Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2007 and 2006
(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"
David Grant
Director

April 25, 2008

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, 2007 and 2006 and the consolidated statements of income, retained earnings, comprehensive income, accumulated other comprehensive income 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, 2007 and 2006 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 25, 2008

Chartered Accountants

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

December 31		2007		2006
Assets				
Current				
Cash	$	-	$	3,690
Accounts receivable		1,289,289		1,012,710
Inventory (Note 4)		1,854,198		1,314,243
Income taxes receivable		-		59,484
Prepaid expenses		-		19,157
		3,143,487		2,409,284
Deferred acquisition (Note 5)		1,486,927		1,708,194
Investments (Note 6 and 18)		207,788		106,866
Property, plant and equipment (Note 7 and 13)		10,164,450		9,142,413
Intangible assets (Note 8)		705		189,024
Future income tax asset (Note 11)		86,857		-
	$	15,090,214	$	13,555,781
Liabilities and Shareholders' Equity				
Current				
Bank indebtedness	$	5,651	$	-
Accounts payable and accrued liabilities		490,749		681,174
Income taxes payable		407,165		-
Dividends payable		-		190,555
Due to related parties (Note 9)		999,095		996,416
Current portion of long-term debt (Note 10)		1,735,800		1,683,702
		3,638,460		3,551,847
Long-term debt (Note 10)		15,108		20,608
Future income tax liability (Note 11)		1,387,200		926,000
Non-controlling interest (Note 18)		-		322,428
		5,040,768		4,820,883
Share capital (Note 12 (b))		5,266,780		5,126,243
Contributed surplus (Note 17)		305,667		243,225
Retained earnings		4,479,871		3,365,430
Accumulated other comprehensive income		(2,872)		-
		10,049,446		8,734,898
	$	15,090,214	$	13,555,781

On behalf of the Board:

(signed) "David Grant"
David Grant
Director

(signed) "Donald Kelly"
Donald Kelly
Director

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

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

For the years ended December 31	**2007**	2006
Revenue (Note 13)	**$ 6,983,845**	$ 5,007,061
Cost of goods sold	**2,111,132**	1,766,530
Gross margin	**4,872,713**	3,240,531
Overhead expenses		
Amortization	**486,769**	428,591
General and administrative	**1,793,542**	1,581,926
Interest on long-term debt (Note 15)	**189,767**	59,972
Research and product design	**114,311**	162,217
	2,584,389	2,232,706
Income from operations	**2,288,324**	1,007,825
Gain on dilution (Note 18)	**140,455**	60,000
Income before income taxes	**2,428,779**	1,067,825
Provision for income taxes (Note 11)		
Current	**471,066**	70,000
Future	**374,343**	204,000
	845,409	274,000
Income before non-controlling interest	**1,583,370**	793,825
Non-controlling interest (Note 18)	**-**	207,487
Net income	**1,583,370**	1,001,312
Earnings per share - basic	**$ 0.14**	$ 0.09
- diluted	**$ 0.14**	$ 0.09
Weighted average shares outstanding - basic	**11,059,967**	**10,693,164**
- diluted	**11,216,181**	**10,877,317**

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

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

For the years ended December 31	2007	2006
Retained earnings, beginning of year	**$ 3,365,430**	**$ 3,310,564**
Net income	**1,583,370**	1,001,312
Common shares repurchased in excess of carrying value (Note 12 (f))	**(418,805)**	(562,321)
Transition adjustment – financial instruments (Note 3(b))	**(50,124)**	-
Dividends	**-**	(384,125)
Retained earnings, end of year	**$ 4,479,871**	**$ 3,365,430**

Consolidated Statements of Comprehensive Income
United States Dollars

For the years ended December 31	2007	2006
Net income	**$ 1,583,370**	$ 1,001,312
Other Comprehensive Income, Net of Tax (Note 6)	**(2,872)**	-
Comprehensive income	**$ 1,580,498**	**$ 1,001,312**

Consolidated Statements of Accumulated Other Comprehensive Income
United States Dollars

For the years ended December 31	2007	2006
Accumulated Other Comprehensive Income, Beginning of Year	**$ -**	-
Other Comprehensive Income, Net of Tax (Note 6)	**(2,872)**	-
Accumulated Other Comprehensive Income, End of Year	**$ (2,872)**	**-**

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	2007	2006
Cash flows from operating activities		
Net income for the year	**$ 1,583,370**	$ 1,001,312
Adjustments for:		
Amortization	**486,769**	428,591
Future income taxes	**374,343**	204,000
Non-controlling interest	**-**	(207,487)
Stock based compensation	**155,100**	124,500
Gain on dilution	**(140,455)**	(60,000)
	2,459,127	1,490,916
Net change in non-cash working capital items		
Accounts receivable	**(276,579)**	37,019
Inventory	**(539,955)**	(247,271)
Prepaid expenses	**19,157**	13,020
Accounts payable and accrued liabilities	**(190,425)**	204,442
Income taxes payable	**466,649**	(107,889)
	1,937,974	1,390,237
Cash flows from financing activities		
Advances from related parties	**1,602,874**	1,072,257
Repayment to related parties	**(1,600,195)**	(75,841)
Advancement of long-term debt	**57,898**	1,415,310
Repayment of long-term debt	**(5,500)**	(561,913)
Issue of common shares	**160,744**	1,433,147
Share issuance costs	**(1,556)**	(3,640)
Repurchase of common shares	**(440,956)**	(700,834)
Dividends on common shares	**(190,555)**	(370,260)
	(417,246)	2,208,226
Cash flows from investing activity		
Cash received from subscription of California Nanotechnologies, Inc.	**-**	147,915
Deferred acquisition	**(209,618)**	(1,288,905)
Purchase of property, plant and equipment	**(1,320,451)**	(2,910,459)
	(1,530,069)	(4,051,449)
Increase (decrease) in cash	**(9,341)**	(452,986)
Cash, beginning of year	**3,690**	456,676
Cash(bank indebtedness), end of year	**$ (5,651)**	$ 3,690

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) 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 balances and transactions have been eliminated. As of Feb 1, 2007, California Nanotechnologies, Inc. was no longer consolidated with the Company. (Note 18)

(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 the lower of average standard costs of production and includes raw materials, labour and allocated overheads and net realizable value.

(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	-	15-30 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

On January 1st, 2007, the Company adopted the new accounting standard related to financial instruments. Under the new accounting policy, investments classified as available-for-sale are reported at fair value with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments classified as held-for-trading are reported at fair value with unrealized gains or losses included in earnings. Prior to January 1, 2007 investments were valued at the lower of the original cost and quoted market value.

(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.

(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.

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) 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

(j) Measurement uncertainty (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.

(k) 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.

(l) 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.

2. Significant Accounting Policies - continued

(m) 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.

(n) Recent accounting pronouncements

As of January 1, 2008, Omni-Lite will be required to adopt the CICA Handbook Section 3031, "Inventories". The new standard requires inventories to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment. The adoption of this standard should not have a material impact on Omni-Lite's Consolidated Statements.

As of January 1, 2008, Omni-Lite will be required to adopt two new CICA standards, Section 3862, "Financial Instruments – Disclosures" and Section, "3863, Financial Instruments – Presentation", which will replace Section 3861; "Financial Instruments – Disclosure and Presentation". The new disclosure standard will increase disclosure regarding the risks associated with financial instruments and how those risks are managed.

As of January 1, 2008, Omni-Lite will be required to adopt CICA Handbook Section 1535, "Capital Disclosures", which will require Omni-Lite to disclose its objectives, policies and processes for managing capital.

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian generally accounting standards for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible Assets", thus mitigating the impact of the adoption of IFS on its Consolidated Financial Statements.

3. Changes in Accounting Policies

On January 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments Recognition and Measurement", and Section 3865 "Hedges". The Company has evaluated the impact of these new standards and determined that the adoption of these standards has had no material impact on the Company's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

(a) *Comprehensive Income*
The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). The Company's consolidated financial statements include a Statement of Comprehensive Income. Accordingly, cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI") and included in a Statement of Accumulated Other Comprehensive Income.

(b) *Financial Instruments*
The financial instruments standard establishes the recognition and measurements criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions.

Measurements in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

The Company has made the following classifications:

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, due to related parties and long-term debt are designated as "other liabilities".

Long-term investments are financial instruments classified as "available-for-sale". They are initially recorded at their fair value unless fair value is not readily determinable. Subsequent changes to the market value of the investments are recorded as changes to other comprehensive income. Realized gains and losses are recognized in income when the investments are actually disposed of.

Impact upon adoption of Sections 1530, 3855 and 3865

Reduction to the opening retained earnings of $50,124, net of taxes, representing changes made to the value of certain financial instruments, in compliance with the measurement basis under the standards.

3. Changes in Accounting Policies - continued

(c) *Section 1506 "Accounting Changes"*
Beginning January 1, 2007 the Company adopted Section 1506 "Accounting Changes" the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862 "Financial Instruments Disclosures" and Section 3863 "Financial Instruments Presentation" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

4. Inventory

The major components of inventory are classified as follows:

	2007	2006
Raw materials	**$ 438,784**	$ 448,828
Finished goods	**1,415,414**	865,415
	$ 1,854,198	$ 1,314,243

5. Deferred Acquisition

In 2007, $1,148,410 (2006 - $1,966,142) was paid for the purchase of production equipment. The Company received equipment to the amount of $1,369,677 (2006 - $669,748).

6. Investments

As at December 31, 2007, investments were made up of investments in the common shares of two public companies. One of the Company's investments is accounted for at cost as the shares of the public company are held in escrow. As a result of the escrow conditions the investment is recorded at a cost of $176,012 and has a fair value of $762,693. The other investment is recorded at fair value of $31,776.

7. Property, Plant and Equipment

	2007		2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 770,000**	**$ -**	$ 770,000	$ -
Building	**1,453,310**	**345,947**	1,451,010	300,777
Production and other equipment	**8,064,178**	**1,224,655**	7,158,912	1,043,183
Computer equipment	**64,971**	**60,276**	83,588	82,797
Vehicle	**28,400**	**6,086**	28,400	2,029
Non consumable tooling	**1,967,515**	**546,960**	1,413,488	334,199
	$ 12,348,374	**$ 2,183,924**	$ 10,905,398	$ 1,762,985
Net book value	**$10,164,450**		$9,142,413	

8. Intangible assets

	2007		2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Deferred development and patent expenditures	**$ 1,136,393**	**$ 1,135,688**	$ 1,136,393	$ 1,135,148
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
	$ 1,136,393	**$ 1,135,688**	$ 1,336,393	$ 1,147,369
Net book value	**$705**		$189,024	

As a result of the deconsolidation of California Nanotechnologies, Inc. (CNI) financial statements from Omni-Lite Industries, certain intangible assets related to CNI are no longer included.

9. Due to related parties

Due to related parties includes advances from shareholders and advances from a company under common control. The amounts owing to shareholders are $285,903 (2006 - $996,416) and are unsecured, non-interest bearing and have no set terms of repayment. An amount of $713,192 (2006-$nil) is due to California Nanotechnologies Corp. which is unsecured, bearing interest at 7% per annum and due on demand.

For 2007 and 2006, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value of the salary would approximate $120,000 (2006 - $115,000). 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.

10. Long-term Debt

		2007		2006
The Company has two revolving lines of credit with an aggregate maximum of $2,000,000 (2006 - $2,000,000) secured by a general security agreement over all the assets of the Company. One bears interest at Prime rate minus 0.5% and the other bears interest at LIBOR plus 1.75% (2006 Libor plus 1.75%). Maturity date: November 1, 2008; Renewed yearly.	**$**	**1,730,300**	$	1,678,202
Revolving line of credit, maximum $75,000 (2006 - $75,000) unsecured, bearing interest at the Prime rate plus 2.0%. Maturity date: April 1, 2009; Renewed yearly.		**-**		-
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.		**20,608**		26,108
	$	**1,750,908**	$	1,704,310
Less : current portion		**(1,735,800)**		(1,683,702)
	$	**15,108**	$	20,608

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

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

2008	$	1,735,800
2009		5,500
2010		5,500
2011		4,108
2012		-
	$	1,750,908

The terms of the revolving lines of credit require that certain measurable covenants be met. As at December 31, 2007, the Company was in violation of certain covenants, for which the lender subsequently provided a written waiver stating that it will not demand immediate repayment of the loan. It is management's view that the Company will not violate covenants at future compliance dates.

11. Income Taxes

	2007	2006
Statutory tax rate	**32.1%**	32.0%
Income taxes at the statutory rate	**$ 780,124**	$ 347,000
Rate differential on income earned in foreign jurisdictions	**40,400**	(93,200)
Non controlling interest	**-**	90,200
Stock-based compensation	**49,818**	40,500
Rate difference from prior year	**7,106**	(52,400)
Share issue cost	**-**	(13,000)
Gain on dilution	**(45,114)**	(19,500)
Future impact on current and temporary differences	**(1,141)**	-
Change in estimate from prior year	**(4,197)**	-
Other	**18,413**	(25,600)
	$ 845,409	$ 274,000

Principal components of the net future tax liability are:

Future tax asset:	**2007**	2006
Unused tax losses carry forward [1]	**$ -**	$ 159,000
Share Issue Costs	**21,740**	36,000
Property, plant and equipment	**11,979**	-
Inventory / COGS	**53,138**	-
Total future tax asset	**86,857**	195,000
Future tax liability:		
Property, plant and equipment	**(1,387,200)**	(1,121,000)
Total future tax liability	**(1,387,200)**	(1,121,000)
Net future tax liability	**$ (1,300,343)**	$ (926,000)
Income tax expense (recovery):		
Current	**$ 471,066**	$ 70,000
Future	**374,343**	204,000
	$ 845,409	$ 274,000

(1) *Consists of US tax losses in the approximate amount of Federal $nil (2006 - $358,162). Canadian tax losses in the approximate amount of Cdn$ - nil (2006 – Cdn$16,000). As a result of the deconsolidation of California Nanotechnologies Inc. (CNI) (Note 17), the potential benefit of tax loss carryforwards and other tax deductions was not reflected in the consolidated financial statements of the Company. These losses and deductions are no longer available to the Company to reduce future taxable income.*

12. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	For the year ended December 31, 2007		For the year ended December 31, 2006	
	Number of Shares	**Amount**	Number of Shares	Amount
Total issued and outstanding, beginning of year	**11,087,653**	**$5,126,243**	10,170,779	$3,517,193
Issued upon exercise of stock options	**131,601**	**254,958**	473,599	398,817
Share issuance costs	**-**	**(1,556)**	-	(3,640)
Issued upon exercise of warrants	**-**	**-**	782,275	1,352,386
Cancelled on repurchase under normal course issuer bid (Note 12(f))	**(200,000)**	**(94,442)**	(299,000)	(120,170)
	11,019,254	**5,285,203**	11,127,653	5,144,586
To be cancelled from repurchase under normal course issuer bid (Note 12(f))	**(38,400)**	**(18,423)**	(40,000)	(18,343)
Total issued and outstanding, end of year	**10,980,854**	**$5,266,780**	11,087,653	$5,126,243

	For the year ended December 31, 2007		For the year ended December 31, 2006	
Warrants	**Number**	**Amount**	Number	Amount
Total issued and outstanding, beginning of year	**-**	**$ -**	613,525	$ 214,423
Exercise of warrants (Note 12(d))	**-**	**-**	(613,525)	(214,423)
Total issued and outstanding, end of year	**-**	**$ -**	-	$ -
Broker Warrants				
Total issued and outstanding, beginning of year	**-**	**$ -**	112,500	$ 71,387
Exercise of Units	**-**	**-**	(112,500)	(71,387)
Total issued and outstanding, end of year	**-**	**$ -**	-	$ -
Total equity instruments		**$ 5,266,780**		$5,126,243

12. 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 at Dec. 31, 2005	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
Options outstanding at Dec. 31, 2006	657,734	CDN $0.60 to $2.55	CDN $1.65
Options - granted	**410,000**	**CDN $2.22 to $2.43**	**CDN $2.40**
- exercised	**(131,601)**	**CDN $0.60 to $1.91**	**CDN $1.23**
- cancelled	**(32,500)**	**CDN $1.55 to $2.43**	**CDN $1.86**
Options outstanding at Dec. 31, 2007	**903,633**	**CDN $0.60 to $2.55**	**CDN $2.03**
Options exercisable at Dec. 31, 2006	234,956	CDN $0.60 to $1.91	CDN $1.35
Options exercisable at Dec. 31, 2007	**283,332**	**CDN $0.60 to $2.55**	**CDN $1.54**

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 410,000 (2006 – 185,000) stock options to employees, directors and consultants with exercise prices ranging from Cdn$2.22 to Cdn$2.43 (2006 - Cdn$1.98 to Cdn$2.55). These options will expire on dates ranging from January 27, 2008 to October 12, 2012.

The fair value of share options granted during the year was estimated to be $513,300 (2006 - $188,000) using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (0%) (2006 – (1.57% to 2.03%)), Expected volatility 0.59 to 0.594 (2006 - (0.59 to 0.60)), risk-free interest rate 4.26% to 4.41% (2006 - (3.59% to 3.95%)), and weighted average life of 5 years (2006 - 5 years).

(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. In conjunction with the private placement, 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. All the warrants were exercised at $1.60 CDN by the expiry date of June 9, 2006. No warrants were issued in the current year.

12. Share Capital – continued

(e) The options that are exercisable at December 31, 2007 are summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
41,000	CDN $0.60 to $0.85	CDN $0.78	0.78 years
66,733	CDN $0.98 to $1.19	CDN $0.95	1.99 years
258,400	CDN $1.72 to $1.91	CDN $1.65	2.94 years
537,500	CDN $1.98 to $2.55	CDN $2.44	4.36 years
903,633	CDN $0.60 to $2.55	CDN $2.03	1.47 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
41,000	CDN $0.60 to $0.85	CDN $0.78	0.78 years
42,266	CDN $0.98 to $1.19	CDN $0.96	1.98 years
155,066	CDN $1.72 to $1.91	CDN $1.61	2.85 years
45,000	CDN $2.55	CDN $2.55	3.19 years
283,332	CDN $0.60 to $2.55	CDN $1.54	1.88 years

(f) Normal course issuer bid

During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 238,400 (2006 – 339,000) of its issued and outstanding common shares. The Company repurchased the 238,400 (2006 - 339,000) common shares for $531,670 (2006 - $700,834) resulting in a $112,865 (2006 - $138,513) reduction in share capital and a $418,805 (2006 - $562,321) decrease in retained earnings.

13. Segmented Information

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, 2007	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 6,515,318**	**$ -**	**$ 1,064,569**	**$ (596,042)**	**$ 6,983,845**
Property, plant and equipment	**$ 10,164,450**	**$ -**	**$ -**	**$ -**	**$ 10,164,450**

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

During 2007, the Company was engaged in contracts for products with three (2006 – five) customers, which accounted for $3,844,649 (2006 - $3,157,597) or 55% (2006 – 63%) of the Company's total revenue. During the same period, export sales to two (2006 – two) customers in various international countries (outside of the United States) amounted to $1,064,569 (2006 - $966,858) or 15.2% (2006 – 19%) of the Company’s total revenue.

14. 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 5) the Company has committed to pay additional amounts totaling $2,641,406 for final payment of the related systems.

15. Supplemental Cash Flow Information

Interest and income taxes paid (recovery)

	2007	2006
Interest paid	**$ 189,767**	$ 59,972
Income taxes paid	**$ 15,000**	$ 121,389

16. Financial Instruments

As disclosed in Note 3, 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, market 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, 2007, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $17,360 (2006 - $16,800). The related disclosures regarding these debt instruments are included in Note 10 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. 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 2007	USD 2006
Cash	**$ 3,002**	$ 78,782
Accounts payable	**160,858**	139,338

Market Risk

The Company has financial instruments that may fluctuate in value as a result of changes in market price. Any changes in value are reported in Other Comprehensive Income.

17. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	2007	2006
Balance, beginning of year	**$ 243,225**	$ 164,000
Stock-based compensation expense	**155,100**	124,500
Exercise of options	**(92,658)**	(45,275)
Balance, end of year	**$ 305,667**	$ 243,225

18. 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 were consolidated with the Company in accordance with the Company’s policy for consolidating variable interest entities.

On February 9, 2007, 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 decreased to below 20% and therefore CNI was no longer consolidated with Omni-Lite Industries Canada Inc.

The Company has exchanged its interest of 500,000 shares with a carrying value of approximately $153,000 in CNI for the right to acquire 3,024,229 shares in California Nanotechnologies Corp. (“CNO”) (formerly Veritek, “VTK”). The Company will earn the right to trade these shares when certain performance conditions are satisfied. The shares will be released into a time related escrow arrangement once a minimum commitment of $300,000 in arm's length research and development costs are incurred by CNO. These shares are being held in escrow until these requirements are met and approved by the TSX Venture Exchange. The investment in CNO used to be accounted for using the equity method and it is now accounted for at cost. As such, this investment has been recorded at its carrying value of approximately $153,000 as its fair value is not readily determinable.