

**Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2009 and 2008
(in United States Dollars)**

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Management Report

The accompanying consolidated financial statements are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the consolidated financial statements. Consolidated financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

Meyers Norris Penny LLP, the external auditors, conduct an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on the consolidated financial statements.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the consolidated financial statements, including notes thereto, with management and Meyers Norris Penny LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the audit committee.

(signed) "David F. Grant"

David F. Grant
President & CEO

April 9, 2010

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, 2009 and 2008 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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 consolidated 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

April 16, 2010

Meyus Norris Penny LLP

Chartered Accountants

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

December 31	2009	2008
Assets		
Current		
Cash	\$ 39,935	\$ -
Accounts receivable	744,809	1,045,990
Inventory (Note 3)	3,374,041	2,693,668
Income taxes receivable	167,549	67,509
Prepaid expenses	62,962	-
	<u>4,389,296</u>	<u>3,807,167</u>
Deferred acquisition (Note 4)	-	1,102,540
Investments (Note 5 and 18)	184,778	270,455
Property, plant and equipment (Note 6 and 13)	12,999,246	11,614,267
Due from related parties (Note 9 and 21)	342,203	189,819
Future income tax asset (Note 11)	218,600	222,900
	<u>\$ 18,134,123</u>	<u>\$ 17,207,148</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 8)	\$ -	\$ 7,664
Accounts payable and accrued liabilities	630,910	659,808
Due to related parties (Note 9)	-	124,408
Capital lease (Note 7)	-	37,700
Current portion of long-term debt (Note 10)	1,290,670	2,088,824
	<u>1,921,580</u>	<u>2,918,404</u>
Long-term debt (Note 10)	2,285,876	1,053,646
Future income tax liability (Note 11)	2,661,338	2,362,800
	<u>6,868,794</u>	<u>6,334,850</u>
Share capital (Note 12 (b))	5,519,546	5,519,546
Share subscription receivable	(492,459)	-
Contributed surplus (Note 17 and 21)	1,076,478	562,319
Retained earnings	5,163,975	4,706,967
Accumulated other comprehensive income	(2,211)	83,466
	<u>11,265,329</u>	<u>10,872,298</u>
	<u>\$ 18,134,123</u>	<u>\$ 17,207,148</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	2009	2008
Revenue (Note 13)	\$ 4,385,485	\$ 7,454,327
Cost of goods sold	1,474,918	2,132,432
Gross margin	2,910,567	5,321,895
Overhead expenses		
Amortization	750,675	809,310
Foreign Exchange	9,037	(9,620)
General and administrative	1,166,349	1,531,391
Interest on long-term debt	147,237	133,941
Research and product design	179,443	299,451
Stock-based compensation (Note 17)	21,700	279,600
Commissions	90,672	201,009
	2,365,113	3,245,082
Income from operations	545,454	2,076,813
Interest income	10,825	-
Gain on sale of asset	1,045	-
Investment impairment (Note 5 and 16)	-	(28,904)
Income before income taxes	557,324	2,047,909
Provision for income taxes (Note 11)		
Current	(202,522)	313,136
Future	302,838	859,736
	100,316	1,172,872
Net income	\$ 457,008	\$ 875,037
Earnings per share - basic (Note 19)	\$0.04	\$0.08
- diluted (Note 19)	\$0.04	\$0.08
Weighted average shares outstanding - basic (Note 19)	10,620,854	10,872,011
- diluted (Note 19)	10,626,221	10,895,965

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

For the years ended December 31	2009	2008
Retained earnings, beginning of year	\$ 4,706,967	\$ 4,479,871
Net income	457,008	875,037
Common shares repurchased in excess of carrying value (Note 12 (e))	-	(647,941)
Transition adjustment – financial instruments adoption	-	-
Retained earnings, end of year	\$ 5,163,975	\$ 4,706,967

Consolidated Statements of Comprehensive Income
United States Dollars

For the years ended December 31	2009	2008
Net income	\$ 457,008	\$ 875,037
Other Comprehensive Income, Net of Tax (Note 5)	(85,677)	86,338
Comprehensive income	\$ 371,331	\$ 961,375

Consolidated Statements of Accumulated Other Comprehensive Income
United States Dollars

For the years ended December 31	2009	2008
Accumulated Other Comprehensive Income, Beginning of Year	\$ 83,466	\$ (2,872)
Other Comprehensive Income, Net of Tax (Note 5)	(85,677)	86,338
Accumulated Other Comprehensive Income, End of Year	\$ (2,211)	\$ 83,466

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

For the years ended December 31	2009	2008
Cash flows from operating activities		
Net income for the year	\$457,008	\$875,037
Adjustments for:		
Amortization	750,675	809,310
Future income taxes	302,838	859,736
Impairment	-	28,904
Stock based compensation	21,700	279,600
	1,532,221	2,852,587
Net change in non-cash working capital items		
Accounts receivable	301,181	243,299
Income taxes receivable	(100,040)	-
Inventory	(680,373)	(839,470)
Prepaid expenses	(62,962)	-
Accounts payable and accrued liabilities	(105,461)	169,059
Income taxes payable	-	(459,573)
	884,566	1,965,902
Cash flows from financing activities		
Advances from related parties	138,638	579,391
Repayment to related parties	(415,430)	(1,706,844)
Advancement of long-term debt	3,934,258	5,382,606
Repayment of long-term debt	(3,500,182)	(3,991,044)
Issue of common shares	-	541,471
Share issuance costs	-	(1,481)
Repurchase of common shares	-	(958,113)
	157,284	(154,014)
Cash flows from investing activity		
Deferred acquisition payments	(459,375)	(998,946)
Purchase of property, plant and equipment	(534,876)	(814,955)
	(994,251)	(1,813,901)
Increase (decrease) in cash	47,599	(2,013)
Bank indebtedness, beginning of year	(7,664)	(5,651)
Cash (bank indebtedness), end of year	\$39,935	(\$7,664)

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, 2009 and 2008

2. Significant Accounting Policies - continued

(e) 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.

(f) 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. Investments classified as held-for-trading are reported at fair value with unrealized gains or losses included in earnings.

(g) 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.

(h) 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.

(i) 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, 2009 and 2008

2. Significant Accounting Policies - continued

(j) 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.

(k) Measurement uncertainty

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

Accounts receivable are stated after evaluation as to their collectability 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, 2009 and 2008

2. Significant Accounting Policies - continued

(k) 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.

(l) Stock-based compensation plan

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

(m) Per share amounts

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

(n) 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.

(o) 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, 2009 and 2008

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.

(p) Capital Disclosures

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

(q) Recent accounting pronouncements

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," which will replace CICA Handbook Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. These are not explicitly required under the current standard. Section 1601 is effective for the Company on January 1, 2011 with early adoption permitted. This standard will have no impact to the Company.

In January 2006, the Canadian Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards ("IFRS"), which will replace Canadian GAAP for years beginning on or after January 1, 2011. An omnibus exposure draft was issued by the AcSB in the second quarter of 2008, which incorporates IFRS into the CICA Handbook and prescribes the transitional provisions for adopting IFRS. In March 2009, the AcSB issued a second omnibus exposure draft on the adoption of IFRS. This exposure draft confirms the IFRS transition date as January 1, 2011 for all Canadian publicly accountable enterprises, incorporates any changes to IFRS since the previous exposure draft was issued and discusses additional key transitional issues. In October 2009, the AcSB issued a third omnibus exposure draft on the adoption of IFRS. This exposure draft incorporates changes to IFRS since the previous exposure draft that will be applicable to Canadian entities.

The Company is in the process of the diagnostic assessment phase by performing comparisons of the differences between Canadian GAAP and IFRS and is continuing assessment of the effects of adoption and finalizing its conversion plan. The conversion to IFRS may result in other impacts, some of which may be significant in nature. These assessments will need to be further analyzed and evaluated throughout the implementation phase of the Company's project. At this time, the impact on the Company's financial position and results of operations is not reliably determinable or estimable.

The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2009 and 2008

3. Inventory

The major components of inventory are classified as follows:

	<u>2009</u>	<u>2008</u>
Raw materials	\$ 447,810	\$ 475,730
Finished goods	<u>2,926,231</u>	<u>2,217,938</u>
	\$ 3,374,041	\$ 2,693,668

4. Deferred Acquisition

In 2009, \$459,375 (2008 - \$1,039,867) was paid on deposit for the purchase of production equipment. The Company received equipment to the amount of \$1,634,844 (2008 - \$1,424,253). Subsequent to year end 2009, \$870,156 was released from the equipment obligation, thus the remaining balance due of \$76,563 is included in accounts payable.

5. Investments

As at December 31, 2009, 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 \$184,778 (2008 - \$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, 2009 and 2008

6. Property, Plant and Equipment

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 770,000	\$ -	\$ 770,000	\$ -
Building	1,494,410	436,771	1,494,410	392,703
Production and other equipment	11,352,128	1,917,820	9,624,845	1,602,646
Computer equipment	109,203	79,601	68,736	65,726
Vehicle	28,400	14,200	28,400	10,143
Non consumable tooling	3,011,446	1,317,949	2,620,405	921,311
	\$ 16,765,587	\$ 3,766,341	\$ 14,606,796	\$ 2,992,529
Net book value		\$12,999,246		\$11,614,267

7. 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 amounted to \$50,268 and the balance was repaid off in 2009. The implied rate of interest was 8.46%.

8. Bank Indebtedness

The Company had overdraft protection in the form of a revolving line of credit, maximum \$75,000 in 2008 unsecured, bearing interest at the Prime rate plus 2.0%. Maturity date: August 31, 2009.

	USD 2009	USD 2008
Bank indebtedness	\$ -	\$ 7,664

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2009 and 2008

9. Related Party Transactions

Due from/(to) related parties includes advances from a company under common control. An amount of \$144,235 (2008 – (\$124,408)) is due from/(to) California Nanotechnologies Corp. that is unsecured, bearing interest at 5% per annum and due on demand.

In 2009, the Company received \$63,000 (2008 - \$108,000) 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 2009 and 2008, 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 (2008 - \$140,000). 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 a total of \$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 \$172,968 (2008- 164,820) at a 5% interest rate and is to be repaid in five years. The loan is secured by the related property.

10. Long-term Debt	2009	2008
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<p>Effective September 2009, the company established a new long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$2,750,000, comprised of a term loan facility in the amount of \$2,000,000, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%) maturing on October 30, 2012, repayable in monthly installments of \$33,333.</p>	<p>\$ 1,933,334</p>	<p>-</p>
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Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2009 and 2008

10. Long-term Debt –continued

2009

2008

The Credit Agreement also includes a commercial advance line of up to \$750,000 for operating purposes, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%) maturing on October 30, 2010. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the company. Under this agreement, the company has agreed to certain conditions and financial ratios, which have been met as at December 31, 2009.

\$ 539,326

-

Revolving line of credit with an aggregate maximum of \$2,075,000 (2008 - \$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. Repaid in full and cancelled on September 28, 2009.

- \$ 1,748,300

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 \$757,778. Repayable in monthly installments of \$14,962.

586,912

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 \$627,369. Repayable in monthly installments of \$12,957

508,266

640,015

Term loan, non-interest bearing secured by a vehicle, having a carrying value of \$16,228. Maturity date: July 20, 2011, repayable in monthly installments of \$458.

8,708

15,108

Less: current portion

3,576,546

3,142,470

(1,290,670)

(2,088,824)

\$ 2,285,876

\$ 1,053,646

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

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2009 and 2008

10. Long-term Debt - continued

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

2009	\$	1,290,670
2010		723,184
2011		1,427,622
2012		135,070
2013		-
	\$	<u>3,576,546</u>

11. Income Taxes

	<u>2009</u>	<u>2008</u>
Statutory tax rate	29.00%	29.50%
Income taxes at the statutory rate	\$ 161,626	\$ 620,820
Rate differential on income earned in foreign jurisdictions	(42,361)	151,100
Foreign expenditures not deductible for tax	-	107,437
Stock-based compensation	6,293	82,482
Rate difference from prior year	-	108,226
Change in valuation allowance	(17,500)	42,000
Future impact on current and temporary differences	(4,355)	1,325
Change in estimate from prior year	(108,633)	49,365
Other	105,246	10,117
	\$ 100,316	\$ 1,172,872

Principal components of the net future tax liability are:

	<u>2009</u>	<u>2008</u>
Future tax asset:		
Unused tax losses carry forward	\$ 19,500	\$ 23,300
Share Issue Costs	600	9,900
Property, plant and equipment	4,400	9,000
Inventory / COGS	218,600	222,700
Total future tax asset	243,100	264,900
Valuation allowance	(24,500)	(42,000)
Net future tax asset	\$ 218,600	222,900

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2009 and 2008

11. Income Taxes – continued

Future tax liability:		
Property, plant and equipment	\$ (2,661,338)	\$ (2,362,800)
Total future tax liability	(2,661,338)	(2,362,800)
Net future tax liability	\$ (2,442,738)	\$ (2,139,900)
Income tax expense (recovery):		
Current	\$ (202,522)	\$ 313,136
Future	302,838	859,736
	\$ 100,316	\$ 1,172,872

12. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	For the year ended December 31, 2009		For the year ended December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Total issued and outstanding, beginning of year	10,620,854	\$5,519,546	10,980,854	\$5,266,780
Issued upon private placement	-	-	200,000	500,000
Issued upon exercise of stock options	-	-	54,400	64,420
Share issuance costs	-	-	-	(1,481)
Cancelled on repurchase under normal course issuer bid	-	-	(539,400)	(271,185)
	10,620,854	5,519,546	10,695,854	5,558,534
To be cancelled from repurchase under normal course issuer bid	-	-	(75,000)	(38,988)
Total issued and outstanding, end of year	10,620,854	\$5,519,546	10,620,854	\$5,519,546

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12. Share Capital - continued

(c) Stock options

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

	Number	Option Price per Share Range	Weighted Average Exercise Price
Options outstanding at Dec. 31, 2007	903,633	CDN \$0.60 to \$2.55	CDN \$1.65
Options - granted	-	CDN \$2.22 to \$2.43	CDN \$2.40
- 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 - granted	50,000	CDN \$0.82	CDN \$0.82
- exercised	-	-	-
- cancelled	(392,566)	CDN \$0.94 to \$2.55	CDN \$2.40
Options outstanding at Dec. 31, 2009	496,667	CDN \$0.82 to \$2.55	CDN \$1.88
Options exercisable at Dec. 31, 2009	430,000	CDN \$0.94 to \$2.55	CDN \$1.99

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. 50,000 options were granted during the period (2008 – nil).

(d) The options that are outstanding at December 31, 2009 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
50,000	CDN \$0.60 to \$0.90	CDN \$0.82	4.41 years
30,000	CDN \$0.91 to \$1.37	CDN \$0.94	0.01 years
183,333	CDN \$1.38 to \$2.00	CDN \$1.63	0.90 years
233,334	CDN \$2.01 to \$2.55	CDN \$2.43	2.15 years
496,667	CDN \$0.60 to \$2.55	CDN \$1.88	1.34 years
Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
-	CDN \$0.60 to \$0.90	-	-
30,000	CDN \$0.91 to \$1.37	CDN \$0.94	0.01 years
183,333	CDN \$1.38 to \$2.00	CDN \$1.63	0.90 years
216,667	CDN \$2.01 to \$2.55	CDN \$2.45	2.10 years
430,000	CDN \$0.91 to \$2.55	CDN \$1.99	1.45 years

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12. Share Capital - continued

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

	2009	2008
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%

(e) Normal course issuer bid

During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired nil (2008 – 614,400) of its issued and outstanding common shares. The Company repurchased the common shares for \$nil (2008 - \$958,113) resulting in \$nil (2008 - \$531,670) reduction in share capital and \$nil (2008 - \$647,941) decrease in retained earnings.

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13. Segmented Information

Geographic Segments:

The Company has its operations and subsidiaries in the United States, Canada and in Barbados. The Company allocates its revenues between countries based on location that has title to the contract. The Company has utilized and reported revenues based on the Company locations for each of these segments as follows:

December 31, 2009	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	\$ 4,086,913	\$ -	\$ 714,755	\$ (416,183)	\$ 4,385,485
Property, plant and equipment	\$ 12,999,246	\$ -	-	-	\$ 12,999,246
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

14. Commitments

- (a) Pursuant to existing employment contracts dated July 1, 1999, the Company is committed to paying bonuses based on sales and profitability.
- (b) The Company has agreed to pay a consultant a 5% commission for a period of 10 years, ending December 31, 2009, for the sale of a certain product.

15. Supplemental Cash Flow Information

Interest and income taxes paid (recovery)

	2009	2008
Interest paid	\$ 133,247	\$ 130,136
Income taxes paid	\$ 13,847	\$ 359,447

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16. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans due from related parties, investments, accounts payable and accrued liabilities, long-term debt, and loans due to related parties.

	Carrying Value	Fair Value	Gain/(Losses)	Interest Income/ (Expense)	Other Income/ (Expense)
Loans and Receivables					
Accounts receivable	\$ 744,809	\$ 744,809	\$ -	\$ -	\$ -
Due from related parties	342,203	342,203	-	10,532	-
Available for Sale					
Investments	184,778	184,778	-	-	-
Other Liabilities					
Accounts payable	630,910	630,910	-	-	-
Long-term debt	3,576,546	3,576,546	-	(147,237)	-
Due to related parties	-	-	-	(3,145)	-

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 primary credit facility, advance line 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, 2009, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$35,765 (2008 - \$31,425). The related disclosures regarding these debt instruments are included in Note 10 of these financial statements.

Foreign currency risk

A significant portion of the Company's operations is located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates.

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16. Financial Instruments - continued

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
	2009	2008
Cash	\$ 42,187	\$ 10,777
Accounts payable	\$ 112,373	\$ 189,521

At December 31, 2009, 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	\$ (4,219)
U.S. Dollar Exchange Rate – 10% decrease	\$ 4,219

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	\$ (11,237)
U.S. Dollar Exchange Rate – 10% decrease	\$ 11,237

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.

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16. Financial Instruments - continued

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, 2009 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	\$ 630,910	\$ -	\$ -	\$ -	\$ 630,910
Bank loan and interest	1,290,670	2,285,876	-	-	3,576,546
Total	\$1,912,580	\$2,285,876	\$ -	\$ -	\$4,207,456

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. During 2009, the Company was engaged in contracts for products with three (2008 – three) customers, which accounted for \$2,595,998 (2008 - \$4,457,923) or 59% (2008 – 59%) of the Company's total revenue. During the same period, export sales to two (2008 – two) customers in various international countries (outside of the United States) amounted to \$703,075 (2008 - \$711,055) or 17% (2008 – 9%) 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	\$ 604,303	\$ 139,954	\$ 552	\$ -	\$ -

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17. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	2009	2008
Balance, beginning of year	\$ 562,319	\$ 305,667
Stock-based compensation expense	21,700	279,600
Exercise of options	-	(22,948)
Shares redemption receivable	492,459	-
Balance, end of year	\$ 1,076,478	\$ 562,319

18. Non-controlling Interest

On February 9, 2005, Omni-Lite E-FORM Technologies Inc. ("E-FORM") was incorporated in California, USA by officers and directors of Omni-Lite and related parties, who invested all of E-FORM's initial capital of \$122,000. At that time, 50% of the shares of E-FORM were issued to the Company for nominal consideration. In September 2005, additional subscriptions from third parties resulted in a further investment of \$120,000 and a reduction of the Company's ownership to 38.48%. Subsequent subscriptions totaling \$347,915 made in 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.

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18. Non-controlling Interest - continued

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 fair value. As such, this investment has been recorded at its carrying value of approximately \$184,778 (2008 - \$270,455), as its fair value is determinable when removed from escrow.

19. 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.

444,166 (2008 – 789,233) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2009 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.

20. 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:

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20. Capital Disclosures - continued

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 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	2009	2008
Long-term debt	\$ 2,285,876	\$ 1,053,646
Current portion long-term debt	1,290,670	2,088,824
Due to related parties	-	124,408
Capital lease	-	37,700
Bank indebtedness	-	7,664
Total Net Debt	3,576,546	3,312,242
Shareholders' Equity	11,265,329	10,872,298

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, 2009, the net debt to cash flow from operating activities was 4.04 times compared to 1.67 times at December 31, 2008. 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.

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20. 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 weakened in 2009 from 22.3 times at the end of 2008 to 9.9 times at December 31, 2009. 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.

	2009	2008
Net Income	\$ 457,008	\$ 875,037
Add:		
Interest Expense	147,237	133,941
Provision for Income Taxes	100,316	1,172,872
Amortization	750,675	809,310
EBITDA	1,455,236	2,991,160

21. Subsequent event

On March 24, 2010, an equipment vendor, who is a related party, reduced the amount due for production equipment received in 2009 and agreed to return 403,655 shares of common stock. This resulted in a reduction to production equipment in the amount of \$870,156 and an increase in share subscription receivable and contributed surplus in the amount of \$492,459 recorded in 2009.

22. Comparative Figures

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