

Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2008 and 2007
(in United States Dollars)

Contents

Management Report	2
Auditors' Report	3
Consolidated Financial Statements	
Balance Sheets	4
Statements of Income	5
Statements of Retained Earnings, Comprehensive Income, and Accumulated Other Comprehensive Income	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 27

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) "Tim Wang"
Tim Wang
CFO

April 16, 2009

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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

Calgary, Alberta
April 16, 2009

Chartered Accountants

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

December 31	2008	2007
Assets		
Current		
Accounts receivable	1,045,990	1,289,289
Inventory (Note 4)	2,693,668	1,854,198
Income taxes receivable	67,509	-
	<u>3,807,167</u>	<u>3,143,487</u>
Loan receivable	189,819	-
Deferred acquisition (Note 5 and 16)	1,102,540	1,486,927
Investments (Note 6 and 20)	270,455	207,788
Property, plant and equipment (Note 7 and 15)	11,614,267	10,164,450
Intangible assets (Note 9)	-	705
Future income tax asset (Note 13)	222,900	86,857
	<u>\$ 17,207,148</u>	<u>\$ 15,090,214</u>

Liabilities and Shareholders' Equity

Current		
Bank indebtedness (Note 10)	\$ 7,664	\$ 5,651
Accounts payable and accrued liabilities	659,808	490,749
Income taxes payable	-	407,165
Due to related parties (Note 11)	124,408	999,095
Capital lease (Note 8)	37,700	-
Current portion of long-term debt (Note 12)	2,088,824	1,735,800
	<u>2,918,404</u>	<u>3,638,460</u>
Long-term debt (Note 12)	1,053,646	15,108
Future income tax liability (Note 13)	2,362,800	1,387,200
	<u>6,334,850</u>	<u>5,040,768</u>
Share capital (Note 14 (b))	5,519,546	5,266,780
Contributed surplus (Note 19)	562,319	305,667
Retained earnings	4,706,967	4,479,871
Accumulated other comprehensive income	83,466	(2,872)
	<u>10,872,298</u>	<u>10,049,446</u>
	<u>\$ 17,207,148</u>	<u>\$ 15,090,214</u>

On behalf of the Board:

signed "David F. Grant" Director
David Grant

signed "Donald J. Kelly" Director
Donald Kelly

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

For the years ended December 31	2008	2007
Revenue (Note 15)	\$7,454,327	\$6,983,845
Cost of goods sold	<u>2,132,432</u>	<u>2,111,132</u>
Gross margin	<u>5,321,895</u>	<u>4,872,713</u>
Overhead expenses		
Amortization	809,310	486,769
Foreign Exchange	(9,620)	43,822
General and administrative	1,531,391	1,441,247
Interest on long-term debt	133,941	189,767
Research and product design	299,451	114,311
Stock based compensation (Note 19)	279,600	155,100
Commissions	201,009	153,373
	<u>3,245,082</u>	<u>2,584,389</u>
Income from operations	2,076,813	2,288,324
Gain on dilution (Note 20)	-	140,455
Investment impairment (Note 6 and 18)	(28,904)	-
Income before income taxes	<u>2,047,909</u>	<u>2,428,779</u>
Provision for income taxes (Note 13)		
Current	313,136	471,066
Future	859,736	374,343
	<u>1,172,872</u>	<u>845,409</u>
Net income	\$875,037	\$1,583,370
<hr/>		
Earnings per share - basic (Note 21)	\$0.08	\$0.14
- diluted (Note 21)	\$0.08	\$0.14
Weighted average shares outstanding - basic (Note 21)	10,872,011	11,059,967
- diluted (Note 21)	10,895,965	11,216,181

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

For the years ended December 31	2008	2007
Retained earnings, beginning of year	\$ 4,479,871	\$ 3,365,430
Net income	875,037	1,583,370
Common shares repurchased in excess of carrying value (Note 14 (e))	(647,941)	(418,805)
Transition adjustment – financial instruments adoption	<u>-</u>	<u>(50,124)</u>
Retained earnings, end of year	\$ 4,706,967	\$ 4,479,871

Consolidated Statements of Comprehensive Income
United States Dollars

For the years ended December 31	2008	2007
Net income	\$ 875,037	\$ 1,583,370
Other Comprehensive Income, Net of Tax (Note 6)	86,338	(2,872)
Comprehensive income	\$ 961,375	\$ 1,580,498

Consolidated Statements of Accumulated Other Comprehensive Income
United States Dollars

For the years ended December 31	2008	2007
Accumulated Other Comprehensive Income, Beginning of Year	\$ (2,872)	\$ -
Other Comprehensive Income, Net of Tax (Note 6)	86,338	(2,872)
Accumulated Other Comprehensive Income, End of Year	\$ 83,466	\$ (2,872)

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

For the years ended December 31	2008	2007
Cash flows from operating activities		
Net income for the year	\$875,037	\$1,583,370
Adjustments for:		
Amortization	809,310	486,769
Future income taxes	859,736	374,343
Impairment	28,904	-
Stock based compensation	279,600	155,100
Gain on dilution	-	(140,455)
	2,852,587	2,459,127
Net change in non-cash working capital items		
Accounts receivable	243,299	(276,579)
Inventory	(839,470)	(539,955)
Prepaid expenses	-	19,157
Accounts payable and accrued liabilities	169,059	(190,425)
Income taxes payable	(459,573)	466,649
	1,965,902	1,937,974
Cash flows from financing activities		
Advances from related parties	579,391	1,602,874
Repayment to related parties	(1,706,844)	(1,600,195)
Advancement of long-term debt	5,382,606	57,898
Repayment of long-term debt	(3,991,044)	(5,500)
Issue of common shares	541,471	160,744
Share issuance costs	(1,481)	(1,556)
Repurchase of common shares	(958,113)	(440,956)
Dividends on common shares	-	(190,555)
	(154,014)	(417,246)
Cash flows from investing activity		
Deferred acquisition	(998,946)	(209,618)
Purchase of property, plant and equipment	(814,955)	(1,320,451)
	(1,813,901)	(1,530,069)
Increase (decrease) in cash	(2,013)	(9,341)
Cash, beginning of year	(5,651)	3,690
Cash (bank indebtedness), end of year	(\$7,664)	(\$5,651)

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

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

Management has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires 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.

(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 allocated overheads.

(c) Revenue recognition

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

(d) Cash and cash equivalents

Cash and cash equivalents includes short-term, highly liquid investments that mature within three months of their purchase. These investments are recorded at cost, which approximates fair value.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

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

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.

(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.

(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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

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 is 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.

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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

2. Significant Accounting Policies - continued

(j) Measurement uncertainty (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.

(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.

(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) Financial Instruments

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 Other Comprehensive Income ("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. Realized and unrealized gains and losses from financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred.

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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

2. Significant Accounting Policies - continued

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.

(o) Capital Disclosures

The Company discloses its objective, policies and processes for managing capital.

(p) Recent accounting pronouncements

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 IFRS on Consolidated Financial Statements.

The Accounting Standards Board also issued the following new pronouncements:

Section 3064, Goodwill and Intangible Assets – Defining the requirements for classifying assets, including intangible and proprietary assets, the Section was issued in February 2008 and takes effect in fiscal years beginning on or after October 1, 2008 with optional early adoption. The Company currently has no Intangible Assets but will adopt this Section beginning January 1, 2009. The effects of this pronouncement on our Financial Statements will be negligible.

Section 1582 – Business Combinations – Defines how to report business combinations with the acquisition method and relevant disclosures.

Section 1601 – Consolidated Financial Statements – Defines the new standards for preparation of consolidated financial statements.

Section 1602 – Non-controlling Interests – Defines how to report in consolidated financial statements for a non-controlling interest in a subsidiary after a business combination.

The three Sections above, 1582, 1601, and 1602, were issued in January 2009 and will take effect with the first annual reporting period beginning on or after January 2011 with optional early adoption. The effects of these pronouncements on our Financial Statements will be negligible.

3. Changes in Accounting Policies

- (a) As of January 1, 2008, Omni-Lite has adopted 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 treatment. The adoption of this standard does not have a material impact on Omni-Lite's Consolidated Statements

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

3. Changes in Accounting Policies - continued

- (b) As of January 1, 2008, Omni-Lite has adopted two new CICA standards, Section 3862, "Financial Instruments – Disclosures" and Section, "3863, Financial Instruments – Presentation", which replace Section 3861; "Financial Instruments – Disclosure and Presentation". The new disclosure standards increase disclosure regarding the risks associated with financial instruments and how those risks are managed.
- (c) As of January 1, 2008, Omni-Lite has adopted CICA Handbook Section 1535, "Capital Disclosures", which requires Omni-Lite to disclose its objectives, policies and processes for managing capital.
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4. Inventory

The major components of inventory are classified as follows:

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 475,730	\$ 438,784
Finished goods	<u>2,217,938</u>	<u>1,415,414</u>
	\$ 2,693,668	\$ 1,854,198

5. Deferred Acquisition

In 2008, \$1,039,867 (2007 - \$1,148,410) was paid on deposit for the purchase of production equipment. The Company received equipment to the amount of \$1,424,253 (2007 - \$1,369,677).

6. Investments

As at December 31, 2008, Long-term investments were made up of an investment in the common shares of a public company. The Company's investments are accounted for at cost as the shares of the public company are held in escrow. When shares are released from escrow, the fair market price is recorded in the investment value. As a result of the escrow conditions the investment is recorded at a fair value of \$270,455.

The investment in Tactex Controls Inc. was recorded at fair value of \$31,776 in 2007. On November 5, 2008, Tactex reported that it would cease operations and that the entire board of directors and management had resigned on November 4, 2008. Subsequently, the TSX Venture Exchange issued a ceased trading on the shares. The investment in Tactex was deemed impaired and a loss of \$28,904 recorded which values the investment at nil.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

7. Property, Plant and Equipment

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 770,000	\$ -	\$ 770,000	\$ -
Building	1,494,410	392,703	1,453,310	345,947
Production and other equipment	9,624,845	1,602,646	8,064,178	1,224,655
Computer equipment	68,736	65,726	64,971	60,276
Vehicle	28,400	10,143	28,400	6,086
Non consumable tooling	2,620,405	921,311	1,967,515	546,960
	\$ 14,606,796	\$ 2,992,529	\$ 12,348,374	\$ 2,183,924
Net book value	\$11,614,267		\$10,164,450	

8. Capital leases

A capital lease was entered into on October 29, 2008 upgrading and replacing a production support system. The term of the capital lease is for 12 months with monthly payments of \$4,189. Total payments will amount to \$50,268 and will be paid off by September 2009. As of December 31, 2008, three payments have been made totalling \$12,568 with a balance outstanding of \$37,700. The implied rate of interest is 8.46%.

9. Intangible assets

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Deferred development and patent expenditures	\$ 1,136,393	\$ 1,136,393	\$ 1,136,393	\$ 1,135,688
	\$ 1,136,393	\$ 1,136,393	\$ 1,136,393	\$ 1,135,688
Net book value	\$0		\$705	

As of December 31, 2008, all Intangible Assets have been fully amortized.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

10. Bank Indebtedness

The Company has overdraft protection in the form of a revolving line of credit, maximum \$75,000 (2007 - \$75,000) unsecured, bearing interest at the Prime rate plus 2.0%. Maturity date: April 30, 2009; Renewed yearly.

	USD	USD
	2008	2007
Bank indebtedness	\$ 7,664	\$ 5,651

11. Due to related parties

Due to related parties includes advances from a company under common control. An amount of \$124,408 (2007 - \$713,192) is due to California Nanotechnologies Corp. that is unsecured, bearing interest at 7% per annum and due on demand. The amounts owing to shareholders are \$nil (2007 - \$285,903) and are unsecured, non-interest bearing and have no set terms of repayment.

In the year the Company received \$108,000 (2007 - \$96,000) in management fees from California Nanotechnologies Corp. The transaction was conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

For 2008 and 2007, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value of the salary would approximate \$140,000 (2007 - \$120,000). 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.

The Company has issued an interest free loan to two employees for \$25,000 related to the acquisition of various properties. The loan is secured by the value of the related property and is to be repaid in five years. The Company has issued a loan to one of its officers and directors for \$164,820 at a 5% interest rate and is to be repaid in five years. The loan is secured by the related property.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

12. Long-term Debt	2008	2007
The Company has a revolving line of credit with an aggregate maximum of \$2,000,000 (2007 - \$2,000,000) secured by a general security agreement over all the assets of the Company. It has two interest rate options that may be used interchangeably at the Company's discretion: (1) Prime Rate minus 0.5% or (2) LIBOR plus 1.75%. Maturity date: November 1, 2009; Renewed yearly. The bank maintains a first-position blanket lien perfected by a UCC-1 filing, including a first position on residual value in all machinery and equipment that is free and clear of debt ¹	\$ 1,748,300	\$ 1,730,300
Promissory Note, Total principal amount \$800,000 with 60-month term, bearing interest at 4.63% per annum. Secured by equipment with a net book value of \$788,889. Repayable in monthly installments of \$14,962.	739,047	-
Promissory Note, Total principal amount \$692,800 with 60-month term, bearing interest at 4.63% per annum. Secured by equipment with a net book value of \$683,178. Repayable in monthly installments of \$12,957	640,015	-
Term loan, non-interest bearing secured by a vehicle, having a carrying value of \$18,257. Maturity date: July 20, 2011, repayable in monthly installments of \$458.	15,108	20,608
	\$ 3,142,470	\$ 1,750,908
Less: current portion	(2,088,824)	(1,735,800)
	\$ 1,053,646	\$ 15,108

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

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

2009	\$ 2,088,824
2010	340,524
2011	339,144
2012	335,028
2013	38,950
	<u>\$ 3,142,470</u>

¹The terms of the above noted revolving line of credit require that certain measurable covenants be met. As at December 31, 2008 the Company was in violation of certain covenants. No waiver was obtained for the covenant violation and therefore the debt has been correctly classified as current. It is management's view that the Company will not violate covenants at future compliance dates within one year of the balance sheet date.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

13. Income Taxes

	2008	2007
Statutory tax rate	29.50%	32.12%
Income taxes at the statutory rate	\$ 620,820	\$ 780,124
Rate differential on income earned in foreign jurisdictions	151,100	40,400
Foreign expenditures not deductible for tax	107,437	-
Stock-based compensation	82,482	49,818
Rate difference from prior year	108,226	7,106
Change in valuation allowance	42,000	-
Gain on dilution	-	(45,114)
Future impact on current and temporary differences	1,325	(1,141)
Change in estimate from prior year	49,365	(4,197)
Other	10,117	18,413
	\$ 1,172,872	\$ 845,409

Principal components of the net future tax liability are:

	2008	2007
Future tax asset:		
Unused tax losses carry forward ¹	\$ 23,300	\$ -
Share Issue Costs	9,900	21,740
Property, plant and equipment	9,000	11,979
Inventory / COGS	222,700	53,138
Total future tax asset	264,900	86,857
Valuation allowance	(42,000)	-
Net future tax asset	\$ 222,900	86,857
Future tax liability:		
Property, plant and equipment	(2,362,800)	(1,387,200)
Total future tax liability	(2,362,800)	(1,387,200)
Net future tax liability	\$ (2,139,900)	\$ (1,300,343)
Income tax expense (recovery):		
Current	\$ 313,136	\$ 471,066
Future	859,736	374,343
	\$ 1,172,872	\$ 845,409

⁽¹⁾ Consists of US tax losses in the approximate amount of Federal \$nil (2007 - \$358,162). Canadian tax losses in the approximate amount of Cdn\$19,012 (2007 - Cdn\$16,000). As a result of the deconsolidation of California Nanotechnologies Inc. (CNI) (Note 20), 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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

14. Share Capital

(a) Authorized
 Unlimited number of common shares

(b) Issued

	For the year ended December 31, 2008		For the year ended December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
Total issued and outstanding, beginning of year	10,980,854	\$5,266,780	11,087,653	\$5,126,243
Issued upon private placement	200,000	500,000	-	-
Issued upon exercise of stock options	54,400	64,420	131,601	254,958
Share issuance costs	-	(1,481)	-	(1,556)
Cancelled on repurchase under normal course issuer bid	(539,400)	(271,185)	(200,000)	(94,442)
	10,695,854	5,558,534	11,019,254	5,285,203
To be cancelled from repurchase under normal course issuer bid	(75,000)	(38,988)	(38,400)	(18,423)
Total issued and outstanding, end of year	10,620,854	\$5,519,546	10,980,854	\$5,266,780

(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, 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 \$1.86
Options - granted	-		
- exercised	(54,400)	CDN \$0.85	CDN \$0.85
- cancelled	(10,000)	CDN \$1.55	CDN \$1.55
Options outstanding at Dec. 31, 2008	839,233	CDN \$0.94 to \$2.55	CDN \$2.09
Options exercisable at Dec. 31, 2008	519,233	CDN \$0.94 to \$2.55	CDN \$1.89

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. No options were granted during the period (2007 – 410,000).

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

14. Share Capital - continued

(d) The options that are outstanding at December 31, 2008 are summarized as follows:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
53,333	CDN \$0.94 to \$1.19	CDN \$0.96	0.99 years
248,400	CDN \$1.55 to \$1.98	CDN \$1.65	1.94 years
537,500	CDN \$1.98 to \$2.55	CDN \$2.44	3.36 years
839,233	CDN \$0.94 to \$2.55	CDN \$2.11	2.76 years
Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
53,333	CDN \$0.94 to \$1.19	CDN \$0.96	0.99 years
241,733	CDN \$1.55 to \$1.98	CDN \$1.63	1.88 years
224,167	CDN \$2.43 to \$2.55	CDN \$2.46	3.12 years
519,233	CDN \$0.94 to \$2.55	CDN \$1.92	2.32 years

The options that were outstanding 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 \$0.94 to \$1.19	CDN \$0.95	1.99 years
258,400	CDN \$1.55 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 \$0.94 to \$1.19	CDN \$0.96	1.98 years
155,066	CDN \$1.55 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

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007
Risk free interest rate (%)	4.0 – 4.5%	4.0 – 4.5%
Expected life (years)	5	5
Volatility rate (%)	52 – 62%	52 – 62%
Dividend yield (%)	0.87 – 2.02%	0.87 – 2.02%

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

14. Share Capital - continued

(e) Normal course issuer bid

During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 614,400 (2007 – 238,400) of its issued and outstanding common shares. The Company repurchased the common shares for \$958,113 (2007 - \$531,670) resulting in a \$310,172 (2007 - \$112,865) reduction in share capital and a \$647,941 (2007 - \$418,805) decrease in retained earnings.

15. 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, 2008	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	\$ 7,145,818	\$ -	\$ 738,137	\$ (429,628)	\$ 7,454,327
Property, plant and equipment	\$ 11,614,267	\$ -	\$ -	\$ -	\$ 11,614,267
<hr/>					
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

During 2008, the Company was engaged in contracts for products with three (2007 – three) customers, which accounted for \$4,457,923 (2007 - \$3,844,649) or 59% (2007 – 55%) of the Company's total revenue. During the same period, export sales to two (2007 – two) customers in various international countries (outside of the United States) amounted to \$711,055 (2007 - \$1,064,569) or 9% (2007 – 15%) of the Company's total revenue.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

16. 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 the Company has committed to additional amounts totaling \$1,646,094 for final payment of the related systems.

17. Supplemental Cash Flow Information

Interest and income taxes paid (recovery)

	2008	2007
Interest paid	\$ 130,136	\$ 189,767
Income taxes paid	\$ 359,447	\$ 15,000

18. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans receivable, investments, accounts payable and accrued liabilities, bank loans, loans due to related parties.

	Carrying Value	Fair Value	Gain/(Losses)	Interest Income/ (Expense)	Other Income/ (Expense)
Loans and Receivables					
Accounts receivable	\$ 1,045,990	\$ 1,045,990	-\$	-\$	-
Loans and receivables	189,819	189,819	-	-	-
Available for Sale					
Investments	270,455	270,455	(28,904)	-	-
Other Liabilities					
Bank indebtedness	7,664	7,664			
Accounts payable	659,808	659,808	-	-	-
Long-term debt	3,142,470	3,142,170	-	-	-
Due to related parties	124,408	124,408	-	(29,247)	-

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

18. Financial Instruments - continued

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 market 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 revolving loan of credit and the two promissory notes 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, 2008, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$31,425 (2007 - \$17,509). The related disclosures regarding these debt instruments are included in Note 12 of these financial statements.

Foreign currency risk

A significant portion of the Company's operations is 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	USD
	2008	2007
Cash	\$ 10,777	\$ 3,002
Accounts payable	\$ 189,521	\$ 160,858

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

18. Financial Instruments - continued

At December 31, 2008, if the U.S. dollar strengthened or weakened by 10% relative to the Canadian dollar, the impact on net income and other comprehensive income due to the translation of monetary financial instruments would be as follows:

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	\$ (1,078)
U.S. Dollar Exchange Rate – 10% decrease	\$ 1,078

Omni-Lite operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on Omni-Lite's Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts payable, as follows:

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	\$ (18,952)
U.S. Dollar Exchange Rate – 10% decrease	\$ 18,952

Market Risk

The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nanotechnologies Corp. This investment is recorded on the balance sheet at fair value as of the balance sheet date for the shares which have been released from escrow while the shares remaining in escrow are carried at cost, with changes from the prior period's fair value reported in Other Comprehensive Income.

Liquidity Risk

The Company is exposed to liquidity risk due to the borrowings under the credit facilities. This risk is mitigated by complying with the covenants and managing the cash flow by controlling receivables and payables.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at December 31, 2008 and includes the related interest charges:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Trade accounts payable and accrued liabilities	\$ 659,808	\$ -	\$ -	\$ -	\$ 659,808
Bank loan and interest	2,088,824	679,668	335,028	38,950	3,142,470
Total	\$2,748,632	\$ 679,668	\$ 335,028	\$ 38,950	\$3,802,278

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

18. Financial Instruments - continued

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. During 2008, the Company was engaged in contracts for products with three (2007 – three) customers, which accounted for \$4,457,923 (2007 - \$3,844,649) or 59% (2007 – 55%) of the Company's total revenue. During the same period, export sales to two (2007 – two) customers in various international countries (outside of the United States) amounted to \$711,055 (2007 - \$1,064,569) or 9% (2007 – 15%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of our current financial assets and the age of our past due but not impaired financial assets by type of credit risk.

	Aging	Current AR	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
Accounts Receivable	\$ 111,309	\$ 364,302	\$ 364,685	\$ 95,921	\$ 109,773	

19. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	2008	2007
Balance, beginning of year	\$ 305,667	\$ 243,225
Stock-based compensation expense	279,600	155,100
Exercise of options	(22,948)	(92,658)
Balance, end of year	\$ 562,319	\$ 305,667

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

20. 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 2007 further reduced the Company's ownership to 25%. On May 24, 2007, Omni-Lite E-FORM Technologies Inc. was renamed California Nanotechnologies, Inc ("CNI"). CNI's financial statements were consolidated with the Company because of the relationship between the management of the two corporations, 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 is 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 \$270,455, as its fair value is determinable when removed from escrow.

21. Earnings per Common Share

The basic earnings per common share is calculated using net income divided by the weighted-average number of common shares outstanding. The diluted earnings per common share is calculated using net income divided by the weighted-average number of diluted common shares outstanding.

789,233 (2007 – 480,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2008, because their exercise price was greater than the annual average common share market price in the periods. Outstanding options were the only potential dilutive instruments.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

22. Capital Disclosures

The objective for managing the company's capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The Company generally relies on operating cash flows to fund the expansion and product development. However, given the long cycle time of some of the development projects which require significant capital investment prior to cash flow generation, it is not unusual for capital expenditures to exceed cash flow from operating activities in any given period. The Company's financing needs depend on the timing of expected net cash flows from new products and sales of current products. This requires the Company to maintain financial flexibility and liquidity. The Company's capital management policies are aimed at:

Maintaining an appropriate balance between short-term borrowings, long-term debt and shareholders' equity; maintaining sufficient undrawn committed credit capacity to provide liquidity; ensuring ample covenant room permitting a to draw credit lines as required; and ensuring the Company maintain a credit rating that is appropriate for their circumstances.

The Company has the ability to make adjustments to its capital structure by issuing additional equity or debt, returning cash to shareholders and making adjustments to its capital investment programs. The Company's capital consists of shareholders' equity, short-term borrowings, long-term debt, and cash and cash equivalents as follows:

Net Debt	2008	2007
Long-term debt	1,053,646	15,108
Current portion long-term debt	2,088,824	1,735,800
Due to related parties	124,408	999,095
Bank indebtedness	7,664	5,651
Total Net Debt	3,274,542	2,755,654
Shareholders' Equity	10,872,298	10,049,446

The Company monitors the leverage in its capital structure by reviewing the ratio of net debt to cash flow from operating activities and interest coverage ratios.

The Company uses the ratio of net debt to cash flow from operating activities as a key indicator of leverage and to monitor the strength of the balance sheet. Net debt is a non-GAAP measure that does not have a standard meaning prescribed by GAAP and is unlikely to be comparable to similar measures presented by others. The Company calculates net debt using long-term debt and short-term borrowings less cash and cash-equivalents. For the year ended December 31, 2008, the net debt to cash flow from operating activities was 1.72 times compared to 1.42 times at December 31, 2007. It is expected that the target ratio to fluctuate between 1.0 and 2.0 times, however, this can be higher when the Company invests in new equipment. Whenever the target ratio is exceeded, a strategy is developed to reduce the leveraging and lower the ratio back to target levels over a period.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2008 and 2007

22. Capital Disclosures - continued

The interest coverage ratio allows the Company to monitor its ability to fund the interest requirements associated with its debt. The interest coverage strengthened in 2008 from 16.4 times at the end of 2007 to 22.3 times at December 31, 2008. Interest coverage is calculated by dividing the twelve month trailing earnings before interest, taxes, depreciation and amortization by interest expense. EBITDA is a non-GAAP measure which is calculated using net income excluding interest expense, provision for income taxes, depreciation and amortization. The calculation of EBITDA is set out in the following table.

	2008	2007
Net Income	875,037	1,583,370
Add:		
Interest Expense	133,941	189,767
Provision for Income Taxes	1,172,872	845,409
Amortization	809,310	486,769
EBITDA	2,991,160	3,105,315

23. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.