790
Cash, end of year	**$ 456,676**	$ 66,347

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 judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) <u>Consolidation</u>
These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., Omni-Lite Properties Inc., and the following entity, Omni-Lite E-FORM Technologies Inc., that is controlled by the Company. All significant inter-company balances and transactions have been eliminated.

(b) <u>Inventory</u>
Inventory consists of raw materials 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) <u>Revenue recognition</u>
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

(d) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is provided using the following methods and annual rates intended to amortize the cost of assets over their estimated useful lives. One-half the normal amortization is taken 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 operations and consequently did not require retroactive application.

(e) Investments

Investments are accounted for by the cost method 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.

(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.

(g) Long-lived assets

Long-lived assets, such as patents and property, plant 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 follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

2. Significant Accounting Policies - continued

(i) Foreign exchange

These consolidated financial statements have been presented in United States (U.S.) dollars, the principal currency of the Company's operations. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rate on the date of the transaction.

Foreign currency balances of foreign subsidiaries are translated into their U.S. dollar equivalents 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 rate of exchange on the date of the transaction.
- 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 from the above transactions are included in income.

(j) 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.

(k) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates. Income tax rates expected to apply when the future income tax liabilities or assets are to be settled or realized and the related valuation allowance are based on estimates and assumptions. Factors used to estimate stock based compensations are based on management's assumptions at the time the related options were granted. The consolidated financial statements also include estimates of the useful economic life of Property, plant and equipment and deferred development and patent expenditures. 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 Company has conducted a study of its internal policies with respect to transfer pricing within the consolidated group. The consolidated income tax provision provided herein has been based on management's best estimate of the pricing that is equivalent to comparative uncontrolled pricing for the same or similar products and is subject to assessment by taxation authorities. Until the time frame for reassessment has been statute barred or the taxation authorities have reviewed and not objected to the tax filings, there is a possibility that a reassessment can occur.

2. Significant Accounting Policies - continued

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.

(l) Stock-based compensation plan
The Company accounts for all stock options granted to employees, officers, directors and consultants using the fair value method of accounting for stock based compensation expense. Under this method, the associated compensation expense is charged to earnings with a corresponding increase to contributed surplus over the vesting period of the options granted.

(m) Per share amounts
The Corporation follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

(n) 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, plant 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.

(o) Share purchase loans
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, which was applied retroactively at December 31, 2004, resulted in a decrease of $49,043 in both the loan receivable and share capital. The share purchase loans were repaid in March 2005 and the share capital was adjusted accordingly.

3. Inventory

The major components of inventory are classified as follows:

	2005	2004
Raw materials	**$ 282,221**	$ 169,009
Finished goods	**784,751**	793,663
	$ 1,066,972	$ 962,672

4. Investments

As at December 31, 2005, investments in the amount of $106,866 (2004 - $106,866) was made up of investments in the common shares of public companies which have a fair market value of approximately $101,200 (2004 – $269,751) at year end.

5. Property, Plant and Equipment

	2005		2004	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 770,000**	**$ -**	$ 770,000	$ -
Building	**1,451,010**	**253,472**	1,451,010	202,746
Production and other equipment	**4,780,211**	**849,854**	4,734,114	687,311
Computer equipment	**87,155**	**75,347**	86,465	61,319
Non consumable tooling	**906,564**	**168,481**	484,055	69,151
	$ 7,994,940	**$ 1,347,154**	$ 7,524,644	$ 1,020,527
Net book value	**$ 6,647,786**		$ 6,504,117	

6. Deferred Development and Patent Expenditures

	2005		2004	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Deferred development and patent expenditures	**$ 1,136,393**	**$ 1,134,608**	$ 1,134,693	$ 1,132,438
Net book value	**$ 1,785**		$ 2,255	

7. Due to Related Party

Due to related party represents an amount of $nil (2004 - $144,986) due to a director and shareholder of the Company, which was unsecured, non-interest bearing and had no set terms of repayment. This loan was repaid in full on February 3, 2005.

8. Long-term Debt

	2005	2004
Revolving line of credit, maximum $1,000,000 (2004 - $500,000) secured by a general security agreement over all the assets of the Company, bearing interest at either the Union Bank of California's reference rate (7.25%) or LIBOR plus 2.0% (2004 Libor + 2.5%). Maturity date: September 27, 2006; Renewed yearly.	**$ 289,000**	**$ 479,000**
Term loan, secured by related property, bearing interest at LIBOR plus 2%. As at December 31, 2005, the LIBOR rate of interest was approximately 4.54% (2004 – 2.56%). Maturity date: October 1, 2013, repayable in monthly blended installments of $7,160. The carrying value of the collateralized property is $1,967,538 (2004 - $2,018,264).	**561,913**	**1,888,976**
Term loan, secured by all assets of the Company, bearing interest at Union Bank of California's reference rate (7.25%) (2004 – 4.25%), repayable in monthly installments of $8,430 plus interest due October 31, 2007.	**-**	**286,542**
	$ **850,913**	$ **2,654,518**
Less : current portion	**(436,680)**	**(628,115)**
	$ 414,233	**$ 2,026,403**

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

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

2006	$ 436,680
2007	48,676
2008	51,949
2009	55,443
2010	59,172
2011 and thereafter	198,993
	$ 850,913

9. Income Taxes

	2005	2004
Statutory tax rate	**34.0%**	39.0%
Income taxes at the statutory rate	**$ 542,000**	$ 310,000
Rate differential	**(197,000)**	(240,263)
Stock compensation	**27,000**	-
Share issue costs	**(12,000)**	-
Other	**6,090**	(43,000)
	$ 366,090	$ 26,737

Principal components of the net future tax liability are:

Future tax asset:	**2005**	2004
Unused tax losses carryforward [1]	**$ 489,000**	$ 927,000
Share Issue Costs	**49,000**	-
Future tax liability:		
Property, plant and equipment	**(1,260,000)**	(1,073,000)
	(722,000)	(146,000)
Valuation allowance	**-**	(248,000)
Net future tax liability	**$ 722,000**	$ 394,000
Income tax expense (recovery):		
Current	**$ 38,090**	$ (47,263)
Future	**328,000**	74,000
	$ 366,090	$ 26,737

(1) *Consists of US tax losses in the approximate amount of Federal $1,124,000 available to reduce taxable income until 2023 and State $125,000 available to reduce taxable income until 2015 (2004 – Federal $2,315,000 and State $1,077,000) Canadian tax losses in the approximate amount of Cdn $nil (2004 – Cdn $82,000) expiring at varying dates until 2008.*

10. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	2005		2004	
	Number of Shares	**Amount**	Number of Shares	Amount
Total issued and outstanding, beginning of year	**8,349,304**	**$2,015,999**	8,784,269	$2,172,617
Issued upon conversion of predecessor shares	**-**	**-**	35	-
Issued upon exercise of stock options	**110,000**	**77,324**	-	-
Issued under private placement	**1,650,000**	**1,317,702**	-	-
Share issuance costs		**(250,227)**	-	-
Issued upon exercise of warrants	**211,475**	**362,718**	-	-
Cancelled on repurchase under normal course issuer bid (Note 10(g))	**(75,000)**	**(27,683)**	(347,300)	(85,885)
	10,245,779	**3,495,833**	8,437,004	2,086,732
To be cancelled from repurchase under normal course issuer bid (Note 10(g))	**(75,000)**	**(27,683)**	(87,700)	(21,690)
	10,170,779	**3,468,150**	8,349,304	2,065,042
Share purchase loan (Note 10(f))	**-**	**49,043**	-	(49,043)
Total issued and outstanding, end of year	**10,170,779**	**$3,517,193**	8,349,304	$2,015,999

	For the year ended December 31, 2005		For the year ended December 31, 2004	
Warrants	**Number**	**Amount**	Number	Amount
Total issued and outstanding, beginning of year	**-**	**$ -**	-	$ -
Issuance of warrants	**825,000**	**288,325**	-	-
Exercise of warrants	**(211,475)**	**(73,902)**	-	-
Total issued and outstanding, end of year	**613,525**	**$ 214,423**	$ -	$ -
Broker Warrants				
Total issued and outstanding, beginning of year	**-**	**$ -**	-	$ -
Issuance of Units	**168,750**	**71,387**	-	
Total issued and outstanding, end of year	**168,750**	**$ 71,387**	-	$ -
Total equity instruments		**$3,803,003**		$2,015,999

10. 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, 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 - granted	**330,000**	**CDN \$0.94 to \$1.75**	**CDN \$1.40**
- exercised	**(110,000)**	**CDN \$0.60 to \$1.19**	**CDN \$0.83**
- cancelled	**(110,000)**	**CDN \$0.80 to \$1.55**	**CDN \$1.20**
Options outstanding at Dec. 31, 2005	**946,333**	**CDN \$0.60 to \$1.91**	**CDN \$1.10**
Options exercisable at Dec. 31, 2005	**403,108**	**CDN \$0.60 to \$1.91**	**CDN \$1.02**
Options exercisable at Dec. 31, 2004	394,329	CDN \$0.60 to \$1.91	CDN \$1.05

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 330,000 (2004 – 113,333) stock options to employees, directors and consultants with exercise prices ranging from Cdn\$0.94 to Cdn\$1.75 (2004 - Cdn\$1.04 to Cdn\$1.19). These options will expire on dates ranging from March 20, 2006 to September 20, 2010.

(d) Common Share Purchase Warrants

In the first quarter of 2005, the Company completed two private placements by issuing a total of 1,650,000 Units at \$1.20 CDN per Unit. Each consists of one common share and one-half common share purchase warrant. Each whole common share purchase warrant is exercisable at \$1.60 CDN and expires June 9, 2006.

The fair value of warrants issued in the current year was estimated using Black-Scholes option-pricing model with the following assumptions: Dividend yield (2 to 2.58%), Expected volatility (0.56), risk-free interest rate (3.5%), and weighted average life of 1.5 years.

Expiry date	**Exercise Price (CDN)**	**Issued**	**Exercised**	**Expired/ Cancelled**	**Outstanding December 31, 2005**
June 9, 2006	**\$1.60**	**825,000**	**(211,475)**	**-**	**613,525**

Equity Instruments Outstanding	**December 31, 2005**	December 31, 2004
Common shares, issued and outstanding	**10,170,779**	8,349,304
Stock options	**946,333**	836,333
Shares to be issued on exercise of outstanding Warrants	**613,525**	-
Broker Warrants	**112,500**	-
Compensation Units - warrants	**56,250**	-
Share Purchase Loan	**-**	(60,001)
Fully diluted equity instruments	**11,899,387**	9,125,636

10. Share Capital – continued

The options that are exercisable at December 31, 2005 are summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
388,000	CDN $0.60 to $0.85	CDN $0.71	2.39 years
263,333	CDN $0.98 to $1.28	CDN $1.08	2.64 years
295,000	CDN $1.72 to $1.91	CDN $1.64	3.93 years
946,333	CDN $0.60 to $1.91	CDN $1.06	2.83 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
235,331	CDN $0.60 to $0.85	CDN $0.71	2.39 years
97,777	CDN $0.98 to $1.28	CDN $1.15	0.73 years
70,000	CDN $1.72 to $1.91	CDN $1.86	1.33 years
403,108	CDN $0.60 to $1.91	CDN $1.02	1.80 years

(e) Broker Warrants
In conjunction with the private placement described in note 10(d) above, the Broker received 112,500 Broker warrants as partial compensation for their services. Each broker warrant is convertible into one unit of the Company at CDN$1.20 per unit. Each unit consists of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at $1.60 CDN and expires June 9, 2006.

(f) 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 and December 31, 2004 of $49,043. The outstanding promissory notes were repaid by March 31, 2005.

(g) Normal course issuer bid
During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 150,000 (2004 – 435,000) of its issued and outstanding common shares. The Company repurchased the 150,000 (2004 - 435,000) common shares for $227,273 (2004 - $397,117) resulting in a $55,366 (2004 - $107,575) reduction in share capital and a $171,907 (2004 - $289,542) decrease in retained earnings.

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 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:

December 31, 2005	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 3,666,832**	**$ -**	**$ 1,033,126**	**$ (339,912)**	**$ 4,360,046**
Property, plant and equipment	**$ 6,645,987**	**$ 1,799**	**$ -**	**$ -**	**$ 6,647,786**

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

During 2005, the Company was engaged in contracts for products with four (2004 – seven) customers, which accounted for $2,905,810 (2004 - $2,166,893) or 67% (2004 – 69%) of the Company's total revenue. During the same period, export sales to two (2004 – three) customers in various international countries (outside of the United States) amounted to $913,958 (2004- $831,340) or 21% (2004 – 26%) 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) In conjunction with the deferred acquisition (Note 18) the Company has committed to pay additional amounts totaling $1,552,045 for final payment of the related systems.

13. Statement of Cash Flows

Interest and income taxes paid (recovery)

		2005		2004
Interest paid	**$**	**72,707**	$	100,983
Income taxes paid (recovery)	**$**	**38,090**	$	(47,263)

14. Financial Instruments

As disclosed in Note 2(j), 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.

Interest rate risk
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, 2005, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $8,500 (2004 - $27,000). The related disclosures regarding these debt instruments are included in Note 8 of these financial statements.

Foreign currency risk
A significant portion of the Company’s operations are located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company 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.

	USD 2005	USD 2004
Cash	**$ 147,491**	$ 598
Accounts payable	**42,950**	49,659

15. Stock Based 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 year ended December 31, 2004 would have been reduced to the pro forma amounts indicated below. The options were fully vested at December 31, 2004, therefore no information is presented below for the 2005 year end.

			2004
Net income	- as reported	$	768,297
	- pro forma	$	758,297
Income per share	- basic and diluted		
	- as reported	$	0.09
	- pro forma	$	0.09

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.

The following is a continuity schedule of contributed surplus:

		2005		2004
Balance, beginning of year	**$**	**84,000**	$	44,000
Stock-based compensation expense		**80,000**		40,000
Balance, end of year	**$**	**164,000**	$	84,000

The fair value of share options granted during the year, (Note 10(c)), was estimated to be $201,820 (2004 - $52,738) using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (2 to 2.58%) (2004 – (Nil)), Expected volatility 0.54 to 0.56 (2004 - (0.58)), risk-free interest rate 3.59% to 3.95% (2004 - (3.69% to 5%)), and weighted average life of 5 (2004 - 5 years).

16. Related Party Transactions

For 2005 and 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 $110,000 (2004 $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.

17. Non-controlling Interest

On February 9, 2005, Omni-Lite E-FORM Technologies Inc. (“E-FORM”) was incorporated in California, USA by officers and directors of Omni-Lite and related parties, who invested all of E-FORM’s initial capital of $122,000. At that time, 50% of the shares of E-FORM were issued to the Company for nominal consideration. In September 2005, additional subscriptions from third parties resulted in a further investment of $120,000 and a reduction of the Company’s ownership to 38.48%. Because of the relationship between the management of the two corporations, current accounting rules require that E-FORM’s financial statements be consolidated with the Company resulting in the inclusion of E-FORM’s assets in the Company balance sheet.

18. Deferred Acquisition

Deferred acquisition amounts are as follows: $32,800 deposit for an inspection system, $115,000 for four production systems, and $264,000 for two larger production systems.

19. 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, 2005 the amount of deferred revenue was $nil (2004 - $12,500).

20. Subsequent Events

(a) On March 8, 2006, the Company issued 135,000 options exercisable at $2.55 per share expiring March 8, 2011.

(b) On December 14, 2005, the Company declared a dividend of $0.02 CDN per share for shareholders of Omni-Lite’s common shares of record January 13, 2006. The dividend of $0.02 CDN per share was paid January 31, 2006.

(c) On September 1, 2005, Omni-Lite Industries Canada Inc. filed with the TSX Venture Exchange its notice of intention to initiate a normal course issuer bid to purchase, on the open market through the facilities of the TSX Venture Exchange, up to 500,000 common shares. This represented approximately 5 per cent of the issued and outstanding shares. Purchases pursuant to the bid are being conducted by Sprott Securities Inc. The bid expires on August 31, 2006. As of the date of these financial statements, in addition to the 150,000 common shares repurchased by the Company before year end, the Company repurchased an additional 75,500 common shares under the Normal Course Issuer Bid.