Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the interim six month period ended June 30, 2010
(Unaudited – Prepared by Management)
(in United States Dollars)

Contents

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended June 30, 2010.

NOTICE TO THE READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of Omni-Lite Industries Canada Inc. and the accompanying interim consolidated balance sheet as at June 30, 2010 and the interim consolidated statements of earnings, retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the six month period ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Meyer Norris Penny LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

*"**David F. Grant**" signed*

David F. Grant
Chief Executive Officer
Cerritos, California, USA
July 21, 2010

*"**Timothy Wang**" signed*

Timothy Wang
Chief Financial Officer
Cerritos, California, USA
July 21, 2010

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

As at	**June 30, 2010 (unaudited)**	December 31, 2009 (audited)
Assets		
Current		
Cash	**$ 239,167**	$ 39,935
Accounts receivable	**1,004,019**	744,809
Inventory	**3,319,892**	3,374,041
Income taxes receivable	**-**	167,549
Prepaid expenses	**74,282**	62,962
	4,637,360	4,389,296
Investments (Note 3)	**184,884**	184,778
Property, plant and equipment	**13,451,472**	12,999,246
Due from related parties (Note 5)	**447,039**	342,203
Future income tax asset	**218,600**	218,600
	$ 18,939,355	$ 18,134,123
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 857,349**	630,910
Income taxes payable	**121,362**	-
Current portion of long-term debt (Note 6)	**740,498**	1,290,670
	1,719,209	1,921,580
Long-term debt (Note 6)	**1,922,689**	2,285,876
Future income tax liability	**2,827,338**	2,661,338
	6,469,236	6,868,794
Share capital (Note 7(b))	**5,046,031**	5,519,546
Share subscription receivable	**-**	(492,459)
Contributed surplus (Note 11)	**1,091,793**	1,076,478
Retained earnings	**6,334,401**	5,163,975
Accumulated other comprehensive income	**(2,106)**	(2,211)
	12,470,119	11,265,329
	$ 18,939,355	$ 18,134,123

On behalf of the Board:

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

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

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

Omni-Lite Industries Canada Inc.
Consolidated Statements of Income
United States Dollars
(Unaudited – prepared by management)

	For the six month period ended June 30, 2010	For the six month period ended June 30, 2009	**For the three month period ended June 30, 2010**	For the three month period ended June 30, 2009
Revenue	**$ 4,273,781**	$ 2,125,198	**$ 2,439,705**	$ 1,151,296
Cost of goods sold	**1,296,321**	653,480	**800,475**	331,344
Gross margin	**2,977,460**	1,471,718	**1,639,230**	819,952
Overhead expenses				
Amortization	**421,874**	392,834	**214,052**	162,880
General and administrative	**723,490**	522,355	**354,476**	403,672
Royalty/Commissions	**78,062**	52,903	**52,358**	25,317
Interest on long-term debt	**50,413**	55,058	**23,176**	31,765
Stock-based compensation	**22,482**	8,950	**17,532**	4,475
Research and product design	**60,204**	104,438	**36,572**	74,652
	1,356,525	1,136,538	**698,166**	702,761
Income from operations	**1,620,935**	335,180	**941,064**	117,191
Other income/(expense)	**7,241**	-	**2,725**	-
Income before income taxes	**1,628,176**	335,180	**943,789**	117,191
Provision for income taxes				
Current	**291,750**	(56,240)	**162,900**	(115,631)
Future	**166,000**	112,500	**93,000**	62,500
	457,750	56,260	**255,900**	(53,131)
Net income	**$ 1,170,426**	$ 278,920	**$ 687,889**	$ 170,322
Earnings per share - basic (Note 13)	**$ 0.11**	$ 0.03	**$ 0.07**	$ 0.02
- diluted (Note 13)	**$ 0.11**	$ 0.03	**$ 0.07**	$ 0.02
Weighted average shares outstanding				
- basic (Note 13)	**10,503,096**	10,620,854	**10,386,633**	10,620,854
- diluted (Note 13)	**10,503,096**	10,621,079	**10,386,633**	10,620,854

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

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

(Unaudited – prepared by management)

	For the six month period ended June 30, 2010	For the six month period ended June 30, 2009	**For the three month period ended June 30, 2010**	For the three month period ended June 30, 2009
Retained earnings, beginning of period	**$ 5,163,975**	$ 4,706,967	**$ 5,646,512**	$4,815,565
Net income	**1,170,426**	278,920	**687,889**	170,322
Retained earnings, end of period	**$ 6,334,401**	$ 4,985,887	**$ 6,334,401**	$4,985,887

Consolidated Statements of Comprehensive Income
United States Dollars

(Unaudited – prepared by management)

	For the six month period ended June 30, 2010	For the six month period ended June 30, 2009	**For the three month period ended June 30, 2010**	For the three month period ended June 30, 2009
Net income	**$ 1,170,426**	$ 278,920	**$ 687,889**	$ 170,322
Other Comprehensive Income, Net of Tax (Note 5)	**105**	(20,965)	**(5,365)**	(79,920)
Comprehensive income	**$ 1,170,531**	$ 257,955	**$ 682,524**	$ 90,402

Consolidated Statements of Accumulated Other Comprehensive Income
United States Dollars

(Unaudited – prepared by management)

	For the six month period ended June 30, 2010	For the six month period ended June 30, 2009	**For the three month period ended June 30, 2010**	For the three month period ended June 30, 2009
Accumulated Other Comprehensive Income, Beginning of Period	**$ (2,211)**	$ 83,466	**$ 3,259**	$ 142,421
Other Comprehensive Income, Net of Tax (Note 5)	**105**	(20,965)	**(5,365)**	(79,920)
Accumulated Other Comprehensive Income, End of Period	**$ (2,106)**	$ 62,501	**$ (2,106)**	$ 62,501

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
(Unaudited – prepared by management)

	For the six month period ended June 30, 2010	For the six month period ended June 30, 2009	**For the three month period ended June 30, 2010**	For the three month period ended June 30, 2009
Cash flows from operating activities				
Net income for the year	**$ 1,170,426**	$ 278,920	**$ 687,889**	$ 170,322
Adjustments for:				
Amortization	**421,874**	392,834	**214,052**	162,880
Future income taxes	**166,000**	114,012	**93,000**	62,500
Stock based compensation	**15,315**	8,950	**10,365**	4,475
	1,773,615	794,716	**1,005,306**	400,177
Net change in non-cash working capital items				
Accounts receivable	**(259,210)**	250,221	**(11,335)**	(16,632)
Inventory	**54,149**	(360,699)	**166,129**	(112,756)
Prepaid expenses	**(11,319)**	(38,698)	**6,287**	(38,697)
Income taxes receivable	**167,549**	(73,031)	**41,538**	(115,631)
Accounts payable and accrued liabilities	**226,439**	(262,608)	**422,798**	158,803)
Income taxes payable	**121,362**	-	**121,362**	-
	2,072,585	309,901	**1,752,085**	275,264
Cash flows from financing activities				
Advances from related parties	**31,081**	88,088	**18,313**	18,345
Repayment to related parties	**(135,919)**	(218,523)	**(88,373)**	(135,042)
Advances of long-term debt	**1,603,822**	967,372	**798,754**	313,904
Repayment of long-term debt	**(2,517,181)**	(672,269)	**(1,586,826)**	(207,154)
Issue of common shares	**19,977**	-	**19,977**	-
Share issuance costs	**(1,033)**	-	**(1,033)**	-
	(999,253)	164,668	**(839,188)**	(9,947)
Cash flows from investing activity				
Deferred acquisition payments	**-**	(153,125)	**-**	(76,562)
Purchase of property, plant and equipment	**(874,100)**	(253,124)	**(716,840)**	(171,988)
	(874,100)	(406,249)	**(716,840)**	(248,550)
Increase (decrease) in cash	**199,232**	68,320	**196,057**	16,767
Cash/(Bank indebtedness), beginning of period	**39,935**	(7,664)	**43,110**	43,889
Cash, end of period	**$ 239,167**	$ 60,656	**$ 239,167**	$ 60,656

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. 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

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements 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 judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Consolidation
These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc. All significant inter-company balances and transactions have been eliminated.

(b) Inventory
Inventory consists of raw materials and finished goods. Inventory is carried at the lower of average actual costs (including materials, labour and allocated overhead) and net realizable value. Finished goods inventory is recorded at average standard costs of production and includes raw materials, labour and allocated overheads.

(c) Revenue recognition
Revenue is recognized when goods are shipped to the customer, all significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured.

(d) Cash and cash equivalents
Cash and cash equivalents includes short-term, highly liquid investments that mature within three months of their purchase. These investments are recorded at cost, which approximates fair value.

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.

2. Significant Accounting Policies - continued

(i) Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

(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 are 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.

2. Significant Accounting Policies - continued

(k) Measurement uncertainty (continued)

Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates. Income tax rates expected to apply when the future income tax liabilities or assets are to be settled or realized and the related valuation allowance are based on estimates and assumptions. Factors used to estimate stock based compensations are based on management's assumptions at the time the related options were granted. The consolidated financial statements also include estimates of the useful economic life of property, plant and equipment and deferred development and patent expenditures. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management based on their best estimate in this regard may be significantly different from those determined based on future operational results.

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

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

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

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

2. Significant Accounting Policies - continued

(n) Research and Development expenses
Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the CICA handbook Section 3450, “Research and Development”, are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(o) Financial Instruments
All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income (“OCI”). Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Realized and unrealized gains and losses from financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred.

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable and due from relate 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.

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.

2. Significant Accounting Policies - continued

(o) Financial Instruments - continued

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 will have no impact to the Company.

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

2. Significant Accounting Policies - continued

(q) Recent accounting pronouncements - continued

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

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

3. Investments

As at June 30, 2010, long-term investments were made up of an investment in the common shares of a public company. The Company's investments are accounted for at cost as the shares of the public company are held in escrow. When shares are released from escrow, the fair market price is recorded in the investment value. As a result of the escrow conditions the investment is recorded at a fair value of $184,884. (December 31, 2009 - $184,778).

4. Property, Plant and Equipment

	June 30, 2010		2009	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 770,000**	**$ -**	$ 770,000	$ -
Building	**1,494,410**	**458,346**	1,494,410	436,771
Production and other equipment	**11,913,809**	**2,077,351**	11,352,128	1,917,820
Computer equipment	**132,671**	**87,467**	109,203	79,601
Vehicle	**28,400**	**16,229**	28,400	14,200
Non consumable tooling	**3,300,054**	**1,548,479**	3,011,446	1,317,949
	$ 17,639,344	**$ 4,187,872**	$ 16,765,587	$ 3,766,341
Net book value	**$13,451,472**		$12,999,246	

5. Related Party Transactions

Due from related parties includes an amount of $239,804 (2009 - $144,235) from California Nanotechnologies Corp. bearing interest at 5% per annum. The loan is secured by all the assets of California Nanotechnologies, Inc.

In the first half of the year, the Company received $12,000 (2009 - $39,000) in management fees from California Nanotechnologies Corp. The transaction was conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

For 2010, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value of the annual 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 $25,000 related to the acquisition of various properties under the Green Initiatives Employee Benefits program. The loan is secured by the value of the related property and is to be repaid in five years. The Company has issued a loan to one of its officers and directors for $182,235 at a 5% interest rate and is to be repaid in five years. The loan is secured by the related property.

6. Long-term Debt

	June 30, 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%) maturing on October 30, 2012, repayable in monthly installments of $33,333.	**$ 1,700,000**	$ 1,933,334
The Credit Agreement also includes a commercial advance line of up to $750,000 for operating purposes, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%) maturing on October 30, 2010. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the company. Under this agreement, the company has agreed to certain conditions and financial ratios, which have been met as at December 31, 2009.	**18,515**	539,326

6. Long-term Debt - continued

	June 30, 2010	2009
Promissory Note, Total principal amount $800,000 with 60-month term, bearing interest at 4.63% per annum. Secured by equipment with a net book value of $788,889. Repayable in monthly installments of $14,962.	**503,062**	586,912
Promissory Note, Total principal amount $692,800 with 60-month term, bearing interest at 4.63% per annum. Secured by equipment with a net book value of $683,178. Repayable in monthly installments of $12,957	**435,652**	508,266
Term loan, non-interest bearing secured by a vehicle, having a carrying value of $18,257. Maturity date: July 20, 2011, repayable in monthly installments of $458.	**5,958**	8,708
	$ 2,663,187	$ 3,576,546
Less: current portion	**(740,498)**	(1,290,670)
	$ 1,922,689	$ 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:

2010	$ 740,498
2011	724,268
2012	1,198,421
2013	-
2014	-
	$ 2,663,187

7. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	For the year ended June 30, 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

(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	**(47,500)**	**CDN $0.94 to $2.43**	**CDN $1.21**
Options outstanding at June 30, 2010		**884,500**	**CDN $0.82 to $2.55**	**CDN $1.36**
Options exercisable at June 30, 2010		**382,500**	**CDN $1.55 to $2.55**	**CDN $2.09**

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. No options were granted during the period.

7. Share Capital - continued

(d) The options that are exercisable at June 30, 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**	**4.73 years**
168,333	**CDN $1.38 to $2.00**	**CDN $1.64**	**0.42 years**
230,834	**CDN $2.01 to $2.55**	**CDN $2.43**	**1.64 years**
884,500	**CDN $0.60 to $2.55**	**CDN $1.95**	**1.22 years**

Number of Options Currently Vested	**Option price**	**Weighted Average Exercise Price of Options Currently Exercisable**	**Weighted Average Remaining Contractual Life**
168,333	**CDN $1.38 to $2.00**	**CDN $1.64**	**0.42 years**
214,167	**CDN $2.00 to $2.55**	**CDN $2.45**	**1.60 years**
382,500	**CDN $1.38 to $2.55**	**CDN $2.07**	**1.08 years**

The options that are exercisable 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 granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Risk free interest rate (%)	**2.8 – 4.0%**	4.0 – 4.5%
Expected life (years)	**5**	5
Volatility rate (%)	**52 – 62%**	52 – 62%
Dividend yield (%)	**0.0%**	0.87 – 2.02%

8. 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:

June 30, 2010	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenues	**$ 4,107,949**	**$ -**	**$ 469,073**	**$ (303,241)**	**$ 4,273,781**
Property, plant and equipment	**$ 13,451,472**	**$ -**	**$ -**	**$ -**	**$ 13,451,472**

June 30, 2009	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenues	$ 2,256,489	$ -	$ 248,386	$ (379,677)	$ 2,125,198
Property, plant and equipment	$ 13,489,418	$ -	$ -	$ -	$ 13,489,418

9. Supplemental Cash Flow Information

Interest and income taxes paid (recovery)

	June 30, 2010	June 30, 2009
Interest paid	**$ 56,530**	$ 31,765
Income taxes paid	**-**	-

10. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, due from related party, accounts payable and accrued liabilities and bank loans.

	June 30, 2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading				
Cash	$ 239,167	$ 239,167	$ 39,935	$ 39,935
Loans and receivable				
Accounts receivable	1,004,019	1,004,019	744,809	744,809
Due from related parties	447,039	447,039	342,203	344,203
Available for Sale				
Investments	184,884	184,884	184,778	184,778
Liabilities				
Accounts payable and accrued liabilities	857,349	857,349	630,910	630,910
Long-term debt	2,663,187	2,663,187	3,576,546	3,576,546

The table below sets out fair value measurements using the Section 3862 fair value hierarchy.

Financial assets and liabilities at fair value through profit or loss
At June 30, 2010

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 239,167	$ -	$ 239,167	$ -
Investments	184,884	184,884	-	-

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

As disclosed in Note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, foreign currency risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off balance sheet contracts to manage these risks.

10. Financial Instruments - continued

Interest rate risk
The Company's revolving line of credit and the two promissory notes borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at June 30, 2010, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $26,632 (2009 - $34,376).

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. As at June 30, 2010, 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
	June 30, 2010	December 31, 2009
Cash	**$ 59,061**	$ 42,187
Accounts payable	**239**	112,373

At June 30, 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	**$ (5,906)**
U.S. Dollar Exchange Rate – 10% decrease	**$ 5,906**

Market Risk
The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nanotechnologies Corp. This investment is recorded on the balance sheet at fair value as of the balance sheet date for the shares which have been released from escrow while the shares remaining in escrow are carried at cost, with changes from the prior period's fair value reported in Other Comprehensive Income.

Liquidity Risk
The Company is exposed to liquidity risk due to the borrowings under the credit facilities. This risk is mitigated by complying with the covenants and managing the cash flow by controlling receivables and payables.

10. Financial Instruments - continued

The following table provides and analysis of the financial liabilities based on the remaining terms of the liabilities as at June 30, 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	$ 857,349	$ -	$ -	$ -	$ 857,349
Bank loan and interest	810,007	1,985,931	-	-	2,795,938
Total	$1,667,356	$ 1,985,931	$ -	$ -	$ 3,653,287

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 three (2009 – three) customers, which accounted for $2,887,213 (2009 - $1,400,165) or 68% (2009 – 66%) of the Company's total revenue. During the same period, export sales to three (2009 – five) customers in various international countries (outside of the United States) amounted to $469,073 (2009 - $248,386) or 11% (2009 – 12%) 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	$ 639,313	$ 179,576	$ 185,130	$ -	$ -

11. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	June 30, 2010	2009
Balance, beginning of year	**$ 1,076,478**	$ 562,319
Stock-based compensation expense	**22,482**	21,700
Exercise of options	**(7,167)**	-
Share subscription receivable	**-**	492,459
Balance, end of year	**$ 1,091,793**	$ 1,076,478

12. 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 will earn the right to trade these shares when certain performance conditions are satisfied. The shares will be released into a time related escrow arrangement once a minimum commitment of $300,000 in arm's length research and development costs is incurred by CNO. These shares are being held in escrow until these requirements are met and approved by the TSX Venture Exchange. The investment in CNO used to be accounted for using the equity method and it is now accounted for at cost. As such, this investment has been recorded at its carrying value of approximately $184,884, as its fair value is determinable when removed from escrow.

13. Earnings per Common Share

The basic earnings per common share are calculated using net income divided by the weighted-average number of common shares outstanding. The diluted earnings per common share are calculated using net income divided by the weighted-average number of diluted common shares outstanding.

382,500 (2009 – 503,333) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended June 30, 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.

14. 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	**June 30, 2010**	2009
Long-term debt	**1,922,689**	$ 2,285,876
Current portion long-term debt	**740,498**	1,290,670
Less: cash and cash equivalents	**(239,167)**	(39,935)
Total Net Debt	**2,424,020**	3,536,611
Shareholders' Equity	**12,470,119**	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 twelve month period ended June 30, 2010, the net debt to cash flow from operating activities was 0.92 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.

14. 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 increased in 2010 from 15.07 times at June 30, 2009 to 19.51 times at June 30, 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.

	June 30, 2010	June 30, 2009
Net Income	**$ 1,170,426**	$ 278,920
Add:		
Interest Expense	**50,413**	55,058
Provision for Income Taxes	**457,750**	56,260
Amortization	**421,874**	383,884
EBITDA	**$ 2,100,463**	$ 774,122

15. Comparative Figures

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