

**Omni-Lite Industries Canada Inc.**  
**Consolidated Financial Statements**  
For the six month period ended June 30, 2001  
(Unaudited – See Notice to Reader)

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## Notice to Reader

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We have compiled the consolidated interim balance sheet of Omni-Lite Industries Canada Inc. as at June 30, 2001 and the consolidated interim statement of operations and retained earnings and cash flows for the interim period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

### **Chartered Accountants**

Calgary, Alberta  
August 3, 2001

**Omni-Lite Industries Canada Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited – See Notice to Reader)**  
**United States Dollars**

<b>As at</b>	<b>June 30, 2001</b>	<b>December 31, 2000 (audited)</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 69,500	\$ 121,862
Accounts receivable	523,842	675,619
Inventory (Note 3)	853,409	520,195
Prepaid expenses	5,902	3,952
	<u>1,452,653</u>	<u>1,321,628</u>
<b>Investment</b>	<b>102,986</b>	<b>102,986</b>
<b>Capital assets (Note 4)</b>	<b>4,611,261</b>	<b>4,381,402</b>
<b>Deferred development and patent expenditures (Note 5)</b>	<b>660,629</b>	<b>579,465</b>
	<u>\$ 6,827,529</u>	<u>\$ 6,385,481</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 230,211	\$ 191,004
Income taxes payable	13,935	8,935
Due to related parties (Note 6)	672,470	701,768
Current portion of long-term debt	58,445	58,445
	<u>975,061</u>	<u>960,152</u>
<b>Long-term debt</b>	<b>1,362,555</b>	<b>1,333,555</b>
<b>Future income taxes</b>	<b>375,000</b>	<b>330,000</b>
	<u>2,712,616</u>	<u>2,623,707</u>
<b>Share capital (Note 7)</b>	<b>2,239,519</b>	<b>2,249,923</b>
<b>Retained earnings</b>	<b>1,875,394</b>	<b>1,511,851</b>
	<u>4,114,913</u>	<u>3,761,774</u>
	<u>\$ 6,827,529</u>	<u>\$ 6,385,481</u>

On behalf of the Board:

*"Signed"* \_\_\_\_\_ Director  
David Grant

*"Signed"* \_\_\_\_\_ Director  
Robert Inkster

**Omni-Lite Industries Canada Inc.**  
**Consolidated Interim Statements of Income and Retained Earnings**  
**(Unaudited – See Notice to Reader)**  
**United States Dollars**

	For the six month period ended June 30, 2001	For the six month period ended June 30, 2000	For the three month period ended June 30, 2001	For the three month period ended June 30, 2000
<b>Revenue</b>	\$ 983,559	\$ 817,930	\$ 520,653	\$ 397,963
<b>Cost of goods sold</b>	<u>254,292</u>	<u>202,992</u>	<u>129,238</u>	<u>114,024</u>
<b>Gross margin</b>	<u>729,266</u>	<u>614,938</u>	<u>391,415</u>	<u>283,939</u>
<b>Overhead expenses</b>				
Amortization	134,663	67,500	69,050	34,250
General and administrative	205,456	199,943	58,826	60,273
Interest on long-term debt	54,656	21,137	47,607	13,260
	<u>394,775</u>	<u>288,580</u>	<u>175,483</u>	<u>107,783</u>
<b>Income before the undernoted</b>	334,491	326,358	215,932	176,156
<b>Other income</b>				
Rental	<u>105,914</u>	<u>-</u>	<u>70,610</u>	<u>-</u>
<b>Income before income taxes</b>	<u>440,405</u>	<u>326,358</u>	<u>286,542</u>	<u>176,156</u>
<b>Income taxes</b>				
Current	6,324	11,589	6,325	6,255
Future	45,000	16,318	11,000	8,807
	<u>51,324</u>	<u>27,907</u>	<u>17,325</u>	<u>15,062</u>
<b>Net income for the period</b>	389,081	298,451	269,217	161,094
Retained earnings, beginning of period	1,511,851	963,501	1,631,715	1,100,858
Purchase price of common shares repurchased in excess of carrying value (Note 7(b))	<u>(25,538)</u>	<u>-</u>	<u>(25,538)</u>	<u>-</u>
<b>Retained earnings, end of period</b>	\$ 1,875,394	\$ 1,261,952	\$ 1,875,394	\$ 1,261,952
<b>Earnings per share</b>	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.02
<b>Weighted average shares outstanding</b>	9,898,842	9,753,902	9,893,836	9,753,902

**Omni-Lite Industries Canada Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited – See Notice to Reader)**  
**United States Dollars**

	For the six month period ended June 30, 2001	For the six month period ended June 30, 2000	For the three month period ended June 30, 2001	For the three month period ended June 30, 2000
<b>Cash flows from operating activities</b>				
Net income for the period	\$ 389,081	\$ 298,451	\$ 269,217	\$ 161,094
Adjustments for:				
Amortization	134,663	67,500	69,050	34,250
Future income taxes	45,000	16,318	11,000	8,807
Cash flow from operations	<u>568,744</u>	<u>382,269</u>	<u>349,267</u>	<u>204,151</u>
Net change in assets and liabilities				
Accounts receivable	151,777	(86,605)	170,421	(59,337)
Inventory	(333,214)	(221,330)	(184,939)	(120,990)
Prepaid expenses	(1,950)	-	4,656	-
Accounts payable and accrued liabilities	39,207	(121,473)	(17,544)	(103,821)
Income taxes payable	5,000	-	5,000	-
	<u>429,564</u>	<u>(47,139)</u>	<u>326,861</u>	<u>(79,997)</u>
<b>Cash flows from financing activities</b>				
Due to related parties	(29,298)	79,817	(25,298)	121,620
Repurchase of common shares	(35,942)		(35,942)	
Proceeds (repayment) from (of) long-term debt	29,000	38,494	(110,000)	103,495
	<u>(36,240)</u>	<u>118,311</u>	<u>(171,240)</u>	<u>225,115</u>
<b>Cash flows from investing activities</b>				
Deferred development and patent expenditures	(128,820)	(21,402)	(97,433)	(21,041)
Purchase of capital assets	(316,866)	(12,662)	(7,521)	(16,917)
Purchase of investments	-	(85,034)	-	(85,034)
	<u>(445,686)</u>	<u>(119,098)</u>	<u>(104,954)</u>	<u>(122,992)</u>
<b>Increase (decrease) in cash</b>	<b>(52,362)</b>	<b>(47,926)</b>	<b>50,667</b>	<b>22,126</b>
<b>Cash, beginning of period</b>	<b>121,862</b>	<b>96,640</b>	<b>18,833</b>	<b>26,588</b>
<b>Cash, end of period</b>	<b>\$ 69,500</b>	<b>\$ 48,714</b>	<b>\$ 69,500</b>	<b>\$ 48,714</b>

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**Omni-Lite Industries Canada Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – See Notice to Reader)**  
**United States Dollars**

**June 30, 2001**

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**1. Nature of Operations**

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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 operations are located in Calgary, with research and development and production operations in Cerritos, California, U.S.A. and an international office in Barbados. 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.

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**2. Significant Accounting Policies**

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The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make 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 judgement with reasonable limits of materiality. These interim consolidated financial statements should be read in conjunction with the most recent annual financial statements. The significant accounting policies follow that of the most recently reported annual consolidated financial statements except for the following:

(a) Per share amounts

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

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**Omni-Lite Industries Canada Inc.**  
**Notes to Consolidated Financial Statements**  
**United States Dollars**

**June 30, 2001**

**3. Inventory**

The major components of inventory are classified as follows:

	<b>June 30, 2001</b>	December 31, 2000 (audited)
Raw materials	\$ 56,860	\$ 35,469
Finished goods	<u>796,549</u>	<u>484,726</u>
	<b>\$ 853,409</b>	<b>\$ 520,195</b>

**4. Capital Assets**

	<b>June 30, 2001</b>		December 31, 2000 (audited)	
	<b>Cost</b>	<b>Accumulated Amortization</b>	Cost	Accumulated Amortization
Land	\$ 770,000	\$ -	\$ 770,000	\$ -
Building	1,209,579	39,549	1,212,731	-
Production and other equipment	2,892,244	247,120	2,582,515	199,682
Computer equipment	45,116	19,009	30,734	14,896
	<u>\$ 4,916,939</u>	<u>\$ 305,678</u>	<u>\$ 4,595,980</u>	<u>\$ 214,578</u>
Net book value	<b>\$ 4,611,261</b>		<b>\$ 4,381,402</b>	

**5. Deferred Development and Patent Expenditures**

	<b>June 30, 2001</b>		December 31, 2000 (audited)	
	<b>Cost</b>	<b>Accumulated Amortization</b>	Cost	Accumulated Amortization
Deferred development and patent expenditures	<u>\$ 1,022,404</u>	<u>\$ 361,775</u>	<u>\$ 893,584</u>	<u>\$ 314,119</u>
Net book value	<b>\$ 660,629</b>		<b>\$ 579,465</b>	

**Omni-Lite Industries Canada Inc.**  
**Notes to Consolidated Financial Statements**  
**United States Dollars**

**June 30, 2001**

**6. Due to Related Parties**

Due to related parties includes an amount of \$672,470 (December 31, 2000 - \$665,766) to a director and shareholder of the Company, which is unsecured, non-interest bearing and has no set terms of repayment. Included is also a loan from another director of the Company in the amount of \$nil (December 31, 2000 - \$32,002). This loan bore interest at 9% per annum and has been repaid on April 2001.

**7. Share Capital**

(a) Authorized

Unlimited number of common shares

(b) Issued

	For the 6 months ending June 30, 2001		For the year ended December 31, 2000 (audited)	
	Number of Shares	Amount	Number of Shares	Amount
<b>Total issued and outstanding, begin of period</b>	<b>9,903,902</b>	<b>\$2,249,923</b>	10,753,902	\$2,169,387
Repurchase of shares under normal course issuer bid <sup>(2)</sup>	(45,800)	(10,404)		
Issued for cash upon exercise of stock options	-	-	150,000	80,536
Returned to treasury <sup>(1)</sup>	-	-	(1,000,000)	-
<b>Total issued and outstanding, end of period</b>	<b>9,858,102</b>	<b>\$2,239,519</b>	9,903,902	\$2,249,923

<sup>(1)</sup> 500,000 (December 31, 2000 - 500,000) shares are held subject to a performance escrow. These shares will remain in escrow pending certain financial milestones that would be a direct benefit to the Company.

<sup>(2)</sup> During the current period, the Company repurchased 45,800 of its common shares at a purchase cost of \$35,942 resulting in a \$10,404 reduction in share capital and a \$25,538 decrease in retained earnings.

(c) Stock options

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

	Number of Shares	Option Price per Share Range	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2000	726,333	CDN \$0.60 to \$2.50	CDN \$1.27
Options - exercised/granted	160,000	CDN\$ 0.98 to \$1.20	CDN \$1.12
<b>Options outstanding, June 30, 2001</b>	<b>886,333</b>	<b>CDN \$0.60 to \$2.50</b>	<b>CDN \$1.24</b>
<b>Options exercisable at June 30, 2001</b>	<b>681,333</b>	<b>CDN \$0.60 to \$2.50</b>	<b>CDN \$1.27</b>



**Omni-Lite Industries Canada Inc.**  
**Notes to Consolidated Financial Statements**  
**United States Dollars**

**June 30, 2001**

**7. Share Capital - continued**

The options that are exercisable at June 30, 2001 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Contractual Life	Number of Options Currently Vested	Weighted Average Exercise Price of Options Currently Exercisable
93,000	CDN \$0.60 to \$0.99	CDN \$ 0.85	1.3 years	33,000	CDN \$0.60
736,667	CDN \$1.00 to \$1.99	CDN \$ 1.23	2.0 years	591,667	CDN \$1.22
<u>56,666</u>	CDN \$2.00 to \$2.50	CDN \$ 2.15	2.9 years	<u>56,666</u>	CDN \$2.15
886,333				681,333	

**8. Segmented Information**

**Operating Segments:**

The Company operates as one operational segment selling specialized products to the Sports and Recreation, Automobile, Aerospace, Military and Commercial Industries.

**Geographic Segments:**

The Company has its operations and subsidiaries in the United States, Canada and in Barbados. The Company has utilized and reported revenues based on the Company locations for each of these segments as follows:

June 30, 2001	United States	Canada	International	Inter-corporate elimination	Total
Revenues	\$ 358,642	\$ -	\$ 936,510	\$ (311,593)	\$ 983,559
Capital assets	\$ 4,597,100	\$ 14,161	\$ -	\$ -	\$ 4,611,261
December 31, 2000	United States	Canada	International	Inter-corporate elimination	Total
Revenues	\$ 910,209	\$ -	\$ 1,740,591	\$ (849,034)	\$ 1,801,766
Capital assets	\$ 4,364,669	\$ 16,733	\$ -	\$ -	\$ 4,381,402

**9. Commitments**

There have been no material changes in the existence, likelihood or amount of commitments from the preceding annual consolidated financial statements.