

Omni-Lite Industries Canada Inc.  
For the Year Ended December 31, 2008

MANAGEMENT DISCUSSION AND  
ANALYSIS (\$US DOLLARS)

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the financial statements of Omni-Lite Industries Canada Inc. (the “Company”) for the year ending December 31, 2008 (audited) and the related notes. The Company’s reporting currency is in United States (“US”) dollars and all amounts in this MD&A are expressed in US dollars. The Company reports its financial position, results of operations and cash flows in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). This discussion has been completed as of April 30, 2009.

A. Company Overview

Founded in September 1992, Omni-Lite Industries is considered one of the world’s leading developers and manufacturers of precision components utilizing advanced composite materials and computer-controlled cold forging techniques.

One of Omni-Lite’s early successes included the application of metal matrix composites in the sports and recreation industry. By combining its progressive cold forging techniques with a team of key design and material engineers, production technicians, marketing and administrative support personnel, Omni-Lite has been able to meet the exacting criteria required by customers in a broad group of industries including the Aerospace, Military, Automotive, Sports and Recreation and Commercial areas.

Omni-Lite’s wholly owned subsidiaries include Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc. As of December 31, 2008, Omni-Lite owned approximately 13% of California Nanotechnologies Corp., a publicly listed company trading as “CNO” on the TSX Venture Exchange.

Omni-Lite Industries Canada Inc.’s common shares are publicly traded on the TSX Venture Exchange under the symbol “OML”.

B. Omni-Lite’s Markets

Omni-Lite’s primary market is the development and manufacture of precision components utilized by many of the world’s largest corporations. Omni-Lite’s components are utilized in the products of Boeing, Airbus, Bombardier, the U.S. Army, U.S. Marine Corp., NATO, Chrysler, Ford, Nike, Adidas and Reebok. The requirements and stature of these customers necessitates that the Company operate at a very high level

of engineering and production efficiency. Currently, revenues are generated through five divisions: Aerospace, Military, Sports and Recreation, Automotive and Commercial. Omni-Lite is determined to continue to fund research for new products and materials and to apply for patents to protect the intellectual property that pertains to its business.

### Overall Performance

In 2008, the Company undertook eighteen new programs that include new components for the U.S. ARMY and U.S. Marine Corp., John Deere, Caterpillar, Ford, Bosch and several other Fortune 100 customers. Many of these projects will go into production in 2009 or early 2010. The revenues expected from these programs will guide the Company's growth in the near future. Our customers are in varying stages of testing and evaluating these new components. Several customers will have completed the multi-month testing cycle required and are moving toward first article approval and production.

Consistent with the Company's Vision 2015 growth strategy the company added three new progressive forging systems in 2009. An additional seven systems will be installed in 2009. The value of these new machines is approximately \$5,502,000 CDN. These investments, at this critical time, have provided an additional benefit to Omni-Lite. In these difficult financial times, the Company's significant cash position has been aided by the accelerated depreciation allowed under the Economic Stimulus package announced in the United States in 2008. From an accounting standpoint this has resulted in lowering the taxes that the Company will pay in 2008 and hence a refund on prepaid taxes. This benefit to the Company will significantly increase a non-cash item on the income statement called future taxes and reduce the metric of net earnings after tax to \$0.08 per share in 2008. As a capital equipment-intensive company, Omni-Lite's management will continue to measure the performance of the Company by the metrics of Cash Flow from Operations and EBITDA.

## C. Consolidated Financial Results

**Revenue:** For the year ended December 31, 2008, Omni-Lite Industries Canada Inc. reported revenue of \$7,454,327 (\$9,115,151 CDN), an increase of 7% from 2007. This increase is largely the effect of growth in the Military, Aerospace, and Automotive divisions. The Military division represented the largest portion of sales with 44% of revenue, a 14% increase in sales over last year. Growth could increase within this division as the demand for the components that the Company manufactures increases as the U.S. and its allies continue military action and training. The Aerospace division contributed 29% of revenue, a 21% increase from 2007. The Automotive division contributed 12% of revenue, an increase of 14% over 2007. Growth in the Automotive division will be driven by new designs to improve fuel efficiency and safety. The Company is currently developing components that could begin production in mid-2009 and 2010.

The increases in revenue from these three divisions are the result of the R&D initiatives begun in prior years and completed in 2008. The new production has offset a general slow down in the economy that many companies are experiencing. The Sports and Recreation and Commercial divisions provided 11% and 4% of the revenue, respectively. Omni-Lite's Sports and Recreation products are marketed in over 140 countries worldwide. The Company's ultra-light, compression style track spikes have become the industry standard.

Sales by division and by geographic location are summarized below:

<b>Division/ Segments</b>	<b>Military</b>	<b>Aerospace</b>	<b>Sport &amp; Recreation</b>	<b>Automotive</b>	<b>Commercial</b>
<b>2008</b>	44%	29%	11%	12%	4%
2007	42%	26%	17%	12%	3%

  

<b>Geographic allocation</b>	<b>United States</b>	<b>Canada</b>	<b>Barbados</b>
<b>2008</b>	90%	-	10%
2007	85%	-	15%

**Net Income:** Net income was \$875,037 (\$1,069,995 CDN) versus \$1,583,370 in 2007, a decrease of 45%. Net income was affected by greater expenses in both cash and non-cash items. The Company was very active in research and development and incurred an 162% increase in R&D expense. The Company intends to commit funds to R&D projects as required.

A larger non-cash expense in stock-based compensation was incurred by the large quantity of higher priced stock options vesting. It is expected that this expense will decrease as no options were issued in 2008.

Future tax expense, also a non-cash item, was incurred by taking advantage of the U.S. Economic Stimulus Act of 2008. It is expected that a similar stimulus act will be approved for the 2009 tax year which would allow the Company to reduce current tax and improve cashflow.

**Cost of Goods Sold:** Cost of Goods Sold ("COGS") increased 1% from \$2,111,132 in 2007 to \$2,132,432 in 2008. This corresponded to a gross margin of approximately 71%. Increases in productivity and sales of new components saw the gross margin increase slightly in 2008.

**Operating Expenses:** The operating expenses increased by 26%. General and administrative expenses increased for a number of reasons including: the employment and training of additional staff and an increase in commissions paid to outside sales representatives. As the Company added more equipment in 2008, amortization rose accordingly by 66%. As the Company fulfills the Vision 2015 plan, depreciation and amortization expenses will rise in conjunction with the new equipment arriving.

Commissions paid also increased as sales of commissionable product increased in volume.

To achieve the objectives of the Vision 2015 growth plan, the Company continued to purchase more equipment, which resulted in an increase for amortization to \$809,310, an increase of 66%. The Company has carried a greater balance on the line of credit to help fund the purchases. However, the Company was able to obtain funds at a relatively low interest rate which resulted in an interest expense of \$133,941, a decrease of 29% compared to 2007.

Research and product design expense was \$299,451 in 2008, up 162%. The Company has several major R&D projects currently underway. These projects should begin producing new revenue in mid 2009 and into 2010.

Future income tax expense increased to \$859,736 from \$374,343 in 2007. Future tax expense increased mainly due to increases in temporary differences in depreciation of equipment. In 2008, the Company took advantage of the U.S. Economic Stimulus Act of 2008 which provided incentives to businesses. These incentives included a special 50-percent depreciation allowance for 2008 purchases and an increase in the small business expensing limitation for tax years beginning in 2008.

**Earnings per share:** Basic earnings per share were \$0.08 (\$0.10 CDN) compared to \$0.14 (\$0.14 CDN) in 2008 based on the weighted average shares outstanding of 10,872,011. In 2008, Omni-Lite repurchased and cancelled 614,400 (2007 - 238,400) common shares through the Normal Course Issuer Bid.

The diluted earnings per share were \$0.08 (\$0.10 CDN) compared to \$0.14 (\$0.14 CDN) in 2007. As of December 31, 2008, the diluted weighted average number of shares was 10,895,965.

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if options and warrants to issue common shares were exercised. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

## SUMMARY OF FINANCIAL HIGHLIGHTS (US \$)

All figures in US dollars unless noted.

Basic Weighted Average Shares Issued And Outstanding : 10,872,011	For the year ended December 31, 2008	For the year ended December 31, 2007	% Increase (Decrease)
Revenue	7,454,327	6,983,845	7%
Cash flow from operations <sup>(1)</sup>	2,852,587	2,459,127	16%
Net Income	875,037	1,583,370	(45%)
EPS (US)	\$0.08	\$0.14	(44%)
EPS (CDN)	\$0.10	\$0.14	(30%)

(note: at 12/31/08, \$1US = \$1.2228 CDN; 12/31/07, \$1US = \$0.9820 CDN)

- <sup>(1)</sup> Cash flow from operations is a non-GAAP term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, future income taxes, asset write-downs and gains (losses) on sale of assets, if any.

### Quarterly Information

The following table summarizes the Company's financial performance over the last eight quarters. All figures in US dollars unless noted.

ALL FIGURES IN US DOLLARS UNLESS NOTED

	Dec 31/2008	Sept 30/2008	Jun 30/2008	Mar 31/2008	Dec 31/2007	Sept 30/2007	June 30/2007	Mar 31/2007
Revenue	1,366,201	2,068,730	2,059,929	1,959,467	1,900,077	2,046,733	1,403,839	1,633,196
Cash Flow from Operations <sup>(1)</sup>	288,442	884,322	796,166	883,657	682,060	830,059	324,277	622,731
Net Income	(557,483)	495,683	417,339	519,498	17,073	706,023	124,174	736,100
EPS(US)	(.05)	.045	.038	.050	.002	.064	.011	.066
EPS(CDN)	(.06)	.047	.038	.050	.002	.063	.012	.077

- <sup>(1)</sup> Cash flow from operations is a non-GAAP term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, future income taxes, asset write-downs and gains (losses) on sale of assets, if any.

Omni-Lite's revenue tends to peak in the third quarter of each year coinciding with the seasonal increase in demand for products from the Sports and Recreation division. The traditionally lower revenues experienced in the first and fourth quarters have grown to provide a more balanced income stream throughout the year.

In the fourth quarter of 2008, revenue was \$1,366,201, a decrease of 28% over the same period in 2007. Net loss for the quarter was \$557,483 compared to a net income of

\$17,073 in fourth quarter 2007. Sales in the fourth quarter were lower than expectations. Certain R&D components scheduled for completion and production in fourth quarter were delayed by technical and customer related issues. The R&D group is continuing to move forward in completing the development of these components. The future tax provision was a large expense taken in fourth quarter to reflect the Stimulus Act and a reduction in current tax was obtained for the same period. Liquidity in fourth quarter was largely from operating activities. The Company has been active in keeping accounts receivable current. Investments in equipment continued in the fourth quarter and will continue for the remainder of 2009.

### **Liquidity and Capital Resources**

The following table summarizes the Company's cash flows by activity and cash on hand:

	Dec 31/2008	Dec 31/2007
Net cash from operating activities	1,965,902	1,937,974
Net cash from (used in) financing activities	(154,014)	(417,246)
Net cash from (used in) investing activities	(1,813,901)	(1,530,069)
Net increase (decrease) in cash	(2,013)	(9,341)
Cash at the beginning of the period	(5,651)	3,690
Cash at the end of the period	(7,664)	(5,651)

As of December 31, 2008, the main source of liquidity was cash from operating activities. The Company had bank indebtedness of \$7,664. At the year-end, the Company's working capital (current assets – current liabilities) was \$888,763 which is improved over 2007 when working deficit was \$494,973. Working capital has improved and the Company has been able to meet its financial obligations by managing its cash and receivables.

A comparison between total current assets divided by total current liabilities shows that at the end of 2008 the current ratio was 1.43x compared to 1.19x at the end of 2007. Debt ratio ((Current Liability + Total long-term debt)/Total Assets) decreased to 0.23x in 2008 from 0.24x in 2007. The Company is able to meet its debt service.

Cash flow from operating activities increased by 2% to \$1,965,902 (\$2,368,561 CDN). Approximately \$1.7 million or 63 percent of the current inventory is composed of products related to the Sports and Recreation division. This represents approximately three years of inventory of these products. Due to the long lead time for procuring the raw materials and processing times, it was determined that two years of inventory would be kept on hand to service the customers' needs. As a corollary of improved production efficiency and a reduction in sales in the Sports and Recreation division in 2008 additional inventory beyond the typical two year supply was produced. It is management's view that this excess inventory is not impaired, but will be sold in subsequent years and is carried at cost. If it is determined that the excess inventory becomes impaired, the Company will make a provision for the excess inventory.

Cash flow used in financing activities was \$154,014. \$998,946 was used to repurchase 614,400 common shares through a Normal Course Issuer Bid (“NCIB”) which was carried out by Cormark Securities Inc.

Cash flow used in investing activities was \$1,813,901. \$995,312 was used as a deposit for equipment as part of the “Vision 2015” expansion plan. The remaining balance to be paid on the equipment is \$1,646,094 which is paid in installments of approximately \$76,500 per month.

The terms of the 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 as the principle bank involved was willing to extend the loan provision of the Company 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.

### **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 IFS 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.

#### Changes in Accounting Policies

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.

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.

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.

#### D. Growth Record

All figures are in US dollars except as noted.

<b>Basic Weighted Average Shares Issued And Outstanding : 10,872,011</b>	<b>For the year ended December 31, 2008</b>	<b>For the year ended December 31, 2007</b>	<b>For the year ended December 31, 2006</b>	<b>For the year ended December 31, 2005</b>
Revenue	7,454,327	6,983,845	5,007,061	\$4,360,046
Net Income	875,037	1,583,370	1,001,312	\$1,249,416
EPS (US)	\$0.08	\$0.14	\$0.09	\$0.13
EPS (CDN)	\$0.10	\$0.14	\$0.11	\$0.15
Total Assets	\$17,207,148	\$15,090,214	\$13,555,781	\$9,773,791
Long term debt	\$3,142,470	\$1,750,908	\$1,704,310	\$850,913

From the period January 1998 to April 2000, Omni-Lite’s manufacturing capability increased from two production systems to ten allowing Omni-Lite to begin expanding into the automotive, aerospace, commercial, and the military fields. During 2000, the

Company commenced discussions towards purchasing a larger cold forging system. This equipment with a retail price of over \$520,000US was purchased in February 2001 for approximately \$280,000US. The Company continued to execute its expansion plans in 2002 as Omni-Lite moved into the new production facilities and created a world-class metallurgical laboratory. The procurement of an additional five progressive forging systems for \$1,420,000US was initiated. In March 2003, the Company received a shipment of new cold forging systems which brought the total number of machines to 16. In 2006, Omni-Lite received two new progressive forging systems to be used for aerospace products, four smaller forging machines to be used for military products, and an automated inspection machine. In 2006 the company entered into agreements to purchase an additional 14 large progressive cold forging systems with a value over \$6,500,000US. The first two of these large systems was delivered in March of 2007. An additional two systems were delivered in the fourth quarter of 2007. Three additional systems were delivered in 2008. The largest system purchased which will be utilized in an R&D effort for a US Military program was delivered in May 2008. In April 2009, three systems were received. Under the agreement the remaining systems will be delivered by the end of 2009. When the final systems are delivered the company will have 32 large progressive cold forging systems and four smaller systems for a specialized military program.

#### E. Growth Expectations

In 2008, Omni-Lite continued its focus on building sales in all of its business areas. With the “Vision 2015” plan, Omni-Lite has purchased 14 new cold forging systems. Omni-Lite is obligated to pay the remaining balance of \$1,646,094 for the equipment purchase. The Company is actively searching for a 60,000 to 70,000 square feet facility to allow for the additional equipment. Extra office space at the current location had been converted to production space. Omni-Lite anticipates it will be able to attract new business from the various market segments, mainly in the aerospace, military, and automotive areas. The Company is targeting overall revenue growth of 20% to 25% per year for the next three years.

#### F. Risk Factors

##### **Economic Factors**

The Company’s business and operating performance is subject to economic forces beyond its control, such as changes in consumer preferences, spending patterns, and general economic downturns.

**Other risks include those recognized by companies within the manufacturing sector and include,**

1. **Market cycle** – The Company’s revenues are dependent on market segments such as the aerospace, automotive, and defense sectors that may experience cyclical

changes in demand. The Company minimizes its risk by diversifying its customer base.

2. **Better technology** – Improvements in materials and processing methods developed by others, which Omni-Lite does not adopt or license may provide other companies with a greater competitive edge. Omni-Lite strives to remain at the forefront of progressive cold forging by continuing to invest in research and development. As part of this strategy, Omni-Lite was the co-founder and remains a principal shareholder of California Nanotechnologies Corp. (“CNO”). CNO was established to undertake advanced nanotechnology and related material science research and to lead in future scientific and commercialization programs.
3. **Sales issues** – The Company’s sales may not grow at the same rate historically shown. There may not be suitable projects identified for the Company to undertake. The Company is expanding its sales force to further penetrate current markets.
4. **Financial instruments** – The Company currently has the majority of its assets in the U.S and is subject to fluctuations in exchange rate. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables and planned expenditures. There are short term and long term financial liabilities that are subject to floating rates. The Company reduces the exposure to this risk by repaying debt on an accelerated schedule.
5. **Raw material costs** – Supply and demand dictates the price of the raw materials utilized by Omni-Lite. Certain raw materials can only be obtained from a few suppliers. Delays or increased costs may be associated with obtaining these raw materials. Material costs are kept low by ordering economical lot sizes, but may increase if supplies become limited.
6. **Employee costs** - The cost of labour may increase, as competition for qualified employees in the Southern California area is generally strong. Labour costs are managed by including employees in the stock option and bonus plan and by increasing efficiency through advanced technology. In 2006, the Company received its third automated inspection machine, which has significantly reduced the costs in a quality conscious military program. The position of CEO does not receive a salary at this time and additional costs could be introduced if the current structure is changed, a factor which could affect net earnings.
7. **Key personnel** - The success of the Company and its ability to continue to carry on operations is dependent upon its ability to retain the services of certain key employees and members of its board of directors. The loss of their services to the Company may have a materially adverse effect on the Company. The Company has a stock option plan for management and employees as a method of motivation and retaining key employees.

8. **Quality issues** – The Company is ISO 9001:2000 registered and is working on obtaining ISO/TS 16949 certification. Delays in establishing compliance and registration in ISO/TS 16949 may cause delays in shipping or loss of business in the automotive division.
9. **One manufacturing facility** - If the company suffered a loss to the facility due to catastrophe, its operations could be seriously harmed. The Company's facility is subject to catastrophic loss due to fire, flood, terrorism or other, natural or man-made disasters. In particular, due to its location, the facility could be subject to a severe loss caused by earthquake.
10. **Development efforts** – Many of the Company's products are complex and require a long development time before entering the production phase. Typical lead times may range from 4 months to 18 months depending on the complexity of the component. The long lead-time may delay the profitability of the project.
11. **Political turmoil** – The Company's business dealings are international. Changes in governments or policies may cause delays or restrictions that may affect the operating results.
12. **Taxation matters** – As any Company, at times, certain tax strategies could be challenged by local 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 always the possibility that a reassessment can occur.

As Omni-Lite grows in revenue the Company becomes subject to increasing interest from corporations that would like to imitate the successes that have been achieved. The Company has and will continue to aggressively protect itself through a variety of means that include:

- Patent and trademark protection – The Company protects novel ideas and processes developed at Omni-Lite by filing with the U.S. Patent Office.
- Confidentiality agreements – These agreements prevent employees and third parties from sharing any information considered proprietary with unauthorized individuals or companies.

**Of particular significance is the fact that Omni-Lite has received seven U.S. patents to date. California Nanotechnologies Inc. has received one U.S. patent to date.**

## G. Transactions with 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 property assessed at \$632,000.

#### H. Third Party Investor Relations Contracts

QIS Capital (547853 B.C. Ltd.) has engaged from June 1, 2008 to November 30, 2008 at a cost of \$3,000 CDN per month.

#### I. Board of Directors

The Company's chief executive officer and its corporate secretary are material shareholders. A resolution was passed in 2003 that increased the size of the board of directors to five members.

#### J. International Operations

In September 1997, Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp. which were both incorporated in Calgary, Alberta. To support the international scope of the market place, Omni-Lite has established two wholly owned subsidiaries in Barbados. These complement the production center in Cerritos, California. The Cerritos facility is located in the heart of Southern California's aerospace industry. This allows for easy access to customers, specialized equipment, materials, and workforce. The staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

The Company allocates its revenues between countries based on the 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

  

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.

#### K. 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)
<b>Loans and Receivables</b>					
Accounts receivable	\$ 1,045,990	\$ 1,045,990	\$ -	\$ -	\$ -
Loans and receivables	189,819	189,819	-	-	-
<b>Available for Sale</b>					
Investments	270,455	270,455	(28,904)	-	-
<b>Other Liabilities</b>					
Bank indebtedness	7,664	7,664	-	-	-
Accounts payable	659,808	659,808	-	-	-
Long-term debt	3,142,470	3,142,470	-	-	-
Due to related parties	124,408	124,408	-	(29,247)	-

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, 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 2008	USD 2007
Cash	\$ 10,777	\$ 3,002
Accounts payable	\$ 189,521	\$ 160,858

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

### 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

## **L. 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 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 it to draw down 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:

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

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
<b>EBITDA</b>	<b>2,991,160</b>	<b>3,105,315</b>

## **M. International Financial Reporting Standards**

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. 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 changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on January 1, 2011. As a result, the Company will developed a plan to convert its Consolidated Financial Statements to IFRS. The Company will set up an IFRS dedicated team. The Company will provided training to key employees and is monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting.

A detailed analysis of the difference between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may materially impact the Company's Consolidated Financial Statements.

### **Additional information**

Further information regarding Omni-Lite Industries Canada Inc. can be accessed under the Company's public filings found at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.omni-lite.com](http://www.omni-lite.com).

*The information contained in this discussion may be considered to contain forward-looking statements. Such forward-looking statements address future events and conditions and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. There is no representation by the Company that actual results will be the same in whole or in part as implied by the forward-looking statements provided.*