Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2006 and 2005
(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.

"signed"
David Grant, CEO

April 27, 2007

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, 2006 and 2005 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 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Calgary, Alberta
April 27, 2007

Chartered Accountants

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

December 31	2006	2005
Assets		
Current		
Cash	**$ 3,690**	$ 456,676
Accounts receivable	**1,012,710**	1,049,729
Inventory (Note 3)	**1,314,243**	1,066,972
Income taxes receivable	**59,484**	-
Prepaid expenses	**19,157**	32,177
	2,409,284	2,605,554
Deferred acquisition (Note 18)	**1,708,194**	411,800
Investments (Note 4)	**106,866**	106,866
Property, plant and equipment (Note 5 and 11)	**9,142,413**	6,647,786
Intangible assets (Note 6)	**189,024**	1,785
	$ 13,555,781	$ 9,773,791

Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 681,174**	$ 476,732
Income taxes payable	**-**	48,405
Dividends payable	**190,555**	176,690
Due to related party (Note 7)	**996,416**	-
Current portion of long-term debt (Note 8)	**1,683,702**	436,680
	3,551,847	1,138,507
Long-term debt (Note 8)	**20,608**	414,233
Future income taxes (Note 9)	**926,000**	722,000
Non-controlling interest (Note 17)	**322,428**	221,484
	4,820,883	2,496,224
Share capital (Note 10 (b))	**5,126,243**	3,803,003
Contributed surplus (Note 15)	**243,225**	164,000
Retained earnings	**3,365,430**	3,310,564
	8,734,898	7,277,567
	$ 13,555,781	$ 9,773,791

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	2006	2005
Revenue (Note 11)	**$ 5,007,061**	$ 4,360,046
Cost of goods sold	**1,766,530**	1,243,429
Gross margin	**3,240,531**	3,116,617
Overhead expenses		
Amortization	**428,591**	324,778
General and administrative	**1,581,926**	1,070,156
Interest on long-term debt (Note 13)	**59,972**	72,707
Research and product design	**162,217**	53,986
	2,232,706	1,521,627
Income from operations	**1,007,825**	1,594,990
Other Income		
Gain on dilution (Note 17)	**60,000**	-
Income before income taxes	**1,067,825**	1,594,990
Provision for income taxes (Note 9)		
Current	**70,000**	38,090
Future	**204,000**	328,000
	274,000	366,090
Income before non-controlling interest	**793,825**	1,228,900
Non-controlling interest (Note 17)	**207,487**	20,516
Net income	**1,001,312**	1,249,416
Retained earnings, beginning of year	**3,310,564**	2,570,880
Common shares repurchased in excess of carrying value (Note 10 (f))	**(562,321)**	(171,907)
Dividends	**(384,125)**	(337,825)
Retained earnings, end of year	**$3,365,430**	$3,310,564
Earnings per share - basic	**$ 0.09**	$ 0.13
- diluted	**$ 0.09**	$ 0.12
Weighted average shares outstanding - basic	**10,693,164**	9,854,497
- diluted	**10,877,317**	10,151,406

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	2006	2005
Cash flows from operating activities		
Net income for the year	**$ 1,001,312**	$ 1,249,416
Adjustments for:		
Amortization	**428,591**	324,778
Future income taxes	**204,000**	328,000
Non-controlling interest	**(207,487)**	(20,516)
Stock based compensation	**124,500**	80,000
Gain on dilution	**(60,000)**	-
	1,490,916	1,961,678
Net change in non-cash working capital items		
Accounts receivable	**37,019**	(281,514)
Inventory	**(247,271)**	(104,300)
Prepaid expenses	**13,020**	(11,313)
Accounts payable and accrued liabilities	**204,442**	(18,050)
Income taxes payable	**(107,889)**	10,630
Deferred revenue	**-**	(12,500)
	1,390,237	1,544,631
Cash flows from financing activities		
Advances from related parties	**1,072,257**	-
Repayment to related parties	**(75,841)**	(144,986)
Advancement of long-term debt	**1,415,310**	-
Repayment of long-term debt	**(561,913)**	(1,803,605)
Issue of common shares	**1,433,147**	2,021,210
Share issuance costs	**(3,640)**	(178,840)
Repurchase of common shares	**(700,834)**	(108,973)
Dividends on common shares	**(370,260)**	(301,330)
	2,208,226	(516,524)
Cash flows from investing activity		
Cash received from subscription of California Nanotechologies, Inc.	**147,915**	242,000
Deferred acquisition	**(1,288,905)**	(411,800)
Purchase of property, plant and equipment	**(2,910,459)**	(467,978)
	(4,051,449)	(637,778)
Increase (decrease) in cash	**(452,986)**	390,329
Cash, beginning of year	**456,676**	66,347
Cash, end of year	**$ 3,690**	$ 456,676

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

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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) 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., Omni-Lite Properties Inc., and the following entity, California Nanotechnologies, Inc. (formerly known as "Omni-Lite E-FORM Technologies Inc."), that is controlled by the Company. All significant inter-company balances and transactions have been eliminated.

(b) Inventory
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) 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

(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.

Building	-	4% declining balance
Production and other equipment	-	30 years straight-line
Computer equipment	-	30% declining balance
Non-consumable tooling	-	7 years straight-line
Vehicle	-	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.

(e) Investments

Investments are accounted for by the cost method and are only written down if there is an other than 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 twelve months.

(f) Intangible assets

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.

In addition, trade secrets, use of operating rights, customer list and customer contracts are also recorded at cost and are being amortized on a straight-line basis over their estimated useful lives, of fifteen years.

(g) Long-lived assets

Long-lived assets, including intangible assets 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.

2. Significant Accounting Policies - continued

(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.

(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. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. 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.

2. Significant Accounting Policies - continued

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.

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
Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. 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
The Company recognizes the fair value of the asset retirement obligation in the period in which it incurs a 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 key assumptions on which the fair value of the asset retirement obligations are based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate or rates on which the estimated cash flows have been discounted. Subsequent to the initial measurement the liability is accreted over time through periodic charges to earnings. The amount of the liability is subject to re-measurement at each reporting period if there has been a change to certain of the key assumptions.

2. Significant Accounting Policies - continued

(o) Research and Development expenses
Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the CICA handbook Section 3450, "Research and Development", are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(p) Recent accounting pronouncements
In January 2005, the CICA issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006.
There have been numerous consequential amendments made to Canadian generally accepted accounting principles. The Company expects to apply any applicable new recommendations for its financial statements dated March 31, 2007. Transitional provisions are complex and vary on the type of financial instruments under consideration. However, the Company does not expect the adoption of these new standards to have a material effect on its financial statements.

(q) Variable interest entities
Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG-15) outlines consolidation principles for certain entities in which equity investors do not have the characteristics on a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. As a result of AcG-15, the Company has consolidated its associated company, California Nanotechnologies, Inc. ("CNI") (formerly Omni-Lite E-FORM Technologies, Inc.). The Company is the primary beneficiary of CNI at this time and absorbs a percentage of CNI's expected losses.

3. Inventory

The major components of inventory are classified as follows:

	2006	2005
Raw materials	**$ 448,828**	$ 282,221
Finished goods	**865,415**	784,751
	$ 1,314,243	$ 1,066,972

4. Investments

As at December 31, 2006, investments in the amount of $106,866 (2005 - $106,866) was made up of investments in the common shares of public companies which have a fair market value of approximately $121,000 (2005 – $101,200) at year end.

5. Property, Plant and Equipment

	2006		2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 770,000**	**$ -**	$ 770,000	$ -
Building	**1,451,010**	**300,777**	1,451,010	253,472
Production and other equipment	**7,158,912**	**1,043,183**	4,780,211	849,854
Computer equipment	**83,588**	**82,797**	87,155	75,347
Vehicle	**28,400**	**2,029**	-	-
Non consumable tooling	**1,413,488**	**334,199**	906,564	168,481
	$10,905,398	**$1,762,985**	$7,994,940	$1,347,154
Net book value	**$9,142,413**		$6,647,786	

6. Intangible assets

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	2006		2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Deferred development and patent expenditures	**$1,136,393**	**$1,135,148**	$1,136,393	$1,134,608
Trade Secrets	**$100,000**	**$6,111**	-	-
Use or operating rights	**$50,000**	**$3,055**	-	-
Customer list	**$27,000**	**$1,650**	-	-
Customer contracts	**$23,000**	**$1,405**	-	-
	$1,336,393	**$1,147,369**	$1,136,393	$1,134,608
Net book value	**$189,024**		$1,785	

7. Due to Related Party

Due to related party represents an amount of $996,416 (2005 - $nil) due to a shareholder of the Company, which is unsecured, non-interest bearing and has no set terms of repayment. This loan was made to the Company to pay down bank debt.

8. Long-term Debt

		2006		2005
Revolving line of credit, maximum $2,000,000 (2005 - $1,000,000) secured by a general security agreement over all the assets of the Company, bearing interest at either the Prime rate minus 0.5% or LIBOR plus 1.75% (2005 Libor plus 2.0%). Maturity date: November 1, 2008; Renewed yearly.	**$**	**1,678,202**	$	289,000
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%. Maturity date: October 1, 2013, repayable in monthly blended installments of $7,160. The carrying value of the collateralized property is $1,967,538.		**-**		561,913
Term loan, non-interest bearing secured by a vehicle, having a carrying value of $26,371. Maturity date: July 20, 2011, repayable in monthly installments of $458.		**26,108**		
	$	**1,704,310**	$	850,913
Less : current portion		**(1,683,702)**		(436,680)
	$	**20,608**	$	414,233

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

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

2007	$	1,683,702
2008		5,500
2009		5,500
2010		5,500
2011		4,108
	$	1,704,310

9. Income Taxes

	2006	2005
Statutory tax rate	**32.0%**	34.0%
Income taxes at the statutory rate	**$ 347,000**	$ 542,000
Rate differential on income earned in foreign jurisdictions	**(93,200)**	(197,000)
Non controlling interest	**90,200**	-
Stock compensation	**40,500**	27,000
Rate difference from prior year	**(52,400)**	-
Share issue cost	**(13,000)**	(12,000)
Gain on dilution	**(19,500)**	-
Other	**(25,600)**	6,090
	$ 274,000	$ 366,090

Principal components of the net future tax liability are:

	2006	2005
Future tax asset:		
Unused tax losses carry forward [1]	**$ 159,000**	$ 489,000
Share Issue Costs	**36,000**	49,000
Future tax liability:		
Property, plant and equipment	**(1,121,000)**	(1,260,000)
	(926,000)	(722,000)
Valuation allowance	**-**	-
Net future tax liability	**$ (926,000)**	$ (722,000)
Income tax expense (recovery):		
Current	**$ 70,000**	$ 38,090
Future	**204,000**	328,000
	$ 274,000	$ 366,090

(1) *Consists of US tax losses in the approximate amount of Federal $358,162 expiring at various dates commencing 2019 and State $Nil (2005 – Federal $1,124,000 and State $125,000) Canadian tax losses in the approximate amount of Cdn-$16,000 (2005 – Cdn$57,303) expiring at varying dates commencing 2008.*

10. Share Capital

(a) Authorized

Unlimited number of common shares

(b) Issued

	2006		2005	
	Number of Shares	**Amount**	Number of Shares	Amount
Total issued and outstanding, beginning of year	**10,170,779**	**$3,517,193**	8,349,304	$2,015,999
Issued upon exercise of stock options	**473,599**	**398,817**	110,000	77,324
Issued under private placement	**-**	**-**	1,650,000	1,317,702
Share issuance costs	**-**	**(3,640)**	-	(250,227)
Issued upon exercise of warrants	**782,275**	**1,352,386**	211,475	362,718
Cancelled on repurchase under normal course issuer bid (Note 10(f))	**(299,000)**	**(120,170)**	(75,000)	(27,683)
	11,127,653	**5,144,586**	10,245,779	3,495,833
To be cancelled from repurchase under normal course issuer bid (Note 10(f))	**(40,000)**	**(18,343)**	(75,000)	(27,683)
	11,087,653	**5,126,243**	10,170,779	3,468,150
Share purchase loan (Note 10(f))	**-**	**-**	-	49,043
Total issued and outstanding, end of year	**11,087,653**	**$5,126,243**	10,170,779	$3,517,193

	For the year ended December 31, 2006		For the year ended December 31, 2005	
Warrants	**Number**	**Amount**	Number	Amount
Total issued and outstanding, beginning of year	**613,525**	**$ 214,423**	-	$ -
Issuance of warrants (Note 10(d))	**-**	**-**	825,000	288,325
Exercise of warrants	**(613,525)**	**(214,423)**	(211,475)	(73,902)
Total issued and outstanding, end of year	**-**	**$ -**	613,525	$ 214,423
Broker Warrants				
Total issued and outstanding, beginning of year	**112,500**	**$ 71,387**	-	-
Issuance of Units (Note 10(e))	**-**	**-**	112,500	$ 71,387
Exercise of Units	**(112,500)**	**(71,387)**	-	-
Total issued and outstanding, end of year	**-**	**$ -**	112,500	$ 71,387
Total equity instruments		**$5,126,243**		$3,803,003

10. Share Capital - continued

(c) Stock options

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

	Number	Option Price per Share Range	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2005	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, 2006	946,333	CDN $0.60 to $1.91	CDN $0.96
Options - granted	**185,000**	**CDN $1.98 to $2.55**	**CDN $2.40**
- exercised	**(473,599)**	**CDN $0.60 to $1.91**	**CDN $0.85**
- cancelled	**-**	**-**	**-**
Options outstanding at Dec. 31, 2006	**657,734**	**CDN $0.60 to $2.55**	**CDN $1.65**
Options exercisable at Dec. 31, 2006	**234,956**	**CDN $0.60 to $1.91**	**CDN $1.35**
Options exercisable at Dec. 31, 2005	403,108	CDN $0.60 to $1.91	CDN $1.02

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 185,000 (2005 – 330,000) stock options to employees, directors and consultants with exercise prices ranging from Cdn$1.98 to Cdn$2.55 (2005 - Cdn$0.94 to Cdn$1.75). These options will expire on dates ranging from March 4, 2007 to September 18, 2011.

The fair value of share options granted during the year was estimated to be $188,000 (2005 - $201,820) using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (1.57% to 2.03%) (2005 – (2% to 2.58%)), Expected volatility 0.59 to 0.60 (2005 - (0.54 to 0.56)), risk-free interest rate 3.59% to 3.95% (2005 - (3.59% to 3.95%)), and weighted average life of 5 years (2005 - 5 years).

10. Share Capital – continued

(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.

The fair value of warrants issued 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.

The options that are exercisable at December 31, 2006 are summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
74,334	CDN $0.60 to $0.85	CDN $0.79	1.20 years
106,733	CDN $0.98 to $1.19	CDN $0.99	2.78 years
341,667	CDN $1.72 to $1.91	CDN $1.68	3.22 years
135,000	CDN $1.98 to $2.55	CDN $2.55	4.19 years
657,734	CDN $0.60 to $2.55	CDN $1.65	3.12 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
74,334	CDN $0.60 to $0.85	CDN $0.71	1.20 years
18,955	CDN $0.98 to $1.19	CDN $0.91	2.51 years
141,667	CDN $1.72 to $1.91	CDN $1.70	2.14 years
234,956	CDN $0.60 to $1.91	CDN $1.35	1.87 years

10. Share Capital – continued

(e) Broker Warrants
In conjunction with the private placement described in note 10(d) above, the Broker received 112,500 compensation units as partial compensation for their services. Each compensation unit was convertible into one common share and one half of one common share purchase warrant at a cost of $1.20 per unit. Each whole common share purchase warrant was exercised at $1.60 CDN.

(f) Normal course issuer bid
During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 339,000 (2005 – 150,000) of its issued and outstanding common shares. The Company repurchased the 339,000 (2005 - 150,000) common shares for $700,834 (2005 - $227,273) resulting in a $138,513 (2005 - $55,366) reduction in share capital and a $562,321 (2005 - $171,907) decrease in retained earnings.

11. Segmented Information

Operating Segments:

The Company operates with segments 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, 2006	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 4,617,823**	**$ -**	**$ 1,044,725**	**$ (655,487)**	**$ 5,007,061**
Property, plant and equipment	**$ 9,142,188**	**$ 225**	**$ -**	**$ -**	**$ 9,142,413**

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

During 2006, the Company was engaged in contracts for products with five (2005 – four) customers, which accounted for $3,157,597 (2005 - $2,905,810) or 63% (2005 – 67%) of the Company's total revenue. During the same period, export sales to two (2005 – two) customers in various international countries (outside of the United States) amounted to $966,858 (2005- $913,958) or 19% (2005 – 21%) 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 $4,184,017 for final payment of the related systems.

13. Supplemental Cash Flow Information

Interest and income taxes paid

		2006		2005
Interest paid	**$**	**59,972**	$	72,707
Income taxes paid	**$**	**121,389**	$	38,090

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, 2006, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $16,800 (2005 - $8,500). 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 to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. As at December 31, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company’s foreign exchange accounting policy.

	USD 2006		USD 2005
Cash	**$ 78,782**	$	147,491
Accounts payable	**139,338**		42,950

15. Contributed Surplus

The following is a continuity schedule of contributed surplus:

		2006		2005
Balance, beginning of year	**$**	**164,000**	$	84,000
Stock-based compensation expense		**124,500**		80,000
Exercise of options		**(45,275)**		-
Balance, end of year	**$**	**243,225**	$	164,000

16. Related Party Transactions

For 2006 and 2005, the Company did not pay the Chief Executive Officer ("CEO"). It is management's estimate that the fair value of the salary would approximate $115,000 (2005 $110,000). 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%. Subsequent subscriptions totaling $347,915 made in 2006 further reduced the Company's ownership to 25%. On May 24, 2006, Omni-Lite E-FORM Technologies Inc. was renamed California Nanotechnologies, Inc ("CNI"). Because of the relationship between the management of the two corporations, CNI's financial statements have been consolidated with the Company in accordance with the Company's policy for consolidating variable interest entities.

18. Deferred Acquisition

Deferred acquisition amounts are as follows: $11,648 for the purchase of production equipment, $497,067 for the purchase of two production systems, and $1,199,479 for a purchase of another twelve production systems. (2005 - $32,800 for purchase of inspection machine, $115,000 for purchase of four production machines, $264,000 for the purchase of two production systems)

19. Subsequent Events

In December 2006, the Company declared a dividend of $0.02 CDN per share for shareholders of Omni-Lite's common shareholders of record as at January 15, 2007. The dividend of $0.02 CDN per share included dividends payable as at December 31, 2006 was paid January 31, 2007.

On February 9, 2007, the Company's variable interest entity, California Nanotechnologies Inc. (CNI) completed a reverse take over transaction with Veritek Technologies Inc. (Veritek). As a result of this transaction, the Company's proportionate share will decrease to below 20% and therefore CNI will no longer be consolidated with Omni-Lite Industries Canada Inc., but will be recognized and accounted for using the cost method in accordance with the Company's policy for investments.