

Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(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
CEO

signed "Timothy C. Wang"

Timothy C. Wang
CFO

April 15, 2011

Independent Auditors' Report

To the Shareholders of Omni-Lite Industries Canada Inc:

We have audited the accompanying consolidated financial statements of Omni-Lite Industries Canada Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of income, retained earnings, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Omni-Lite Industries Canada Inc. and its subsidiaries as at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

April 15, 2011
Calgary, AB

Chartered Accountants

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

As at December 31	2010	2009
Assets		
Current		
Cash	\$ 30,301	\$ 39,935
Accounts receivable	645,851	744,809
Inventory (Note 3)	3,417,898	3,374,041
Income taxes receivable	336,455	167,549
Prepaid expenses	53,039	62,962
	4,483,544	4,389,296
Investments (Note 4 and 15)	176,176	184,778
Property, plant and equipment (Note 5 and 10)	13,704,501	12,999,246
Due from related parties (Note 6)	670,765	342,203
Future income tax asset (Note 8)	206,000	218,600
	\$ 19,240,986	\$ 18,134,123
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 432,575	\$ 630,910
Current portion of long-term debt (Note 7)	1,202,567	1,290,670
	1,635,142	1,921,580
Long-term debt (Note 7)	1,584,937	2,285,876
Future income tax liability (Note 8)	3,064,018	2,661,338
	6,256,097	6,868,794
Commitments (Note 11)		
Subsequent event (Note 18)		
Share capital (Note 9(b))	5,046,031	5,519,546
Share subscription receivable	-	(492,459)
Contributed surplus (Note 14)	1,131,511	1,076,478
Retained earnings	6,779,183	5,163,975
Accumulated other comprehensive income	164	(2,211)
	12,956,889	11,265,329
	\$ 19,240,986	\$ 18,134,123

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	2010	2009
Revenue (Note 10)	\$ 7,120,813	\$ 4,385,485
Cost of goods sold	2,194,285	1,474,918
Gross margin	4,926,528	2,910,567
Overhead expenses		
Amortization	872,145	750,675
Foreign Exchange	11,028	9,037
General and administrative	1,612,297	1,166,349
Interest on long-term debt	94,853	147,237
Research and product design	190,985	179,443
Stock-based compensation (Note 14)	62,200	21,700
Commissions	130,184	90,672
	2,973,692	2,365,113
Income from operations	1,952,836	545,454
Interest income	21,841	10,825
Gain on sale of asset	325	1,045
Income before income taxes	1,975,002	557,324
Income tax provision/(recovery) (Note 8)		
Current	(258,800)	(202,522)
Future	415,280	302,838
	156,480	100,316
Net income	\$ 1,818,522	\$ 457,008
Earnings per share - basic (Note 16)	\$0.18	\$0.04
- diluted (Note 16)	\$0.17	\$0.04
Weighted average shares outstanding - basic (Note 16)	10,367,374	10,620,854
- diluted (Note 16)	10,585,083	10,626,221

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

For the years ended December 31	2010	2009
Retained earnings, beginning of year	\$ 5,163,975	\$ 4,706,967
Net income	1,818,522	457,008
Dividends	(203,314)	-
Retained earnings, end of year	\$ 6,779,183	\$ 5,163,975

Consolidated Statements of Comprehensive Income
United States Dollars

For the years ended December 31	2010	2009
Net income	\$ 1,818,522	\$ 457,008
Other Comprehensive Income (Loss), Net of Tax (Note 4)	2,375	(85,677)
Comprehensive income	\$ 1,820,897	\$ 371,331

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)
United States Dollars

For the years ended December 31	2010	2009
Accumulated Other Comprehensive Income (Loss), Beginning of Year	\$ (2,211)	\$ 83,466
Other Comprehensive Income (Loss), Net of Tax (Note 4)	2,375	(85,677)
Accumulated Other Comprehensive Income (Loss), End of Year	\$ 164	\$ (2,211)

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

For the years ended December 31	2010	2009
Cash flows from operating activities		
Net income for the year	\$1,818,522	\$457,008
Adjustments for:		
Amortization	872,145	750,675
Future income taxes	415,280	302,838
Gain on sale of asset	(325)	-
Loss on investment	10,978	-
Stock based compensation	62,200	21,700
	<u>3,178,800</u>	<u>1,532,221</u>
 Net change in non-cash working capital items		
Accounts receivable	98,958	301,181
Income taxes receivable	(168,906)	(100,040)
Inventory	(43,857)	(680,373)
Prepaid expenses	9,923	(62,962)
Accounts payable and accrued liabilities	(198,335)	(105,461)
	<u>2,876,583</u>	<u>884,566</u>
Cash flows from financing activities		
Payments from related parties	56,421	138,638
Advances to related parties	(384,985)	(415,430)
Advancement of long-term debt	4,506,908	3,934,258
Repayment of long-term debt	(5,295,950)	(3,500,182)
Issue of common shares	12,810	-
Share issuance costs	(1,033)	-
Dividends on common shares	(203,314)	-
	<u>(1,309,142)</u>	<u>157,284</u>
Cash flows from investing activities		
Deferred acquisition payments	-	(459,375)
Proceeds from sale of equipment	1,700	-
Purchase of property, plant and equipment	(1,578,775)	(534,876)
	<u>(1,577,075)</u>	<u>(994,251)</u>
 Increase (decrease) in cash	 <u>(9,634)</u>	 <u>47,599</u>
 Cash (bank indebtedness), beginning of year	 39,935	 (7,664)
 Cash, end of year	 <u>\$30,301</u>	 <u>\$39,935</u>

Supplemental cash flow information (Note 12)

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2010 and 2009

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 ("GAAP"). 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 weighted average actual costs (including materials, labour and allocated overhead) and net realizable value. Finished goods inventory is recorded using the weighted average 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 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, 2010 and 2009

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 substantively 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, 2010 and 2009

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 are 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 amounts attributable to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2010 and 2009

2. Significant Accounting Policies - continued

(k) Measurement uncertainty (continued)

The Company has conducted a study of its internal policies with respect to transfer pricing within the consolidated group. The consolidated income tax provision provided herein has been based on management's best estimate of the pricing that is equivalent to comparative uncontrolled pricing for the same or similar products and is subject to assessment by taxation authorities. Until the time frame for reassessment has been statute barred or the taxation authorities have reviewed and not objected to the tax filings, there is a possibility that a reassessment can occur.

The effect on the financial statements, resulting from changes in estimates, if any, will be reflected in the period a determination is made that the change in estimate is warranted. The effect on the consolidated financial statements for changes in estimates, in future periods, could be significant.

(l) Stock-based compensation plan

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

(m) Per share amounts

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

(n) 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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2010 and 2009

2. Significant Accounting Policies - continued

(o) Financial Instruments - continued

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

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.

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including all financial instruments measured at fair value to be categorized into one of the three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs to measure fair value of assets and liabilities. The three levels of the Section 3862 fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. This amendment did not impact the Company's disclosures in the financial statements.

(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 is not expected to have an impact to the Company.

2. Significant Accounting Policies - continued

(q) Recent accounting pronouncements - continued

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.

(r) International Financial Reporting Standards ("IFRS")

The following list illustrates the areas of accounting difference of highest potential impact to the Company on transition to IFRS. The quantitative impact on future financial position and results of operations is not fully determinable or estimable at this time.

(1) Property, Plant and Equipment:

The basic principles of accounting for property, plant and equipment under Canadian GAAP handbook section 3061 and International Accounting Standards (IAS 16) are similar; however, differences in application do exist. IAS 16 requires the parts or components approach and depreciation is based on the expected useful life of the parts or components. This method of componentizing property, plant and equipment is not expected to have an impact as the Company currently records and depreciates based upon parts.

The Company has elected to use the cost model. The Company currently expenses borrowing costs under Canadian GAAP. The change in accounting method capitalizing borrowing costs to the value of an asset in accordance with IAS 23, Borrowing Costs, is not expected to have an impact to the Company.

(2) Share Based Payments:

Under Canadian GAAP, section 3870, share options granted vest in installments (tranches) over the vesting period, where the total grant can be valued at grant date with the corresponding stock based compensation expense recognized on a straight line method over the vesting period of the options. This differs under IFRS 2, Share Based Payments, where share options granted vest in installments (tranches) over the vesting period, and each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2010 and 2009

2. Significant Accounting Policies - continued

(r) International Financial Reporting Standards ("IFRS")- continued

(2) Share Based Payments - continued:

Corresponding stock based compensation expense will be calculated at the start of each vesting period with fair value inputs that exist at that time. IFRS 2 also requires the use of the fair value method for valuing options and companies are required to estimate forfeitures at the start of the vesting period. This will change the amount the Company recognizes as stock based compensation as well as the timing of recognition. The Black-Scholes model is currently being used for option valuation, which is also permitted under IFRS. No change in option valuation method is required.

(3) IFRS 1, First-Time Adoption of International Financial Reporting Standards

The first-time adoption of International Financial Reporting Standards states that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 provides the framework and specifies that, the adjustments that arise on retrospective conversion to IFRS from another GAAP should be recognized directly in retained earnings. There are certain optional exemptions and mandatory exceptions to retrospective application, both of which are clarified under IFRS 1. Below is a list of the IFRS exemptions applied and not applied:

Deemed cost – exemption not applied: The Company will elect the historical cost option and not restate any classes within the property, plant and equipment balance to its fair value basis that would have existed if IFRS policies had been in place since inception.

Share-based payment transactions – exemption applied: The Company has elected to use the option under IFRS 1 to revalue under IFRS 2, Share-Based Payments, only those options that have vested on or after January 1, 2010.

Borrowing costs – exemption applied: The Company has elected to use the option under IFRS 1 to apply this Standard, constituting a change in accounting policy, to commencement dates beginning on or after January 1, 2009.

3. Inventory

The major components of inventory are classified as follows:

	<u>2010</u>	<u>2009</u>
Raw materials	\$ 355,379	\$ 447,810
Finished goods	<u>3,062,519</u>	<u>2,926,231</u>
	\$ 3,417,898	\$ 3,374,041

The cost of finished goods and raw material inventories recognized as expense and included in cost of sales was \$2,170,487 (2009 - \$1,474,918). The inventory write-down included in cost of sales was \$23,798 (2009 - nil). The Company carries the inventory amounts above according to the weighted average method.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
December 31, 2010 and 2009

4. Investments

As at December 31, 2010, long-term investments were made up of an available-for-sale investment in the common shares of a public company accounted for at fair value. The investment consists of shares held in escrow as well as shares which have been released from escrow. As there is no quoted market price for the shares held in escrow, they have been measured at the lower of cost or fair market value.

The Company's investments are recorded at the fair value of \$176,176 (2009 - \$184,778). At December 31, 2010, of the total common shares purchased, 907,268 (2009 - 1,889,536) remain in escrow with two releases remaining.

5. Property, Plant and Equipment

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 770,000	\$ -	\$ 770,000	\$ -
Building	1,494,410	479,921	1,494,410	436,771
Production and other equipment	12,384,914	2,244,742	11,352,128	1,917,820
Computer equipment	137,237	97,536	109,203	79,601
Vehicle	28,400	18,257	28,400	14,200
Non consumable tooling	3,527,682	1,797,686	3,011,446	1,317,949
	\$ 18,342,643	\$ 4,638,142	\$ 16,765,587	\$ 3,766,341
Net book value	\$13,704,501		\$12,999,246	

Equipment not in service not subject to amortization in the amount of \$1,939,274 (2009 - \$1,939,274) is included in production and other equipment.

6. Related Party Transactions

Due from related parties includes advances to a company under common control. An amount of \$481,512 (2009 - \$144,235) is due from California Nanotechnologies Corp, bearing interest at 5% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies, Inc.

In 2010, the Company received \$24,000 (2009 - \$63,000) 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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars
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6. Related Party Transactions - continued

For 2010 and 2009, 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 (2009 - \$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 loans are unsecured and are to be repaid in five years. Maturity dates are as follows: \$5,000 – December 5, 2013; \$20,000 – January 5, 2011. The Company has issued a loan to one of its officers and directors for \$164,253 (2009 - 172,968) at a 5% interest rate and is to be repaid in five years. The loan is secured by the related property.

7. Long-term Debt

	2010	2009
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%), (3.5% effective average interest rate in 2010), maturing on October 30, 2012, repayable in monthly principal installments of \$33,333.	\$ 1,500,000	\$ 1,933,334
The Credit Agreement, described above 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%), (3.5% effective average interest rate in 2010), maturing on June 30, 2011. 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, 2010. Advances are automatically repayable daily with available funds after clearing operating disbursements.	476,945	539,236
Promissory Note, total principal amount \$800,000 with 60-month term, bearing interest at LIBOR plus 1.85% (2.2% effective average interest rate in 2010). Secured by equipment with a net book value of \$757,778. Maturing on July 15, 2013, repayable in monthly principal and interest installments of \$14,962.	432,664	586,912

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7. Long-term Debt – continued

	2010	2009
Promissory Note, total principal amount \$692,800 with 60-month term, bearing interest at LIBOR plus 1.85% (2.2% effective average interest rate in 2010). Secured by equipment with a net book value of \$627,369. Maturing on July 15, 2013, repayable in monthly principal and interest monthly installments of \$12,957	374,687	508,266
Term loan, non-interest bearing secured by a vehicle, having a carrying value of \$16,228. Maturity date: July 20, 2011, repayable in monthly principal installments of \$458.	3,208	8,708
	2,787,504	3,576,546
Less: current portion	(1,202,567)	(1,290,670)
	\$ 1,584,937	\$ 2,285,876

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

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

2011	\$	1,202,567
2012		1,430,510
2013		154,427
2014		-
2015		-
	\$	2,787,504

8. Income Taxes

	2010	2009
Statutory tax rate	28.00%	29.00%
Income taxes at the statutory rate	\$ 553,000	\$ 161,626
Rate differential on income earned in foreign jurisdictions	63,703	(42,361)
Stock-based compensation	17,416	6,293
Change in valuation allowance	(19,900)	(17,500)
Future impact on current and temporary differences	1,919	(4,355)
Change in estimate from prior year	(317,629)	(108,633)
Other	(142,029)	105,246
	\$ 156,480	\$ 100,316

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8. Income Taxes - continued

Principal components of the net future tax liability are:

Future tax asset:	2010	2009
Unused tax losses carry forward	\$ -	\$ 19,500
Share Issue Costs	500	600
Property, plant and equipment	4,100	4,400
Inventory / COGS	206,000	218,600
Total future tax asset	210,600	243,100
Valuation allowance	(4,600)	(24,500)
Net future tax asset	\$ 206,000	\$ 218,600
Future tax liability:		
Property, plant and equipment	\$ (3,064,018)	\$ (2,661,338)
Total future tax liability	(3,064,018)	(2,661,338)
Net future tax liability	\$ (2,858,018)	\$ (2,442,738)
Income tax expense (recovery):		
Current	\$ (258,800)	\$ (202,522)
Future	415,280	302,838
	\$ 156,480	\$ 100,316

9. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	For the year ended December 31, 2010		For the year ended December 31, 2009	
	Number of Shares	Amount	Number of Shares	Amount
Total issued and outstanding, beginning of year	10,620,854	\$5,519,546	10,620,854	\$5,519,546
Issued upon exercise of stock options	16,667	19,977	-	-
Share issuance costs	-	(1,033)	-	-
Cancelled	(403,655)	(492,459)	-	-
Total issued and outstanding, end of year	10,233,866	\$5,046,031	10,620,854	\$5,519,546

In June, 2010, 403,655 shares were returned to treasury and then cancelled.

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9. 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, 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 - granted	452,000	CDN \$0.60 to \$0.90	CDN \$0.74
- exercised	(16,667)	CDN \$0.60 to \$0.90	CDN \$0.82
- cancelled	(182,500)	CDN \$0.94 to \$2.55	CDN \$1.46
Options outstanding at Dec. 31, 2010	749,500	CDN \$0.60 to \$2.55	CDN \$1.32
Options exercisable at Dec. 31, 2010	264,167	CDN \$1.38 to \$2.55	CDN \$2.37

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. 452,000 options were granted during the period (2009 – 50,000).

(d) The options that are outstanding at December 31, 2010 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
485,333	CDN \$0.60 to \$0.90	CDN \$0.75	4.22 years
33,333	CDN \$1.38 to \$2.00	CDN \$1.98	0.72 years
230,834	CDN \$2.01 to \$2.55	CDN \$2.43	1.14 years
749,500	CDN \$0.60 to \$2.55	CDN \$1.32	3.12 years
Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
33,333	CDN \$1.38 to \$2.00	CDN \$1.98	0.72 years
230,834	CDN \$2.01 to \$2.55	CDN \$2.43	1.14 years
264,167	CDN \$1.38 to \$2.55	CDN \$2.37	1.09 years

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9. Share Capital - continued

The options that were 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
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

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

	2010	2009
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%

10. 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, 2010	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	\$ 6,694,198	\$ -	\$ 1,036,354	\$ (609,739)	\$ 7,120,813
Property, plant and equipment	\$ 13,704,501	\$ -	\$ -	\$ -	\$ 13,704,501

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

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11. Commitments

- (a) 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.
- (b) The Company has agreements with various customers to supply parts in 2011.

12. Supplemental Cash Flow Information

<u>Interest and income taxes paid)</u>	<u>2010</u>	<u>2009</u>
Interest paid	\$ 100,949	\$ 133,247
Income taxes paid	10,791	13,847

13. Financial Instruments

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

	<u>2010</u>		<u>2009</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading				
Cash	\$ 30,301	\$ 30,301	\$ 39,935	\$ 39,935
Loans and receivable				
Accounts receivable	645,851	645,851	744,809	744,809
Due from related parties	670,765	670,765	342,203	344,203
Available for Sale				
Investments	176,176	176,176	184,778	184,778
Other financial liabilities				
Accounts payable and accrued liabilities	432,575	432,575	630,910	630,910
Long-term debt	2,787,504	2,787,504	3,576,546	3,576,546

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13. Financial Instruments - continued

The table below sets out fair value measurements using the fair value hierarchy.

Assets	Total	Level 1	Level 2	Level 3
Cash	\$ 30,301	\$ 30,301	\$ -	\$ -
Investments	176,176	176,176	-	-

There have been no transfers during the year between Levels 1 and 2.

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to various risks. 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, 2010, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$27,875 (2009 - \$35,765). The related disclosures regarding these debt instruments are included in Note 7 of these financial statements.

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. As at December 31, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD	USD
	2010	2009
Cash	\$ 21,860	\$ 42,187
Accounts payable	82,340	112,373

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13. Financial Instruments - continued

At December 31, 2010, 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	\$ (2,186)
U.S. Dollar Exchange Rate – 10% decrease	\$ 2,186

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	\$ (8,234)
U.S. Dollar Exchange Rate – 10% decrease	\$ 8,234

Price 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, 2010 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	\$ 432,575	\$ -	\$ -	\$ -	\$ 432,575
Bank loan and interest	1,202,567	1,584,937	-	-	2,787,504
Total	\$ 1,635,142	\$ 1,584,937	\$ -	\$ -	\$ 3,220,079

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13. Financial Instruments - continued

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. During 2010, the Company was engaged in contracts for products with four (2009 – three) customers, which accounted for \$5,101,092 (2009 - \$2,595,998) or 72% (2009 – 59%) of the Company's total revenue. During the same period, export sales to two (2009 – two) customers in various international countries (outside of the United States) amounted to \$1,026,715 (2009 - \$703,075) or 14% (2009 – 17%) 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	\$ 360,678	\$ 279,288	\$ 5,885	\$ -	\$ -

14. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	2010	2009
Balance, beginning of year	\$ 1,076,478	\$ 562,319
Stock-based compensation expense	62,200	21,700
Exercise of options	(7,167)	-
Shares subscription receivable	-	492,459
Balance, end of year	\$ 1,131,511	\$ 1,076,478

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15. Non-controlling Interest

On February 9, 2005, Omni-Lite E-FORM Technologies Inc. ("E-FORM") was incorporated in California, USA by officers and directors of Omni-Lite and related parties, who invested all of E-FORM's initial capital of \$122,000. At that time, 50% of the shares of E-FORM were issued to the Company for nominal consideration. In September 2005, additional subscriptions from third parties resulted in a further investment of \$120,000 and a reduction of the Company's ownership to 38.48%. Subsequent subscriptions totaling \$347,915 made in 2007 further reduced the Company's ownership to 25%. On May 24, 2007, Omni-Lite E-FORM Technologies Inc. was renamed California Nanotechnologies, Inc ("CNI"). CNI's financial statements were consolidated with the Company because of the relationship between the management of the two corporations, in accordance with the Company's policy for consolidating variable interest entities.

On February 9, 2007, California Nanotechnologies Inc. (CNI) completed a reverse take over transaction with Veritek Technologies Inc. (Veritek). As a result of this transaction, the Company's proportionate share decreased to below 20% and therefore CNI was no longer consolidated with Omni-Lite Industries Canada Inc.

The Company has exchanged its interest of 500,000 shares with a carrying value of approximately \$153,000 in CNI for the right to acquire 3,024,229 shares in California Nanotechnologies Corp. ("CNO") (formerly Veritek, "VTK"). The Company has earned the right to trade these shares as certain performance conditions are satisfied. The shares have been releasing according to a time related escrow arrangement. At December 31, 2010, 453,634 shares still remain in escrow. 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 \$176,176 (2009 - \$184,778), as its fair value is determinable when removed from escrow.

16. 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.

485,333 (2009 – 444,166) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2010 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.

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17. Capital Disclosures

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

Maintaining an appropriate balance between short-term borrowings, long-term debt and shareholders' equity; maintaining sufficient undrawn committed credit capacity to provide liquidity; ensuring ample covenant room 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	2010	2009
Long-term debt	\$ 1,584,937	\$ 2,285,876
Current portion long-term debt	1,202,567	1,290,670
Cash	(30,301)	(39,935)
Total Net Debt	2,757,203	3,536,611
Shareholders' Equity	12,956,889	11,265,329

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, 2010, the net debt to cash flow from operating activities was 0.96 times compared to 4.04 times at December 31, 2009. 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 Company is subject to certain debt covenant ratios which are referred to in Note 7.

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17. Capital Disclosures - continued

The interest coverage ratio allows the Company to monitor its ability to fund the interest requirements associated with its debt. The interest coverage strengthened in 2010 from 9.9 times at the end of 2009 to 31.0 times at December 31, 2010. 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.

	2010	2009
Net Income	\$ 1,818,522	\$ 457,008
Add:		
Interest Expense	94,853	147,237
Provision for Income Taxes	156,480	100,316
Amortization	872,145	750,675
EBITDA	2,942,000	1,455,236

18. Subsequent event

On February 16, 2011, Omni-Lite completed a private placement of 3.22 million units, each unit consisting of one common share and one-half of one common share purchase warrant, at a price of \$2.15. The purchase warrants have a two year term with an exercise price of \$ 2.70. The private placement resulted in the Company receiving total gross proceeds of approximately \$6.9 million.

19. Comparative Figures

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