Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2012 and 2011
(in United States Dollars)

Contents

Management Report

The consolidated financial statements of Omni-Lite Industries Canada Inc. (the "Company") and its subsidiaries are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them; and information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, with a majority of its members being outside directors. The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by MNP LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

signed "David F. Grant"	*signed "Timothy C. Wang"*
David F. Grant	Timothy C. Wang
CEO	CFO

April 25, 2013

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 statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 audit 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, 2012 and 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Calgary, Alberta
April 25, 2013

Chartered Accountants

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

As at	Note	December 31, 2012	December 31 , 2011
Assets			
Current			
Cash		**$ 2,745,856**	$ 5,231,092
Accounts receivable	**13**	**712,029**	861,732
Inventory	**3**	**2,366,020**	3,143,297
Income taxes receivable		**40,699**	87,386
Current portion of due from related parties	**6**	**13,176**	6,050
Prepaid expenses		**98,157**	176,466
		5,975,937	9,506,023
Investments	**4**	**398,374**	336,238
Property, plant and equipment	**5**	**13,809,091**	13,376,026
Due from related parties	**6**	**1,434,895**	880,487
Deferred tax asset	**7**	**888,702**	281,525
		$ 22,506,999	$ 24,380,299
Liabilities			
Current			
Accounts payable and accrued liabilities	**13**	**$ 297,942**	$ 437,535
Income taxes payable		**5,277**	8,621
Current portion of long-term debt	**9**	**923,781**	1,460,442
		1,227,000	1,906,598
Long-term debt	**9**	**-**	178,771
Deferred tax liability	**7**	**3,387,066**	3,349,347
Share purchase warrants	**10(b)**	**-**	134,972
		4,614,066	5,569,688
Commitments	**12**		
Shareholders' Equity			
Share capital	**10(b)**	**8,814,933**	9,404,228
Contributed surplus	**14**	**1,539,667**	1,485,988
Retained earnings		**7,430,565**	7,874,763
Accumulated other comprehensive income		**107,768**	45,632
		17,892,933	18,810,611
		$ 22,506,999	$ 24,380,299

On behalf of the Board:

signed "David F. Grant" Director
David F. Grant

signed "Donald J. Kelly" Director
Donald J. Kelly

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

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

For the years ended December 31	Note	2012	2011
Revenue	11	$ **5,370,534**	$ 6,514,083
Cost of goods sold	3	**2,398,975**	2,499,754
Loss on write-down of inventory	3	**585,107**	-
Gross margin		**2,386,452**	4,014,329
Overhead expenses			
Amortization		**869,159**	968,528
Foreign exchange (gain)/loss		**-**	(34,204)
General and administrative		**777,378**	728,868
Employee benefits		**1,033,021**	1,100,057
Commissions		**33,467**	104,994
Interest on long-term debt	9	**40,941**	64,310
Share-based compensation	14	**64,880**	49,800
Research and product design		**113,236**	246,850
		2,932,082	3,229,203
Income (loss) from operations		**(545,630)**	785,126
Other income			
Interest income		**63,533**	41,757
Unrealized gain on share purchase warrants	10(b)	**134,972**	1,256,357
		198,505	1,298,114
Income (loss) before income taxes		**(347,125)**	2,083,240
Income tax provision (recovery)			
Current	7	**11,885**	(85,220)
Deferred	7	**(569,458)**	209,804
		(557,573)	124,584
Net income		$ **210,448**	$ 1,958,656
Other comprehensive income			
Gain on available for sale financial assets	4	**62,136**	45,468
Comprehensive income		$ **272,584**	$ 2,004,124
Earnings per share - basic	15	**$ 0.02**	$ 0.15
- diluted	15	**$ 0.02**	$ 0.15
Weighted average shares outstanding - basic	15	**12,720,976**	12,918,561
- diluted	15	**12,859,982**	13,170,465

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance at December 31, 2010		$ 5,046,031	$ 1,124,861	$6,785,833	$ 164	$ 12,956,889
Shares issued upon private placement	10(b)	5,616,339	-	-	-	5,616,339
Broker options issued upon private placement	10(b)	(332,819)	332,819	-	-	-
Shares issued upon option exercise	10(b)	17,316	(5,600)	-	-	11,716
Share options relinquished	10(c)	-	(15,892)	-	-	(15,892)
Repurchase under normal course issuer bid	10(d)	(301,664)	-	(336,966)	-	(638,630)
Share-based compensation	14	-	49,800	-	-	49,800
Payment of dividends		-	-	(532,760)	-	(532,760)
Share issue costs	10(b)	(640,975)	-	-	-	(640,975)
Net income		-	-	1,958,656	-	1,958,656
Available for sale financial assets	4	-	-	-	45,468	45,468
Balance at December 31, 2011		**$ 9,404,228**	**$ 1,485,988**	**$ 7,874,763**	**$ 45,632**	**$ 18,810,611**
Shares issued upon option exercise	**10(b)**	**28,939**	**(9,027)**	**-**	**-**	**19,912**
Share options relinquished	**10(c)**	**-**	**(2,174)**	**-**	**-**	**(2,174)**
Repurchase under normal course issuer bid	**10(d)**	**(616,077)**	**-**	**(403,888)**	**-**	**(1,019,965)**
Share-based compensation	**14**	**-**	**64,880**	**-**	**-**	**64,880**
Payment of dividends		**-**	**-**	**(250,758)**	**-**	**(250,758)**
Share issue costs	**10(b)**	**(2,157)**	**-**	**-**	**-**	**(2,157)**
Net income		**-**	**-**	**210,448**	**-**	**210,448**
Available for sale financial assets	**4**	**-**	**-**	**-**	**62,136**	**62,136**
Balance at December 31 , 2012		**$ 8,814,933**	**$ 1,539,667**	**$ 7,430,565**	**$ 107,768**	**$ 17,892,933**

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

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

For the years ended December 31	Note	2012	2011
Cash flows from operating activities			
Net income for the period		**$ 210,448**	$ 1,958,656
Adjustments for:			
Amortization		**869,159**	968,528
Deferred taxes	**7**	**(569,458)**	209,804
Unrealized gain on share purchase warrants	**10(b)**	**(134,972)**	(1,256,357)
Loss on write down of inventory	**3**	**585,107**	-
Share-based compensation	**14**	**64,880**	49,800
		1,025,164	1,930,431
Net change in non-cash working capital items			
Accounts receivable		**149,703**	(215,881)
Income taxes receivable		**46,687**	249,069
Inventory		**192,170**	274,601
Prepaid expenses		**78,309**	(123,427)
Accounts payable and accrued liabilities		**(139,593)**	4,960
Income taxes payable		**(3,344)**	8,621
Increase in cash from operations		**1,349,096**	2,128,374
Cash flows from financing activities			
Payments from related parties		**103,670**	284,355
Advances to related parties		**(665,204)**	(500,127)
Advances of long-term debt		**-**	742,304
Repayment of long-term debt		**(715,432)**	(1,890,595)
Share issue costs	**10(b)**	**(2,157)**	(640,975)
Issue of common shares	**10(b)**	**19,912**	7,019,385
Repurchase of common shares	**10(d)**	**(1,019,965)**	(638,630)
Relinquishment of options	**14**	**(2,174)**	(15,892)
Dividends on common shares		**(250,758)**	(532,760)
Increase/(decrease) in cash from financing activities		**(2,532,108)**	3,827,065
Cash flows from investing activities			
Purchase of investment	**4**	**-**	(114,594)
Purchase of property, plant and equipment	**5**	**(1,302,224)**	(640,054)
Decrease in cash from investing activities		**(1,302,224)**	(754,648)
Increase/(decrease) in cash		**(2,485,236)**	5,200,791
Cash, beginning of period		**5,231,092**	30,301
Cash, end of period		**$ 2,745,856**	$ 5,231,092
Supplemental Cash Flow Information:			
Interest paid		**$ 44,649**	$ 61,536
Income taxes paid		**13,454**	23,874

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

1. Nature of Operations

Omni-Lite Industries Canada Inc. (the "Company") is a public company incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The consolidated financial statements of the Company for the year ended December 31, 2012 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2013. Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. An international sales office is located in Barbados. A corporate, registered office is located at #1600, 205 - 5th Avenue S.W., Calgary, Alberta T2P 2V7. The Company's activities consist of developing, producing and marketing specialized metal matrix composite, aluminum, carbon and stainless steel alloy 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 functional currency is denominated in United States dollars, these consolidated financial statements are stated in United States dollars.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The principal accounting policies are set out below.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied to the Company in these consolidated financial statements. Application of the majority of these standards and interpretations is not expected to have a material effect on the consolidated financial statements in the future.

The preparation of consolidated financial statements requires management to make estimates and judgments 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 on consolidation.

(b) Basis of measurement
These consolidated financial statements have been prepared on a going concern basis, using historical cost convention except for financial assets classified as fair value through profit or loss or available for sale which are measured at fair value. In addition, they have been prepared on an accrual basis of accounting except for cash flow information.

2. Significant Accounting Policies - continued

(c) 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 which approximates actual cost and includes raw materials, labour and allocated overheads.

(d) 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.

(e) Cash
Cash includes short-term, highly liquid investments that mature within nine months of their purchase.

(f) Property, plant and equipment
Property, plant and equipment are carried at deemed cost, historical cost less accumulated amortization and any impairment losses. 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.

When the cost of a part of an item of property, plant and equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of property, plant and equipment. The costs of day-to-day servicing of property, plant and equipment are recognized in direct operating expenses. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other (income) expense in the consolidated statement of comprehensive income. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

2. Significant Accounting Policies - continued

(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) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, other technologies and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets, cash generating units ("CGU").

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge. The Company's corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

The Company's impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

(i) Provisions

Provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, awards in similar cases, the expected timing of such possible awards, insurance coverage and deductibles and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible awards. The actual costs can deviate from these estimates.

A provision is recognized in the consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2012 and December 31, 2011 there were no provisions recognized in the consolidated financial statements.

2. Significant Accounting Policies - continued

(j) Income taxes

Income tax expense for the year consists of current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to a business combination or items recognized in other comprehensive income (“OCI”) or directly in equity.

Taxable income differs from income as reported in the consolidated statement of comprehensive income. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

In general, deferred taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred tax asset is realized or the deferred tax liability is settled.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

(k) Foreign exchange

These consolidated financial statements have been presented in United States (U.S.) dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net income.

Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component of other comprehensive income.

(l) Significant accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. the reporting date. On an ongoing basis, management evaluates its judgments and estimates in relation to revenue, expenses, assets and liabilities. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

2. Significant Accounting Policies - continued

(l) Significant accounting estimates and judgments - continued

The following are the most significant accounting judgments and estimates made by the Company in applying accounting policies:

Judgments

Determining cash generating units ("CGU's")

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use.

Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

Estimates

Valuation of amounts receivables

Amounts receivable are reviewed on a regular basis to estimate recoverability of balances. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Inventory

The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates.

Share-based payments

The Corporation uses an option pricing model to determine the fair value of share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Depreciation and amortization

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.

2. Significant Accounting Policies - continued

(l) Significant accounting estimates and judgments - continued

Transfer pricing
The Company has conducted a study of its internal policies with respect to transfer pricing within the consolidated group. The consolidated income tax provision provivded 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.

(m) Share-based compensation plan
The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to earnings with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services recovered. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or services.

(n) Per share amounts
Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. The Company 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.

(o) 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 IAS 38, "Intangible Assets", 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.

2. Significant Accounting Policies - continued

(p) Segmented information

The Company and its wholly owned subsidiaries are grouped into three geographical segments in the United States, Canada, and Barbados and each are supported by a corporate segment. The three geographical segments share common economic characteristics. The Operating Segments' financial results are reviewed regularly by the Company's chief operating decision-makers ("CODM"). The CODM make decisions about resource allocation and assess segment performance based on the internally prepared segment information.

(q) Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurements in subsequent periods depends on whether the financial instrument has been classified as "at fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "at fair value through profit or loss" are measured at fair value with changes in fair value recognized in net income. Financial assets classified "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Transaction costs related to fair value financial assets and liabilities are included in net income when incurred.

Cash and share purchase warrants are designated as "at fair value through profit or loss" and are 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 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.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

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

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Cash and investments of the Company are measured at Level 1. Share purchase warrants are measured at level 2.

2. Significant Accounting Policies - continued

(q) Financial Instruments - continued
A financial asset is assessed at each reporting date to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value and any amounts in OCI are transferred to earnings. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(r) Capital Disclosures
The Company discloses its objective, policies and processes for managing capital.

(s) Recent accounting pronouncements
In November 2009, the International Accounting Standards Board ("IASB") published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities "at fair value through profit or loss". If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently assessing the impact upon implementation of the issued standard.

IFRS 10, "Consolidated Financial Statements" has been issued and is effective for periods beginning on or after January 1, 2013. This standard will replace all of the existing guidance on control and consolidation in IAS 27, Consolidated and separated financial statements and SIC12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control so the same criteria are applied to all entities to determine control and includes detailed guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The Company does not expect the impact of the standard to be significant.

IFRS 11, "Joint Arrangements" has been issued and is effective for periods beginning on or after January 1, 2013. The new rules are aimed at providing investors with greater clarity about a participant's involvement in a joint arrangement. The key change in relation to the participant's contractual rights and obligations arising from their joint arrangements will determine the accounting under IFRS 11 rather than the arrangement's legal form. The Company does not expect the impact of the standard to be significant.

2. Significant Accounting Policies - continued

(s) Recent accounting pronouncements - continued

IFRS 12, “Disclosure of interest in other entities” has been issued and is effective for periods beginning on or after January 1, 2013. IFRS 12 sets out the required disclosures for entities reporting under the two new standards IFRS 10 and IFRS 11 *Joint arrangements*. The new rules also replace the disclosure requirements currently found in IAS 28 *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Company does not expect the impact of the standard to be significant.

On May 12, 2011, the IASB issued IFRS 13, “Fair value measurements,” which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied prospectively. The Company uses fair value measurements in the preparation of its consolidated financial statements and consequently will be subject to the new requirements.

In June 2011, the IASB amended IAS 1, “Presentation of Financial Statements.” The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Company’s fiscal years beginning on January 1, 2013, with earlier application permitted. The Company does not expect any changes to its consolidated financial statement presentation from this amendment as the items within OCI that may be reclassified to the statement of income are already grouped together.

3. Inventory

The major components of inventory are classified as follows:

	December 31, 2012	December 31, 2011
Raw materials	**$ 490,912**	$ 481,443
Finished goods	**1,875,108**	2,661,854
	$ 2,366,020	$ 3,143,297

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold was $2,398,975 (December 31, 2011 - $2,499,754). A non-recurring write-down of obsolete finished goods was incurred in the amount of $585,107 (December 31, 2011 - $nil). There were recurring inventory write-downs included in cost of goods sold in the amount of $119,550 (December 31, 2011 - $nil).

4. Investments

As at December 31, 2012, long-term investments consists of an available-for-sale investment in the common shares of a public company accounted for at fair value. The investment consists of shares which have been released from escrow pursuant to the escrow agreement Form 5D. 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.

A non-brokered private placement additional investment of 1,375,000 shares at a purchase price of $0.08 CAD was completed on July 5, 2011. The Company's investments are recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

		Carrying Amount
Investments at December 31, 2010	$	176,176
Purchase 1,375,000 shares, July 5, 2011		114,594
Gain from market price valuation		45,468
Investments at December 31, 2011	$	336,238
Gain from market price valuation		**62,136**
Investments at December 31, 2012	**$**	**398,374**

5. Property, Plant and Equipment

	December 31, 2012			December 31, 2011		
	Additions	**Cost**	**Accumulated Amortization**	Additions	Cost	Accumulated Amortization
Land	**$ -**	**$ 770,000**	**$ -**	$ -	$ 770,000	$ -
Building	**-**	**1,494,410**	**559,929**	-	1,494,410	520,992
Production and other equipment	**656,834**	**13,185,775**	**2,940,865**	144,027	12,528,941	2,600,978
Computer equipment	**9,619**	**151,800**	**126,614**	4,944	142,181	112,557
Vehicle	**-**	**28,400**	**26,371**	-	28,400	22,315
Non consumable tooling	**634,771**	**4,654,536**	**2,822,051**	491,083	4,018,765	2,349,829
	$1,301,224	**$20,284,921**	**$ 6,475,830**	$ 640,054	$18,982,697	$5,606,671
Net book value		**$13,809,091**			$13,376,026	

Equipment not in service not subject to amortization in the amount of $1,748,130 (December 31, 2011 - $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 management. An amount of $1,111,149 (December 31, 2011 - $749,276) 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.

For 2012 and 2011, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value annual salary would approximate $140,000 (2011 - $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 outstanding an unsecured interest free loan to two employees in the amount of $40,000 (December 31, 2011 - $20,000) related to the acquisition of property with maturity dates in 2016 and 2017. Other employees have received unsecured interest free loans from the Company with amounts due totalling $20,253 (December 31, 2011 - $11,165), with a current portion of $13,176 (December 31, 2011 - $6,050), repayable in bi-weekly installments with maturity dates in 2013 and 2014. The Company has issued a loan to the Chief Executive Officer for $276,669 (December 31, 2011 - $106,096) at a 5% interest rate and with a maturity date in 2014. The loan is secured by the related property.

Significant subsidiaries:

The tables set forth below provide information relative to Omni-Lite Industries Canada Inc.'s significant subsidiaries, including each such entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by Omni-Lite Industries Canada Inc., a brief description of the entity, and the market areas served, if applicable.

Company (Jurisdiction of Incorporation/ Formation)	Percentage of ownership by Omni-Lite Industries Canada, Inc	Overview	Market Area
Omni-Lite Industries California Inc. (California USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc, which was formed and incorporated on October 4, 1985. It is the head office which conducts research and development, and production operations.	United States
Omni-Lite Properties Inc. (California USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated on December 26, 2000. It owns the property and significant equipment for the head office.	United States
Omni-Lite Industries International Inc. (Barbados)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated in Barbados on February 8, 2005. It conducts all international sales in the sports and recreation division.	International
Formed Fast International Inc. (Barbados)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated in Barbados on February 24, 1998. It is an investment holding company.	International

7. Income Taxes

	2012	2011
Statutory tax rate	**25.00%**	26.50%
Income taxes at the statutory rate	**$ (86,782)**	$ 552,059
Rate differential on income earned in foreign jurisdictions	**(274,683)**	(58,627)
Unrealized gain on share purchase warrants	**(33,743)**	(332,935)
Share-based compensation	**16,220**	13,197
Share issue costs	**(539)**	(243,494)
Change in deferred tax asset not recognized	**(11,869)**	247,262
Tax rate differences	**-**	416
Permanent items	**5,078**	1,060
Change in estimate from prior year	**(173,554)**	(12,895)
Other	**2,299**	(41,459)
	$ (557,573)	$ 124,584

Principal components of the net deferred tax liability are:

Deferred tax asset:	**December 31, 2012**	December 31, 2011
Unused tax losses carry forward	**$ 830,078**	$ 158,772
Share Issue Costs	**145,830**	195,035
Property, plant and equipment	**2,288**	2,937
Inventory / COGS	**150,499**	176,643
Total deferred tax asset	**1,128,695**	533,387
Deferred tax asset not recognized	**(239,993)**	(251,862)
Net deferred tax asset	**$ 888,702**	$ 281,525
Deferred tax liability:		
Property, plant and equipment	**$ (3,387,066)**	$ (3,349,347)
Total deferred tax liability	**(3,387,066)**	(3,349,347)
Net deferred tax liability	**$ (2,498,364)**	$ (3,067,822)
Income tax expense (recovery):		
Current	**$ 11,885**	$ (85,220)
Deferred	**(569,458)**	209,804
	$ (557,573)	$ 124,584

The Company has non-capital losses of $367,497 in Canada which begin to expire in 2031 and US federal net operating losses of $1,458,998, which begin to expire in 2032.

8. Compensation of Key Management Personnel

The remuneration of key management personnel during the year was as follows:

	December 31, 2012	December 31, 2011
Remuneration	**$ 373,270**	$ 358,074

Key management personnel of the Company include the Chief Executive Officer, President, Vice-president and Chief Financial Officer.

9. Long-term Debt

	December 31, 2012	December 31, 2011
Effective October 2011, the Company refinanced a long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to $2,400,000, including a term loan facility in the amount of $1,200,000 bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), (3.5% effective average interest rate), maturing on September 30, 2014, repayable in monthly principal installments of $33,333. The Credit Agreement also includes a commercial advance line of up to $1,200,000 for operating purposes, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), maturing on August 31, 2013. The available credit line at December 31, 2012 was $1,200,000 (December 31, 2011 - $1,200,000). The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company. Under this agreement, the Company has agreed to certain conditions and financial covenant ratios, based on financial results including net worth, current and debt service ratios, and profitability, which have been met with one exception which was waived subsequent to December 31, 2012. Advances are automatically repayable daily with available funds after clearing operating disbursements.	**$ 733,333**	$ 1,133,333
Promissory note, total principal amount $800,000 with 60-month term, bearing interest at LIBOR plus 1.85% per annum (2.4% effective average interest rate in 2012 and 2011). Secured by equipment with a net book value of $677,778 (December 31, 2011 – $704,444). Maturing on July 15, 2013, repayable in monthly principal and interest installments of $14,962.	**102,062**	271,104

9. Long-term Debt - continued

	December 31, 2012	December 31, 2011
Promissory note, total principal amount $692,800 with 60-month term, bearing interest at LIBOR plus 1.85% per annum (2.4% effective average interest rate in 2012 and 2011). Secured by equipment with a net book value of $567,549 (December 31, 2011 – $564,836). Maturing on July 15, 2013, repayable in monthly principal and interest monthly installments of $12,957.	**88,386**	234,776
	$ 923,781	$ 1,639,213
Less: current portion	**(923,781)**	(1,460,442)
	$ -	$ 178,771

There were no borrowing costs capitalized during the year ended December 31, 2012 (December 31, 2011 – nil). The credit facilities of the Company are subject to annual review.

Estimated principal repayments are as detailed below:

2013	$ 623,781
2014	300,000
	$ 923,781

10. Share Capital

(a) Authorized
Unlimited number of common shares with no par value.

(b) Issued

Share capital	**Number of Shares**	**Amount**
Total issued and outstanding, December 31, 2010	10,233,866	$ 5,046,031
Issued under private placement	3,220,000	5,616,339
Issued upon exercise of stock options	15,000	17,316
Share issuance costs	-	(640,975)
Broker options commissions	-	(332,819)
Cancelled on repurchase under normal course issuer bid	(355,600)	(301,664)
Total issued and outstanding, December 31, 2011	13,113,266	$ 9,404,228
Issued upon exercise of stock options	**25,666**	**28,939**
Share issuance costs	**-**	**(2,157)**
Cancelled on repurchase under normal course issuer bid	**(858,300)**	**(616,077)**
Total issued and outstanding, December 31, 2012	**12,280,632**	**$ 8,814,933**

10. Share Capital - continued

(b) Issued- continued

On February 16, 2011, Omni-Lite completed a private placement of 3,220,000 Units at $2.15 CAD per Unit for total proceeds of $6,923,000 CAD. Each Unit was comprised of one (1) common share and one-half of one (1) common share purchase warrant exercisable at $2.70 CAD per common share until February 16, 2013. These warrants were valued at $0.85 CAD per warrant for a total of $1,374,519 CAD. As part of the commission, the Company issued brokers options to purchase 225,400 Units at $2.15 CAD per Unit until February 16, 2013. Each Unit was comprised of one (1) common share and one-half of one (1) common share purchase warrant exercisable at $2.70 CAD per common share. These options were valued at $1.03 CAD per common share and $0.85 CAD per warrant for a total of $328,797 CAD. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.94%, expected volatility of 67.44% and an expected life of two (2) years. The total costs to complete the private placement were $638,454, which included a 7% broker cash commission on gross proceeds.

Warrants

	Number	Amount
Total issued and outstanding, December 31, 2010	-	$ -
Issuance of warrants	1,610,000	1,391,329
Unrealized gain on share purchase warrants	-	(1,256,357)
Total issued and outstanding, December 31, 2011	1,610,000	$ 134,972
Unrealized gain on share purchase warrants	**-**	**(134,972)**
Total issued and outstanding, December 31, 2012	**1,610,000**	**$ -**

Upon adoption of IFRS at January 1, 2011, the Company recorded an adjustment as a result of accounting for share purchase warrants issued using the principles of IAS 32, Financial Instruments: Recognition and Measurement (Note 2). As the exercise price of the share purchase warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At December 31, 2012 the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $nil (December 31, 2011 - $134,972). The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in earnings during the period of change. The change in fair value for the year ended December 31, 2012 was a gain of $134,972 (December 31, 2011 - $1,256,357). The fair value of share purchase warrants is reclassified to equity upon exercise.

10. Share Capital - continued

(c) Share options

The Company has granted share 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, 2010		749,500	CAD $0.60 to $2.55	CAD $1.32
Options	- granted	40,000	CAD $1.38 to $2.00	CAD $1.82
	- exercised	(15,000)	CAD $0.60 to $0.90	CAD $0.77
	- forfeited	(48,486)	CAD $0.60 to $0.90	CAD $0.70
	- expired	(123,333)	CAD $1.98 to $2.55	CAD $2.40
Options outstanding at Dec. 31, 2011		602,681	CAD $0.60 to $2.55	CAD $1.20
Options	**- granted**	**215,000**	**CAD $1.38 to $2.00**	**CAD $1.41**
	- exercised	**(25,666)**	**CAD $0.60 to $0.90**	**CAD $0.78**
	- forfeited	**(56,502)**	**CAD $0.60 to $2.00**	**CAD $1.49**
	- expired	**(140,834)**	**CAD $0.60 to $2.55**	**CAD $2.36**
Options outstanding at December 31, 2012		**594,679**	**CAD $0.60 to $2.00**	**CAD $0.99**
Options exercisable at December 31, 2012		**235,672**	**CAD $0.60 to $0.90**	**CAD $0.76**

The weighted average fair value of options granted during the year ended December 31, 2012 was $1.41 CAD (December 31, 2011 - $0.70 CAD)

The Company established a share 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. From grant date, options vest at one-third of the total grant annually with an expiration term of 5 years. The current stock option plan was approved by shareholders on December 8, 2011 and notification of acceptance of filing by the TSX Venture Exchange was given on April 3, 2012.

The options that are outstanding at December 31, 2012 are summarized as follows:

Options Outstanding	**Option price**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**
379,679	**CAD $0.60 to $0.90**	**CAD $0.75**	**2.23 years**
215,000	**CAD $1.38 to $2.00**	**CAD $1.41**	**4.27 years**
594,679	**CAD $0.60 to $2.00**	**CAD $0.99**	**2.96 years**

Number of Options Currently Vested	**Option price**	**Weighted Average Exercise Price of Options Currently Exercisable**	**Weighted Average Remaining Contractual Life**
235,672	**CAD $0.60 to $0.90**	**CAD $0.76**	**2.20 years**

10. Share Capital - continued

(c) Share options - continued

The options that are outstanding at December 31, 2011 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
421,847	CAD $0.60 to $0.90	CAD $0.75	3.22 years
40,000	CAD $1.38 to $2.00	CAD $1.82	4.59 years
140,834	CAD $2.01 to $2.43	CAD $2.36	0.75 years
602,681	CAD $0.60 to $2.43	CAD $1.20	2.73 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
107,189	CAD $0.60 to $0.90	CAD $0.77	3.16 years
140,834	CAD $2.00 to $2.43	CAD $2.36	0.75 years
248,023	CAD $0.60 to $2.43	CAD $1.67	1.79 years

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

	December 31, 2012	December 31, 2011
Risk free interest rate (%)	**1.5 – 3.0%**	1.5 – 3.0%
Expected life (years)	**5**	5
Volatility rate (%)	**60 – 70%**	60 – 70%
Dividend yield (%)	**1.00 – 3.00%**	1.00 – 2.50%
Forfeiture rate (%)	**26.8%**	26.8%

In estimating expected stock price volatility at the time of a particular stock option grant, the Company relies on observations of historical volatility trends.

(d) Normal course issuer bid
During the year, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 858,300 (December 31, 2011 – 355,600) of its issued and outstanding common shares. The Company repurchased the common shares for $1,019,965 resulting in a $616,077 reduction in share capital and a $403,888 decrease in retained earnings.

11. 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 from products sold based on the Company locations for each of these segments as follows:

December 31, 2012	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 4,863,803**	**$ -**	**$ 1,149,211**	**$ (642,480)**	**$ 5,370,534**
Net income/(loss)	**(382,675)**	**127,838**	**465,285**	**-**	**210,448**

December 31, 2011	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	$ 5,974,386	$ -	$ 1,294,130	$ (754,433)	$ 6,514,083
Net income	277,160	1,189,712	491,784	-	1,958,656

12. Commitments

The Company has agreements with various customers, in the normal course of operations, to supply components in 2013 and 2014.

13. Financial Instruments

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

	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	**$ 2,745,856**	**$ 2,745,856**	$ 5,231,092	$ 5,231,092
Share purchase warrants	**-**	**-**	134,972	134,972
Loans and receivable				
Accounts receivable	**712,029**	**712,029**	861,732	861,732
Due from related parties	**1,448,071**	**1,448,071**	886,537	886,537
Available for sale				
Investments	**398,374**	**398,374**	336,238	336,238
Other financial liabilities				
Accounts payable and accrued liabilities	**297,942**	**297,942**	437,535	437,535
Long-term debt	**923,781**	**923,781**	1,639,213	1,639,213

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 2,745,856	$ 2,745,856	$ -	$ -
Investments	398,374	398,374	-	-

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 statement of financial position contracts to manage these risks.

13. Financial Instruments - continued

Interest rate risk

The Company's revolving line of credit and the two promissory note 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, 2012, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $9,238 (December 31, 2011 - $16,392). The related disclosures regarding these debt instruments are included in Note 9 of these consolidated financial statements.

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. At December 31, 2012, 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 December 31, 2012	USD December 31, 2011
Cash	**$ (4,813)**	$ 177,363
Accounts payable	**83,618**	91,524

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	**$ 8,843**
U.S. Dollar Exchange Rate – 10% decrease	**(8,843)**

13. Financial Instruments - continued

Other 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 statement of financial position at fair value as of the statement of financial position 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 year'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, 2012:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 297,942	$ -	$ -	$ -	$ 297,942
Long-term debt	623,781	300,000	-	-	923,781
Total	$ 921,723	$ 300,000	$ -	$ -	$ 1,221,723

The bank loans may be prepaid in whole or in part at any time without penalty.

Credit Risk
The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the year ended December 31, 2012, the Company was engaged in contracts for products with three (December 31, 2011 – four) customers in excess of 10% of revenue, which accounted for $2,822,515 (December 31, 2011 - $3,794,207) or 53% (December 31, 2011 – 58%) of the Company's total revenue. During the same period, export sales to two (December 31, 2011 – two) customers in various international countries (outside of the United States) amounted to $897,365 (December 31, 2011 - $961,203) or 17% (December 31, 2011 – 15%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of the age of our past due accounts receivables which are not considered impaired.

Total	**Current**	**≤ 30 days**	**> 30 days ≤ 60 days**	**60 days ≤ 90 days**	**> 90 days**
$ 712,029	$ 493,121	$ 174,395	$ 36,575	$ -	$ 7,938

14. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	December 31, 2012	December 31, 2011
Balance, beginning of period	**$ 1,485,988**	$ 1,124,861
Share-based compensation	**64,880**	49,800
Exercise of options	**(9,027)**	(5,600)
Broker options commissions	**-**	332,819
Relinquishment of options	**(2,174)**	(15,892)
Balance, end of period	**$ 1,539,667**	$ 1,485,988

15. 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.

379,679 (December 31, 2011 – 142,500) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2012, because their exercise price was greater than the annual average common share market price for the year. Outstanding options and warrants were the only potential dilutive instruments.

16. 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:

17. 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 maintains a credit rating that is appropriate for their circumstances.

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.

18. Comparative figures

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