# Omni-Lite Industries Canada Inc.
# For the Period Ended June 30, 2009

# MANAGEMENT DISCUSSION AND ANALYSIS ($US DOLLARS)

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the financial statements of Omni-Lite Industries Canada Inc. (the "Company") for the period ending June 30, 2009 (audited) and the related notes. The Company's reporting currency is in United States ("US") dollars and all amounts in this MD&A are expressed in US dollars. The Company reports its financial position, results of operations and cash flows in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). This discussion has been completed as of August 18, 2009.

## A. Company Overview

Founded in September 1992, Omni-Lite Industries Canada Inc. ("Omni-Lite") is considered one of the world's leading developers and manufacturers of precision components utilizing advanced composite materials and computer-controlled cold forging techniques.

One of Omni-Lite's early successes included the application of metal matrix composites in the sports and recreation industry. By combining its progressive cold forging techniques with a team of key design and material engineers, production technicians, marketing and administrative support personnel, Omni-Lite has been able to meet the exacting criteria required by customers in a broad group of industries including the Aerospace, Military, Automotive, Sports and Recreation and Commercial areas.

Omni-Lite's wholly owned subsidiaries include Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc. As of June 30, 2009, Omni-Lite owned approximately 15% of California Nanotechnologies Corp., a publicly listed company trading as "CNO" on the TSX Venture Exchange.

Omni-Lite Industries Canada Inc.'s common shares are publicly traded on the TSX Venture Exchange under the symbol "OML".

## B. Omni-Lite's Markets

Omni-Lite's primary market is the development and manufacture of precision components utilized by many of the world's largest corporations. Omni-Lite's components are utilized in the products of Boeing, Airbus, Bombardier, the U.S. Army, U.S. Marine Corp., NATO, Chrysler, Ford, Nike, Adidas and Reebok. The requirements and stature of these customers necessitates that the Company operate at a very high level of engineering and production efficiency. Currently, revenues are generated through five divisions: Aerospace, Military, Sports and Recreation, Automotive and Commercial. Omni-Lite is determined to continue to fund research for new products and materials and to apply for patents to protect the intellectual property that pertains to its business.

Overall Performance

In 2008, the Company undertook eighteen new programs that include new components for the U.S. ARMY and U.S. Marine Corp., John Deere, Caterpillar, Ford, Bosch and several other Fortune 100 customers. Many of these projects will go into production in the second half of 2009 or early 2010. The revenues expected from these programs will guide the Company's growth in the near future. Our customers are in varying stages of testing and evaluating these new components. Several customers will have completed the multi-month testing cycle required and are moving toward first article approval and production.

Consistent with the Company's Vision 2015 growth strategy the company added six new progressive forging systems in 2009. An additional system will be received in late 2009. The value of these new machines is approximately $3,185,000 CDN. These investments, at this critical time, have provided an additional benefit to Omni-Lite. As a capital equipment-intensive company, Omni-Lite's management will continue to measure the performance of the Company by the metrics of Cash Flow from Operations and EBITDA.

## C. Consolidated Financial Results

**Revenue:** For the period ended June 30, 2009, Omni-Lite Industries Canada Inc. reported revenue of $2,125,198 ($2,456,729 CDN), a decrease of 47 percent from the same period in 2008. The Military division represented the largest portion of sales with 45 percent of revenue, however sales were lower by 47 percent. Sales were affected by delays in the introduction of new components. These components are expected to resume in the third and fourth quarter of 2009. The Aerospace division contributed 30% of revenue, a 44% decrease from 2008. The Sports and Recreation division contributed 13% of revenue, a 32% decrease from 2008. The Automotive division contributed 10% of revenue, a decrease of 54% from this same period in 2008. Current product lines are experiencing a slowdown. The Company is currently developing components that could begin production in third and fourth quarter 2009 and in 2010. The Commercial divisions provided 2% of the revenue.

Sales by division and by geographic location are summarized below:

| Division/ Segments | Military | Aerospace | Sport & Recreation | Automotive | Commercial |
|---|---|---|---|---|---|
| **1st Half 2009** | 45% | 30% | 13% | 10% | 2% |
| 1st Half 2008 | 45% | 28% | 10% | 12% | 4% |

| Geographic allocation | United States | Canada | Barbados |
|---|---|---|---|
| **2009** | 88% | - | 12% |
| 2008 | 91% | - | 9% |

**Net Income:** Net income was $278,920 ($322,431 CDN) versus $936,837 in 2008, a decrease of 70 percent. Net income was affected by reductions in orders.

A reduction in stock-based compensation was incurred by the cancellation of a large quantity of higher priced stock options.

**Cost of Goods Sold:** Cost of Goods Sold ("COGS") decreased 42 percent from $1,118,981 in 2008 to $653,480 in 2009 as sales decreased 47 percent. This corresponded to a gross margin of approximately 69 percent. The gross margin dropped as production adjusted to the decrease in demand for components.

**Operating Expenses:** The operating expenses decreased by 18 percent. General and administrative expenses decreased by implementing numerous cost cutting initiatives, a temporary reduction in staff, and reductions in wages and salary. Commissions paid also decreased as sales of commissionable product decreased in volume.

To achieve the objectives of the Vision 2015 growth plan, the Company continued to purchase more equipment, which resulted in an increase for amortization to $392,834, an increase of 20 percent. The Company has carried a greater balance on the line of credit to help fund the purchases. However, the Company was able to obtain funds at a relatively low interest rate which resulted in an interest expense of $55,058, a decrease of 15 percent compared to Q2 2008.

Research and product design expense was $104,438 in the first half of 2009, up 119 percent. The Company has several major R&D projects currently underway. These projects should begin producing new revenue in second half 2009 and into 2010.

Future income tax expense decreased to $112,500 from $275,850 in 2008. Future tax expense is mainly due to increases in temporary differences in depreciation of equipment. Greater future tax expense may be taken if the Company elects to take advantage of the American Recovery and Reinvestment Act of 2009. However, it is expected that the Company would benefit by reducing current tax and improving cash flow.

**Earnings per share:** Basic earnings per share were $0.03 ($0.03 CDN) compared to $0.09 ($0.09 CDN) in same period of 2008 based on the weighted average shares outstanding of 10,620,854. In Q2 2009, Omni-Lite did not repurchase common shares through the Normal Course Issuer Bid.

The diluted earnings per share were $0.03 ($0.03 CDN) compared to $0.09 ($0.09 CDN) in 2008. As of June 30, 2009, the diluted weighted average number of shares was 10,621,079.

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period.  Diluted per share amounts reflect the potential dilution that could occur if options and warrants to issue common shares were exercised.  The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

**SUMMARY OF FINANCIAL HIGHLIGHTS (US $)**
All figures in US dollars unless noted.

| **Basic Weighted Average Shares Issued And Outstanding:** 10,620,854 | **For the period ended June 30, 2009** | **For the period ended June 30, 2008** | **% Increase (Decrease)** |
|---|---|---|---|
| Revenue | 2,125,198 | 4,019,396 | (47%) |
| Cash flow from operations(1) | 790,241 | 1,679,773 | (53%) |
| Net Income | 278,920 | 936,837 | (70%) |
| EPS (US) | 0.03 | 0.09 | (69%) |
| EPS (CDN) | 0.03 | 0.09 | (69%) |

(note: at 6/30/09, $1US = $1.156 CDN; 6/30/08, $1US = $1.011 CDN)

(1) Cash flow from operations is a non-GAAP term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, future income taxes, asset write-downs and gains (losses) on sale of assets, if any.

For the three months ended June 30, 2009, revenue was $1,151,296 ($1,330,898 CDN), a decrease of 44%. Net income was $170,322 ($196,892 CDN), a decrease of 59% over the same period in 2008.

**Quarterly Information**

The following table summarizes the Company's financial performance over the last eight quarters. All figures in US dollars unless noted.

ALL FIGURES IN US DOLLARS UNLESS NOTED

| | Jun 30/2009 | Mar 31/2009 | Dec 31/2008 | Sept 30/2008 | Jun 30/2008 | Mar 31/2008 | Dec 31/2007 | Sept 30/2007 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,151,296 | 973,902 | 1,366,201 | 2,068,730 | 2,059,929 | 1,959,467 | 1,900,077 | 2,046,733 |
| Cash Flow from Operations(1) | 395,702 | 393,026 | 288,442 | 884,322 | 796,166 | 883,657 | 682,060 | 830,059 |
| Net Income | 170,322 | 108,597 | (557,483) | 495,683 | 417,339 | 519,498 | 17,073 | 706,023 |
| EPS(US) | .02 | .01 | (.05) | .045 | .038 | .050 | .002 | .064 |
| EPS(CDN) | .02 | .01 | (.06) | .047 | .038 | .050 | .002 | .063 |

(1) Cash flow from operations is a non-GAAP term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, future income taxes, asset write-downs and gains (losses) on sale of assets, if any.

Omni-Lite's revenue tends to peak in the third quarter of each year coinciding with the seasonal increase in demand for products from the Sports and Recreation division. The traditionally lower revenues experienced in the first and fourth quarters have grown to provide a more balanced income stream throughout the year.

**Liquidity and Capital Resources**

The following table summarizes the Company's cash flows by activity and cash on hand:

| | Jun 30/2009 | Jun 30/2008 |
|---|---|---|
| Net cash from operating activities | $ 309,901 | $ 887,102 |
| Net cash from (used in) financing activities | 164,668 | (23,102) |
| Net cash from (used in) investing activities | (406,249) | (921,193) |
| Net increase (decrease) in cash | 68,320 | (57,193) |
| Cash at the beginning of the period | (7,664) | (5,651) |
| Cash at the end of the period | 60,656 | (62,844) |

As of June 30, 2009, the main source of liquidity was cash from operating activities and the main usage of cash was for equipment purchase. At the period-end, the Company's working capital (current assets – current liabilities) was $428,070, which has decreased from 2008 when working capital was $888,763.

A comparison between total current assets divided by total current liabilities shows that at March 31, 2009 the current ratio was 1.41x compared to 1.32x at March 31, 2008. Debt ratio ((Current liability + Total long-term debt)/Total Assets) decreased to 0.22x in 2009 from 0.23x in 2008. The Company is able to meet its debt service.

Cash flow from operating activities decreased by 65% to $309,901 ($358,245 CDN). Approximately $1.875 million or 73 percent of the current inventory is composed of products related to the Sports and Recreation division. This represents approximately three years of inventory of these products. Due to the long lead time for procuring the raw materials and processing times, it was determined that two years of inventory would be kept on hand to service the customers' needs. As a corollary of improved production efficiency and a reduction in sales in the Sports and Recreation division in 2008 additional inventory beyond the typical two-year supply was produced. It is management's view that this excess inventory is not impaired, but will be sold in subsequent years and is carried at cost. If it is determined that the excess inventory becomes impaired, the Company will make a provision for the excess inventory.

Cash flow from financing activities was $164,669. The company did not pay a dividend as funds are being used to pay for equipment.

Cash flow used in investing activities was $406,249. $253,124 was used for equipment as part of the "Vision 2015" expansion plan. The remaining balance to be paid on the equipment is $1,166,406, which is paid in installments of approximately $76,500 per month.

The terms of the revolving line of credit require that certain measurable covenants be met. As at December 31, 2008, the Company was in violation of certain covenants. No waiver was obtained for the covenant violation as the principle bank involved was willing to extend the loan provision of the Company and therefore the debt has been correctly classified as current. The Company is currently recapitalizing a large portion of the current debt into longer term debt which will provide working capital.

**Recent accounting pronouncements**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian generally accounting standards for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible Assets", thus mitigating the impact of the adoption of IFS on Consolidated Financial Statements.

The Accounting Standards Board also issued the following new pronouncements:

Section 3064, Goodwill and Intangible Assets – Defining the requirements for classifying assets, including intangible and proprietary assets, the Section was issued in February 2008 and takes effect in fiscal years beginning on or after October 1, 2008 with optional early adoption. The Company currently has no Intangible Assets but will adopt this Section beginning January 1, 2009. The effects of this pronouncement on our Financial Statements will be negligible.

Section 1582 – Business Combinations – Defines how to report business combinations with the acquisition method and relevant disclosures.

Section 1601 – Consolidated Financial Statements – Defines the new standards for preparation of consolidated financial statements.

Section 1602 – Non-controlling Interests – Defines how to report in consolidated financial statements for a non-controlling interest in a subsidiary after a business combination.

The three Sections above, 1582, 1601, and 1602, were issued in January 2009 and will take effect with the first annual reporting period beginning on or after January 2011 with optional early adoption. The effects of these pronouncements on our Financial Statements will be negligible.

Changes in Accounting Policies

As of January 1, 2008, Omni-Lite has adopted the CICA Handbook Section 3031, "Inventories". The new standard requires inventories to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's treatment. The adoption of this standard does not have a material impact on Omni-Lite's Consolidated Statements.

As of January 1, 2008, Omni-Lite has adopted two new CICA standards, Section 3862, "Financial Instruments – Disclosures" and Section, "3863, Financial Instruments – Presentation", which replace Section 3861; "Financial Instruments – Disclosure and Presentation". The new disclosure standards increase disclosure regarding the risks associated with financial instruments and how those risks are managed.

As of January 1, 2008, Omni-Lite has adopted CICA Handbook Section 1535, "Capital Disclosures", which requires Omni-Lite to disclose its objectives, policies and processes for managing capital.

## D. Growth Record

All figures are in US dollars except as noted.

| **Basic Weighted Average Shares Issued And Outstanding :** 10,620,854 | **For the period ended June 30, 2009** | **For the period ended March 31, 2009** | **For the year ended December 31, 2008** | **For the year ended December 31, 2007** |
|---|---|---|---|---|
| Revenue | 1,151,296 | 973,902 | 7,454,327 | 6,983,845 |
| Net Income | 170,322 | 108,598 | 875,037 | 1,583,370 |
| EPS (US) | $0.02 | $0.01 | $0.08 | $0.14 |
| EPS (CDN) | $0.02 | $0.01 | $0.10 | $0.14 |
| Total Assets | $18,241,848 | $17,156,068 | $17,207,148 | $15,090,214 |
| Long term debt | $3,429,966 | $3,330,823 | $3,142,470 | $1,750,908 |

From the period January 1998 to April 2000, Omni-Lite's manufacturing capability increased from two production systems to ten allowing Omni-Lite to begin expanding into the automotive, aerospace, commercial, and the military fields. During 2000, the Company commenced discussions towards purchasing a larger cold forging system. This equipment with a retail price of over $520,000US was purchased in February 2001 for approximately $280,000US. The Company continued to execute its expansion plans in 2002 as Omni-Lite moved into the new production facilities and created a world-class metallurgical laboratory. The procurement of an additional five progressive forging systems for $1,420,000US was initiated. In March 2003, the Company received a shipment of new cold forging systems, which brought the total number of machines to 16. In 2006, Omni-Lite received two new progressive forging systems to be used for aerospace products, four smaller forging machines to be used for military products, and an automated inspection machine. In 2006 the company entered into agreements to purchase an additional 14 large progressive cold forging systems with a value over $6,500,000US. The first two of these large systems was delivered in March of 2007. An additional two systems were delivered in the fourth quarter of 2007. Three additional systems were delivered in 2008. The largest system purchased which will be utilized in an R&D effort for a US Military program was delivered in May 2008. In April 2009, three systems were received and three more received in June 2008. Under the agreement, the remaining system will be delivered by the end of 2009. When the final systems are delivered the company will have 32 large progressive cold forging systems and four smaller systems for a specialized military program.

## E. Growth Expectations

In 2008, Omni-Lite continued its focus on building sales in all of its business areas. With the "Vision 2015" plan, Omni-Lite had purchased 14 new cold forging systems. Omni-Lite is obligated to pay the remaining balance of $1,166,406 for the equipment purchase. The Company is actively searching for a 60,000 to 70,000 square feet facility to allow for the additional equipment. Extra office space at the current location had been converted to production space. Omni-Lite anticipates it will be able to attract new business from the various market segments, mainly in the aerospace, military, and automotive areas. The Company is targeting overall revenue growth of 20% to 25% per year for the next three years.

## F. Risk Factors

**Economic Factors**

The Company's business and operating performance is subject to economic forces beyond its control, such as changes in consumer preferences, spending patterns, and general economic downturns.

**Other risks include those recognized by companies within the manufacturing sector and include,**

1. **Market cycle –** The Company's revenues are dependent on market segments such as the aerospace, automotive, and defense sectors that may experience cyclical changes in demand. The Company minimizes its risk by diversifying its customer base.

2. **Better technology –** Improvements in materials and processing methods developed by others, which Omni-Lite does not adopt or license may provide other companies with a greater competitive edge. Omni-Lite strives to remain at the forefront of progressive cold forging by continuing to invest in research and development. As part of this strategy, Omni-Lite was the co-founder and remains a principal shareholder of California Nanotechnologies Corp. ("CNO"). CNO was established to undertake advanced nanotechnology and related material science research and to lead in future scientific and commercialization programs.

3. **Sales issues –** The Company's sales may not grow at the same rate historically shown. There may not be suitable projects identified for the Company to

undertake. The Company is expanding its sales force to further penetrate current markets.

4. **Financial instruments –** The Company currently has the majority of its assets in the U.S and is subject to fluctuations in exchange rate. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables and planned expenditures. There are short term and long term financial liabilities that are subject to floating rates. The Company reduces the exposure to this risk by repaying debt on an accelerated schedule.

5. **Raw material costs –** Supply and demand dictates the price of the raw materials utilized by Omni-Lite. Certain raw materials can only be obtained from a few suppliers. Delays or increased costs may be associated with obtaining these raw materials. Material costs are kept low by ordering economical lot sizes, but may increase if supplies become limited.

6. **Employee costs** - The cost of labour may increase, as competition for qualified employees in the Southern California area is generally strong. Labor costs are managed by including employees in the stock option and bonus plan and by increasing efficiency through advanced technology. In 2006, the Company received its third automated inspection machine, which has significantly reduced the costs in a quality conscious military program. The position of CEO does not receive a salary at this time and additional costs could be introduced if the current structure is changed, a factor, which could affect net earnings.

7. **Key personnel** - The success of the Company and its ability to continue to carry on operations is dependent upon its ability to retain the services of certain key employees and members of its board of directors. The loss of their services to the Company may have a materially adverse effect on the Company. The Company has a stock option plan for management and employees as a method of motivation and retaining key employees.

8. **Quality issues –** The Company is ISO 9001:2000 registered and is working on obtaining ISO/TS 16949 certification. Delays in establishing compliance and registration in ISO/TS 16949 may cause delays in shipping or loss of business in the automotive division.

9. **One manufacturing facility** - If the company suffered a loss to the facility due to catastrophe, its operations could be seriously harmed. The Company's facility is subject to catastrophic loss due to fire, flood, terrorism or other, natural or man-made disasters. In particular, due to its location, the facility could be subject to a severe loss caused by earthquake.

10. **Development efforts –** Many of the Company's products are complex and require a long development time before entering the production phase. Typical

lead times may range from 4 months to 18 months depending on the complexity of the component. The long lead-time may delay the profitability of the project.

11. **Political turmoil –** The Company's business dealings are international. Changes in governments or policies may cause delays or restrictions that may affect the operating results.

12. **Taxation matters –** As any Company, at times, certain tax strategies could be challenged by local 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 always the possibility that a reassessment can occur.

As Omni-Lite grows in revenue the Company becomes subject to increasing interest from corporations that would like to imitate the successes that have been achieved. The Company has and will continue to aggressively protect itself through a variety of means that include:

- Patent and trademark protection – The Company protects novel ideas and processes developed at Omni-Lite by filing with the U.S. Patent Office.
- Confidentiality agreements – These agreements prevent employees and third parties from sharing any information considered proprietary with unauthorized individuals or companies.

**Of particular significance is the fact that Omni-Lite has received seven U.S. patents to date. California Nanotechnologies Inc. has received one U.S. patent to date.**

## G. Transactions with Related Parties

Due to related parties includes advances from a company under common control. An amount of $19,670 (2008 – ($446,100)) is due from/(to) California Nanotechnologies Corp. that is unsecured, bearing interest at 7% per annum and due on demand. The amounts owing to shareholders are $nil (2008 - $324,747) and are unsecured, non-interest bearing and have no set terms of repayment.

In the year the Company received $39,000 (2008 - $54,000) in management fees from California Nanotechnologies Corp. The transaction was conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

For 2009 and 2008, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value of the salary would approximate $140,000 (2008 - $120,000). 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. 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 $151,175 at a 5% interest rate and is to be repaid in five years. The loan is secured by property assessed at $632,000.

## H. Third Party Investor Relations Contracts

No third party investor relations arrangements have been made.

## I. Board of Directors

The Company's chief executive officer and its corporate secretary are material shareholders. A resolution was passed in 2003 that increased the size of the board of directors to five members.

## J. International Operations

In September 1997, Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp., which were both incorporated in Calgary, Alberta. To support the international scope of the market place, Omni-Lite has established two wholly owned subsidiaries in Barbados. These complement the production center in Cerritos, California. The Cerritos facility is located in the heart of Southern California's aerospace industry. This allows for easy access to customers, specialized equipment, materials, and workforce. The staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

The Company allocates its revenues between countries based on the 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, 2009 | United States | Canada | Barbados | Inter-corporate elimination | Total |
|---|---|---|---|---|---|
| **Revenues** | **$ 2,021,137** | **$ -** | **$ 248,386** | **$ (144,325)** | **$ 2,125,198** |

| June 30, 2008 | United States | Canada | Barbados | Inter-corporate elimination | Total |
|---|---|---|---|---|---|
| Revenues | $ 3,892,022 | $ - | $ 339,398 | $ (212,024) | $ 4,019,396 |

During 2009, the Company was engaged in contracts for products with three (2008 – three) customers, which accounted for $1,400,165 (2008 - $2,412,831) or 66% (2008 – 60%) of the Company's total revenue. During the same period, export sales to five (2008 – six) customers in various international countries (outside of the United States) amounted to $248,386 (2008 - $339,398) or 12% (2008 – 8%) of the Company's total revenue.

## K. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans receivable, investments, accounts payable and accrued liabilities, bank loans, loans due to related parties.

| | Carrying Value | Fair Value | Gain/(Losses) | Interest Income/ (Expense) | Other Income/ (Expense) |
|---|---|---|---|---|---|
| **Loans and Receivables** | | | | | |
| Accounts receivable | $ 795,769 | $ 795,769 | $ - | $ - | $ - |
| Loans and receivables | 176,175 | 176,175 | - | - | - |
| Due from related parties | 19,670 | 19,670 | - | (857) | - |
| **Available for Sale** | | | | | |
| Investments | 248,130 | 248,130 | - | - | - |
| **Other Liabilities** | | | | | |
| Accounts payable | 397,199 | 397,199 | - | - | - |
| Long-term debt | 3,437,574 | 3,437,574 | - | (54,633) | - |

As disclosed in Note 3, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, industry credit risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off balance sheet contracts to manage these risks.

Interest rate risk

The Company's revolving loan 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, 2009, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $34,376 (2008 - $19,286). The related disclosures regarding these debt instruments are included in Note 12 of these financial statements.

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. As at June 30, 2009, 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 June 30, 2009** | USD December 31, 2008 |
|---|---|---|
| Cash | **$ 31,894** | $ 10,777 |
| Accounts payable | **4,769** | 189,521 |

At June 30, 2009, if the U.S. dollar strengthened or weakened by 10% relative to the Canadian dollar, the impact on net income and other comprehensive income due to the translation of monetary financial instruments would be as follows:

| | Impact on Net Income |
|---|---|
| U.S. Dollar Exchange Rate – 10% increase | $ (3,189) |
| U.S. Dollar Exchange Rate – 10% decrease | 3,189 |

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 | $ (477) |
| U.S. Dollar Exchange Rate – 10% decrease | 477 |

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.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at June 30, 2009 and includes the related interest charges:

| | ≤ 1 year | > 1 year ≤ 3 years | > 3 year ≤ 4 years | > 5 years | Total |
|---|---|---|---|---|---|
| Trade accounts payable and accrued liabilities | $ 397,199 | $ - | $ - | $ - | $ 659,808 |
| Bank loan and interest | 2,484,420 | 597,800 | 295,239 | 60,115 | 3,437,574 |
| Total | $2,881,619 | $ 597,800 | $ 295,239 | $ 60,115 | $3,834,773 |

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. During 2009, the Company was engaged in contracts for products with three (2008 – three) customers, which accounted for $1,400,165 (2008 - $2,412,831) or 66% (2008 – 60%) of the Company's total revenue. During the same period, export sales to five (2008 – six) customers in various international countries (outside of the United States) amounted to $248,386 (2008 - $339,398) or 12% (2008 – 8%) 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 | $ 335,232 | $ 344,192 | $ 92,409 | $ - | $ 23,936 |

## L. 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 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 permitting it to draw down 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, 2009** | December 31, 2008 |
|---|---|---|
| Long-term debt | **$ 953,154** | $ 1,053,646 |
| Current portion long-term debt | **2,484,420** | 2,088,824 |
| Due to related parties | **-** | 124,408 |
| Equipment obligation | **782,968** | - |
| Bank indebtedness | **-** | 7664 |
| Total Net Debt | **4,220,542** | 3,274,542 |
| | | |
| Shareholders' Equity | **11,193,642** | 10,872,298 |

The Company monitors the leverage in its capital structure by reviewing the ratio of net debt to cash flow from operating activities and interest coverage ratios.

The Company uses the ratio of net debt to cash flow from operating activities as a key indicator of leverage and to monitor the strength of the balance sheet. Net debt is a non-GAAP measure that does not have a standard meaning prescribed by GAAP and is unlikely to be comparable to similar measures presented by others. The Company calculates net debt using long-term debt and short-term borrowings less cash and cash-equivalents. For the twelve-month period ended June 30, 2009, the net debt to cash flow from operating activities was 3.04 times compared to 1.72 times at December 31, 2008. It is expected that the target ratio to fluctuate between 1.0 and 2.0 times, however, this can be higher when the Company invests in new equipment. Whenever the target ratio is exceeded, a strategy is developed to reduce the leveraging and lower the ratio back to target levels over a period.

The interest coverage ratio allows the Company to monitor its ability to fund the interest requirements associated with its debt. The interest coverage decreased in 2009 from 17.5 times at June 30, 2008 to 15.07 times at June 30, 2009. Interest coverage is calculated by dividing the twelve-month trailing earnings before interest, taxes, depreciation and amortization by interest expense. EBITDA is a non-GAAP measure, which is calculated using net income excluding interest expense, provision for income taxes, depreciation and amortization. The calculation of EBITDA is set out in the following table.

| | **Twelve months ended June 30, 2009** | **Twelve months ended June 30, 2008** |
|---|---|---|
| Net Income | **$ 217,120** | $ 2,102,868 |
| Add: | | |
| Interest Expense | **124,186** | 233,996 |
| Provision for Income Taxes | **655,388** | 1,115,060 |
| Amortization | **874,808** | 643,078 |
| **EBITDA** | **1,871,502** | 4,095,002 |

## M. International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on January 1, 2011. As a result, the Company will develop a plan to convert its Consolidated Financial Statements to IFRS. The Company will set up an IFRS dedicated team. The Company will provided training to key employees and is monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting.

A detailed analysis of the difference between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may materially impact the Company's Consolidated Financial Statements.

## Additional information

Further information regarding Omni-Lite Industries Canada Inc. can be accessed under the Company's public filings found at www.sedar.com and on the Company's website www.omni-lite.com.

*The information contained in this discussion may be considered to contain forward-looking statements. Such forward-looking statements address future events and conditions and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. There is no representation by the Company that actual results will be the same in whole or in part as implied by the forward-looking statements provided.*