

**Omni-Lite Industries Canada Inc.**  
**Condensed Consolidated Financial Statements**  
For the interim three month period ended  
March 31, 2011  
(in United States Dollars)

**Contents**

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## 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 March 31, 2011.

## NOTICE TO THE READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The financial statements of Omni-Lite Industries Canada Inc. and the accompanying interim consolidated statements of financial position as at March 31, 2011 and the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period ended are the responsibility of the Company's management.

These condensed consolidated interim financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The condensed consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in the consolidated financial statements for the year ending December 31, 2011.

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

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David F. Grant  
Chief Executive Officer  
Cerritos, California, USA  
June 8, 2011

***"Timothy Wang" signed***

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Timothy Wang  
Chief Financial Officer  
Cerritos, California, USA  
June 8, 2011

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

| <b>As at</b>                                  | <b>Note</b> | <b>March 31,<br/>2011<br/>(unaudited)</b> | <b>December 31,<br/>2010<br/>(unaudited)<br/>(Note 18)</b> | <b>January 1,<br/>2010<br/>(unaudited)<br/>(Note 18)</b> |
|---|-------------|---|--|--|
| <b>Assets</b>                                 |             |   |  |  |
| <b>Current</b>                                |             |   |  |  |
| Cash  |             | \$ 5,896,924                              | \$ 30,301  | \$ 39,935  |
| Accounts receivable                           | 14          | 834,938                                   | 645,851  | 744,809  |
| Inventory                                     | 4           | 3,392,180                                 | 3,417,898  | 3,374,041  |
| Income taxes receivable                       |             | 377,769                                   | 336,455  | 167,549  |
| Prepaid expenses                              |             | 97,712                                    | 53,039   | 62,962   |
|   |             | <u>10,599,523</u>                         | <u>4,483,544</u>   | <u>4,389,296</u>   |
| <b>Investments</b>                            | 5           | <b>342,724</b>                            | 176,176  | 184,778  |
| <b>Property, plant and equipment</b>          | 6           | <b>13,616,621</b>                         | 13,704,501   | 12,999,246   |
| <b>Due from related parties</b>               | 7           | <b>791,449</b>                            | 670,765  | 342,203  |
| <b>Deferred income tax asset</b>              |             | <b>206,000</b>                            | 206,000  | 218,600  |
|   |             | <u>\$ 25,556,317</u>                      | <u>\$ 19,240,986</u>                                       | <u>\$ 18,134,123</u>                                     |
| <b>Liabilities and Shareholders' Equity</b>   |             |   |  |  |
| <b>Current</b>                                |             |   |  |  |
| Accounts payable and accrued liabilities      | 14          | \$ 540,936                                | \$ 432,575   | \$ 630,910   |
| Current portion of long-term debt             | 9           | 727,161                                   | 1,202,567  | 1,290,670  |
|   |             | <u>1,268,097</u>                          | <u>1,635,142</u>   | <u>1,921,580</u>   |
| <b>Long-term debt</b>                         | 9           | <b>1,402,858</b>                          | 1,584,937  | 2,285,876  |
| <b>Deferred income tax liability</b>          |             | <b>3,149,318</b>                          | 3,064,018  | 2,661,338  |
|   |             | <u>5,820,273</u>                          | <u>6,284,097</u>   | <u>6,868,794</u>   |
| <b>Share capital</b>                          | 10(b)       | <b>11,382,258</b>                         | 5,046,031  | 5,519,546  |
| <b>Share subscription receivable</b>          | 15          | -   | -  | (492,459)  |
| <b>Contributed surplus</b>                    | 15          | <b>1,135,886</b>                          | 1,124,861  | 1,071,378  |
| <b>Retained earnings</b>                      |             | <b>7,051,188</b>                          | 6,785,833  | 5,169,075  |
| <b>Accumulated other comprehensive income</b> |             | <b>166,712</b>                            | 164  | (2,211)  |
| <b>Subsequent event</b>                       | 19          | <u>19,736,044</u>                         | <u>12,956,889</u>  | <u>11,265,329</u>  |
|   |             | <u>\$ 25,556,317</u>                      | <u>\$ 19,240,986</u>                                       | <u>\$ 18,134,123</u>                                     |

On behalf of the Board:

"David F. Grant" signed Director  
David Grant

"Donald J. Kelly" signed Director  
Donald Kelly

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

(Unaudited – prepared by management)

| For the three month period ended March 31   | Note | 2011<br>(Note 18) | 2010<br>(Note 18) |
|---|------|-------------------|-------------------|
| <b>Revenue</b>                              | 11   | \$ 1,482,314      | \$ 1,834,076      |
| <b>Cost of goods sold</b>                   | 4    | <u>602,439</u>    | <u>495,846</u>    |
| <b>Gross margin</b>                         |      | <u>879,875</u>    | <u>1,338,230</u>  |
| <b>Overhead expenses</b>                    |      |                   |                   |
| Amortization                                |      | 233,589           | 207,822           |
| Foreign exchange gain                       |      | (88,484)          | (429)             |
| General and administrative                  |      | 336,234           | 369,013           |
| Royalty/Commissions                         |      | 20,071            | 25,704            |
| Interest on long-term debt                  | 9    | 20,096            | 27,238            |
| Share-based compensation                    | 15   | 11,025            | 3,400             |
| Research and product design                 |      | 36,508            | 23,633            |
|   |      | <u>569,039</u>    | <u>656,381</u>    |
| <b>Income from operations</b>               |      | 310,836           | 681,849           |
| Other income                                |      | 10,763            | 4,088             |
| Income before income taxes                  |      | <u>321,599</u>    | <u>685,937</u>    |
| Income tax provision/(recovery)             |      |                   |                   |
| Current                                     |      | (71,600)          | 128,850           |
| Deferred                                    |      | 85,300            | 73,000            |
|   |      | <u>13,700</u>     | <u>201,850</u>    |
| <b>Net income</b>                           |      | \$ 307,899        | \$ 484,087        |
| Other comprehensive income                  |      |                   |                   |
| Gain on available for sale financial assets | 5    | <u>166,548</u>    | <u>5,470</u>      |
| <b>Comprehensive income</b>                 |      | \$ 474,447        | \$ 489,557        |
| <hr/>                                       |      |                   |                   |
| Earnings per share - basic                  | 16   | \$ 0.03           | \$ 0.05           |
| - diluted                                   | 16   | \$ 0.03           | \$ 0.05           |
| Weighted average shares outstanding - basic | 16   | 11,769,089        | 10,620,854        |
| - diluted                                   | 16   | 12,084,374        | 10,624,125        |

**Omni-Lite Industries Canada Inc.**  
**Consolidated Statements of Changes in Equity**  
**United States Dollars**

(Unaudited – prepared by management)

|   | Note  | Share capital       | Contributed surplus | Share subscription receivable | Retained earnings   | Other comprehensive income/loss | Total                |
|---|-------|---------------------|---------------------|-------------------------------|---------------------|---------------------------------|----------------------|
| Balance at January 1, 2010                |       | \$ 5,519,546        | \$ 1,071,378        | (\$ 492,459)                  | \$ 5,169,075        | (\$ 2,211)                      | \$ 11,265,329        |
| Share based compensation                  | 15    | -                   | 3,400               | -                             | -                   | -                               | 3,400                |
| Net income                                |       | -                   | -                   | -                             | 484,087             | -                               | 484,087              |
| Available for sale financial assets       | 5     | -                   | -                   | -                             | -                   | 5,470                           | 5,470                |
| Balance at March 31, 2010                 |       | \$ 5,519,546        | \$ 1,074,778        | (\$ 492,459)                  | \$ 5,653,162        | \$ 3,259                        | \$ 11,758,286        |
| Shares issued upon option exercise        | 10(b) | 18,944              | (7,167)             | -                             | -                   | -                               | 11,777               |
| Shares received                           | 10(b) | (492,459)           | -                   | 492,459                       | -                   | -                               | -                    |
| Share based compensation                  | 15    | -                   | 57,250              | -                             | -                   | -                               | 57,250               |
| Payment of dividends                      |       | -                   | -                   | -                             | (203,314)           | -                               | (203,314)            |
| Net income                                |       | -                   | -                   | -                             | 1,335,985           | -                               | 1,335,985            |
| Available for sale financial assets       | 5     | -                   | -                   | -                             | -                   | (14,072)                        | (14,072)             |
| Foreign exchange loss                     |       | -                   | -                   | -                             | -                   | 10,977                          | 10,977               |
| <b>Balance at December 31, 2010</b>       |       | <b>\$ 5,046,031</b> | <b>\$ 1,124,861</b> | <b>\$ -</b>                   | <b>\$ 6,785,833</b> | <b>\$ 164</b>                   | <b>\$ 12,956,889</b> |
| Shares issued upon private placement      | 10(b) | 6,365,660           | -                   | -                             | -                   | -                               | 6,365,660            |
| Repurchase under normal course issuer bid | 10(d) | (29,433)            | -                   | -                             | (42,544)            | -                               | (71,977)             |
| Share based compensation                  | 15    | -                   | 11,025              | -                             | -                   | -                               | 11,025               |
| Net income                                |       | -                   | -                   | -                             | 307,899             | -                               | 307,899              |
| Available for sale financial assets       | 5     | -                   | -                   | -                             | -                   | 166,548                         | 166,548              |
| <b>Balance at March 31, 2011</b>          |       | <b>\$11,382,258</b> | <b>\$ 1,135,866</b> | <b>\$ -</b>                   | <b>\$ 7,051,188</b> | <b>\$ 166,712</b>               | <b>\$ 19,736,044</b> |

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

(Unaudited – prepared by management)

| <b>For the three month period ended March 31</b>             | <b>Note</b> | <b>2011</b>         | <b>2010</b>      |
|--|-------------|---------------------|------------------|
| <b>Cash flows from operating activities</b>                  |             |                     |                  |
| Net income for the period                                    |             | \$ 307,899          | \$ 484,087       |
| Adjustments for:   |             |                     |                  |
| Amortization   |             | 233,589             | 207,822          |
| Deferred income taxes  |             | 85,300              | 73,000           |
| Share based compensation                                     | 15          | 11,025              | 3,400            |
|  |             | <u>637,813</u>      | <u>768,309</u>   |
| Net change in non-cash working capital items                 |             |                     |                  |
| Accounts receivable  |             | (189,087)           | (247,875)        |
| Inventory  |             | 25,718              | (111,980)        |
| Prepaid expenses   |             | (44,671)            | (17,606)         |
| Income taxes receivable                                      |             | (41,314)            | 126,011          |
| Accounts payable and accrued liabilities                     |             | 108,361             | (196,359)        |
| <b>Increase in cash from operations</b>                      |             | <u>496,820</u>      | <u>320,500</u>   |
| <b>Cash flows from financing activities</b>                  |             |                     |                  |
| Proceeds from related parties                                |             | 31,283              | 12,768           |
| Repayment to related parties                                 |             | (151,968)           | (47,545)         |
| Advances of long-term debt                                   |             | 725,792             | 805,068          |
| Repayment of long-term debt                                  |             | (1,383,277)         | (930,355)        |
| Share issue costs  | 10(b)       | (642,008)           | -                |
| Issue of common shares                                       | 10(b)       | 7,007,668           | -                |
| Repurchase of common shares                                  | 10(d)       | (71,977)            | -                |
| <b>Increase/(decrease) in cash from financing activities</b> |             | <u>5,515,513</u>    | <u>(160,064)</u> |
| <b>Cash flows from investing activities</b>                  |             |                     |                  |
| Deferred acquisition   |             | -                   | (76,563)         |
| Purchase of property, plant and equipment                    | 6           | (145,710)           | (80,698)         |
| <b>Decrease in cash from investing activities</b>            |             | <u>(145,710)</u>    | <u>(157,261)</u> |
| <b>Increase in cash</b>                                      |             | <u>5,866,623</u>    | <u>3,175</u>     |
| <b>Cash, beginning of period</b>                             |             | <u>30,301</u>       | <u>39,935</u>    |
| <b>Cash, end of period</b>                                   |             | <u>\$ 5,896,924</u> | <u>\$ 43,110</u> |
| <b>Supplemental Cash Flow Information:</b>                   |             |                     |                  |
| Interest paid  |             | \$ 19,445           | \$ 32,799        |
| Income taxes paid  |             | 4,791               | 6,091            |

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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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. The condensed consolidated interim financial statements of the Company for the period ended March 31, 2011 include the accounts of the Company and its wholly-owned subsidiaries. The financial statements were authorized for issue by the Board of Directors on June 13, 2011. Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. An international sales office is located in Barbados. A corporate, registered office is located at #1600, 205 - 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 2V7. The Company's activities consist of developing, producing and marketing specialized metal matrix composite, aluminum, carbon and stainless steel alloy products. These products include components for the sports and recreation, automobile, aerospace, military and commercial industries. Since the most significant portion of the Company's operations are located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated interim financial statements are stated in United States dollars.

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**2. International Financial Reporting Standards ("IFRS")**

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These condensed consolidated interim Financial Statements represent the Company's initial presentation of the financial results of operations and financial position under International Financial Reporting Standards ("IFRS") for the period ended March 31, 2011 in conjunction with the Company's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these condensed consolidated interim financial statements have been prepared in accordance with IFRS and IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain optional exemptions for first-time adopters to alleviate the retrospective application of all IFRS's. The Company's first financial statements for the year ending December 31, 2011, will be the first annual financial statements that comply with IFRS.

The Company has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations per IFRS 3 that took place prior to the January 1, 2010, transition date.

(b) Share-based payment transactions exemption

The Company will elect not to apply IFRS 2 to share-based payments that vested before the date of transition to IFRSs, January 1, 2010.

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**2. International Financial Reporting Standards (“IFRS”) - continued**

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(c) Borrowing costs exemption

The Company has elected to use the option under IAS 23 to apply this Standard, constituting a change in accounting policy, to commencement dates beginning on or after January 1, 2010. This change in accounting policy does not impact these financial statements.

The Company has applied the following mandatory exception from retrospective application.

Estimates exception

Estimates under IFRS at January 1, 2010, are consistent with estimates made for the same date under Canadian GAAP.

All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management’s application of Canadian GAAP in these areas. Note 18 of these financial statements further explain and quantify the effect of the transition to IFRS.

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**3. Significant Accounting Policies**

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

These condensed consolidated interim financial statements are the Company’s first financial statements prepared under IFRS. The Company adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards (“IFRS 1”) with a transition date to IFRS of January 1, 2010. Consequently the comparative figures for 2010 and the Company’s statement of financial position as at January 1, 2010 and December 31, 2010 have been restated from Canadian generally accounting principles (“Canadian GAAP”) to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 18. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in Note 2.

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

These adjusted financial statements have not been audited and therefore the 2011 annual financial statements may differ for differences in interpretation of IFRS standards, new pronouncements or other items that may be identified during an audit.



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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**3. Significant Accounting Policies - continued**

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The preparation of condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and accompanying notes. Actual results could differ from those estimates. The condensed consolidated interim 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 condensed consolidated interim financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, using historical cost convention except for available for sale financial assets which are measured at fair value.

(c) Inventory

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

(d) Revenue recognition

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

(e) Cash

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

(f) Property, plant and equipment

Property, plant and equipment are carried at deemed cost, historical 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     |

Borrowing costs are capitalized that are directly attributable to the acquisition of property, plant and equipment. The Company reviews the criteria for capitalization and the useful life of its capital assets on an on-going basis considering changes in circumstances.

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**3. Significant Accounting Policies - continued**

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(f) Property, plant and equipment - continued

When the cost of a part of an item of property, plant and equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of property, plant and equipment. The costs of day-to-day servicing of property, plant and equipment are recognized in direct operating expenses. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other (income) expense in the statement of comprehensive income. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. No revisions to estimates were made in 2011 or 2010.

(g) 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 “at fair value through profit or loss” are reported at fair value with unrealized gains or losses included in earnings.

(h) 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.

(i) Impairment of non-financial assets

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

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

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

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**3. Significant Accounting Policies - continued**

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(j) Provisions

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

A provision is recognized in the financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At March 31, 2011, December 31, 2010 and January 1, 2010 there were no provisions recognized in the financial statements.

(k) Deferred income taxes

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

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

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

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

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**3. Significant Accounting Policies - continued**

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(l) Foreign exchange

These condensed consolidated interim financial statements have been presented in United States (U.S.) dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the date of the transaction. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component of other comprehensive income.

(m) Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates. Income tax rates expected to apply when the deferred 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 share based compensation are based on management's assumptions at the time the related options were granted. The condensed consolidated interim 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 estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

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 condensed consolidated interim financial statements for changes in estimates, in future periods, could be significant.

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**3. Significant Accounting Policies - continued**

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(n) Share-based compensation plan

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

(o) Per share amounts

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

(p) Research and Development expenses

Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the IAS 38, "Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(q) Segmented information

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

(r) Financial Instruments

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

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**3. Significant Accounting Policies - continued**

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(r) Financial Instruments - continued

Financial assets and financial liabilities “at fair value through profit or loss” are measured at fair value with changes in those fair values recognized in net income. 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 is designated as “at fair value through profit or loss” and is measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable are designated as “loans and receivables”. Accounts payable and accrued liabilities, due to related parties 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 condensed consolidated interim financial statements include a Statement of Comprehensive Income. Accordingly, cumulative changes in OCI are included in a Statement of Changes in Equity.

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

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

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

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

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**3. Significant Accounting Policies - continued**

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(p) Capital Disclosures

The Company discloses its objective, policies and processes for managing capital.

(q) Recent accounting pronouncements

In October 2009, the International Accounting Standards Board (“IASB”) published IFRS 7, “Financial Instruments: Disclosures – Transfer of financial assets (Amendment)”. The amendment is effective for annual periods beginning on or after July 1, 2011. This amendment will result in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment will have no impact to the Company after initial application.

In November 2009, the International Accounting Standards Board (“IASB”) published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities “at fair value through profit or loss”. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact to the Company upon implementation of the issued standard.

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

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

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

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**3. Significant Accounting Policies - continued**

(q) Recent accounting pronouncements - continued

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

**4. Inventory**

The major components of inventory are classified as follows:

|                | <u>March 31, 2011</u> | December 31, 2010   | January 1, 2010     |
|----------------|-----------------------|---------------------|---------------------|
| Raw materials  | \$ 378,100            | \$ 355,379          | \$ 447,810          |
| Finished goods | <u>3,014,080</u>      | <u>3,062,519</u>    | <u>2,926,231</u>    |
|                | <b>\$ 3,392,180</b>   | <b>\$ 3,417,898</b> | <b>\$ 3,374,041</b> |

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold was \$602,439 (March 31, 2010 - \$495,846). There were no inventory write-downs included in cost of goods sold (March 31, 2010 - nil). The Company carries the inventory amounts above according to the weighted average method.

**5. Investments**

As at March 31, 2011, long-term investments consists of an available-for-sale investment in the common shares of a public company accounted for at fair value. The investment consists of shares held in escrow as well as shares which have been released from escrow. As there is no quoted market price for the shares held in escrow, they have been measured at the lower of cost or fair market value.

At March 31, 2011, of the total common shares purchased, 453,634 (December 31, 2010 - 907,268, January 1, 2010 - 1,889,536) remain in escrow with one release remaining. The Company's investments are recorded at the fair value as follows supported by the market price as listed on the TSX Venture Exchange.

|  |                        |
|--|------------------------|
|  | <u>Carrying Amount</u> |
| Investments at January 1, 2010                 | \$ 184,778             |
| Gain/(loss) from market price valuation        | (8,602)                |
| <b>Investments at December 31, 2010</b>        | <b>\$ 176,176</b>      |
| <b>Gain/(loss) from market price valuation</b> | <b>166,548</b>         |
| <b>Investments at March 31, 2011</b>           | <b>\$ 342,724</b>      |



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**6. Property, Plant and Equipment**

|                                | March 31, 2011    |                     |                    | December 31, 2010   |                     |                     | January 1, 2010      |                     |
|--------------------------------|-------------------|---------------------|--------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
|                                | Additions         | Cost                | Accumulated        | Additions           | Cost                | Accumulated         | Cost                 | Accumulated         |
|                                |                   |                     | Amortization       |                     |                     | Amortization        |                      | Amortization        |
| Land                           | \$ -              | \$ 770,000          | \$ -               | \$ -                | \$ 770,000          | \$ -                | \$ 770,000           | \$ -                |
| Building                       | -                 | 1,494,410           | 490,189            | -                   | 1,494,410           | 479,921             | 1,494,410            | 436,771             |
| Production and other equipment | 20,781            | 12,405,695          | 2,333,023          | 1,034,505           | 12,384,914          | 2,244,742           | 11,352,128           | 1,917,820           |
| Computer equipment             | 3,470             | 140,707             | 101,236            | 28,034              | 137,237             | 97,536              | 109,203              | 79,601              |
| Vehicle                        | -                 | 28,400              | 19,271             | -                   | 28,400              | 18,257              | 28,400               | 14,200              |
| Non consumable tooling         | 121,459           | 3,649,141           | 1,928,013          | 516,236             | 3,527,682           | 1,797,686           | 3,011,446            | 1,317,949           |
|                                | <b>\$ 145,710</b> | <b>\$18,488,353</b> | <b>\$4,871,732</b> | <b>\$ 1,578,775</b> | <b>\$18,342,643</b> | <b>\$ 4,638,142</b> | <b>\$ 16,765,587</b> | <b>\$ 3,766,341</b> |
| Net book value                 |                   | <b>\$13,616,621</b> |                    |                     | <b>\$13,704,501</b> |                     | <b>\$12,999,246</b>  |                     |

Equipment not in service not subject to amortization in the amount of \$1,939,274 (December 31, 2010 - \$1,939,274, January 1, 2010 - \$1,939,274) is included in production and other equipment.

**7. Related Party Transactions**

Due from related parties includes advances to a company under common control. An amount of \$630,451 (December 31, 2010 - \$481,512, January 1, 2010 - \$144,235) is due from California Nanotechnologies Corp, bearing interest at 5% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies, Inc.

In the period the Company received \$nil (March 31, 2010 - \$12,000) 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 the three month period ended March 31, 2011, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value salary would approximate \$35,000 (March 31, 2010 - \$35,000). Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of \$nil.

The Company has issued an interest free loan to two employees for a total of \$25,000 related to the acquisition of various properties. The loans are unsecured with maturity dates in 2011 and 2013. The Company has issued a loan to one of its officers and directors for \$135,998 (December 31, 2010 - \$164,253, January 1, 2010 - \$172,968) at a 5% interest rate and with a maturity date in 2014. The loan is secured by the related property.

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**7. Related Party Transactions - continued**

Significant subsidiaries:

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

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

**8. Compensation of Key Management Personnel**

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

|              | <b>March 31, 2011</b> | March 31, 2010 |
|--------------|-----------------------|----------------|
| Remuneration | <b>\$ 78,968</b>      | \$ 67,500      |

Key management personnel of the Company include the Vice-presidents (2) and Chief Financial Officer.

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**9. Long-term Debt**

|   | March 31,<br>2011   | December 31,<br>2010 | January 1,<br>2010 |
|---|---------------------|----------------------|--------------------|
| <p>Effective September 2009, the Company established a long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$2,750,000, comprised of a term loan facility in the amount of \$2,000,000, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), (3.5% effective average interest rate in 2010), maturing on October 30, 2012, repayable in monthly principal installments of \$33,333.</p>   | <b>\$ 1,400,000</b> | \$ 1,500,000         | \$ 1,933,334       |
| <p>The Credit Agreement described above also includes a commercial advance line of up to \$750,000 for operating purposes, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), (3.5% effective average interest rate in 2010), maturing on June 30, 2011. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company. Under this agreement, the Company has agreed to certain conditions and financial ratios, which have been met as at March 31, 2011. Advances are automatically repayable daily with available funds after clearing operating disbursements.</p> | -                   | 476,945              | 539,236            |
| <p>Promissory Note, Total principal amount \$800,000 with 60-month term, bearing interest at LIBOR plus 1.85% per annum (2.2% effective average interest rate in 2011 and 2010). Secured by equipment with a net book value of \$788,889. Maturing on July 15, 2013, repayable in monthly principal and interest installments of \$14,962.</p>  | <b>389,993</b>      | 432,664              | 586,912            |
| <p>Promissory Note, Total principal amount \$692,800 with 60-month term, bearing interest at LIBOR plus 1.85% per annum (2.2% effective average interest rate in 2011 and 2010). Secured by equipment with a net book value of \$683,178. Maturing on July 15, 2013, repayable in monthly principal and interest monthly installments of \$12,957.</p>  | <b>337,734</b>      | 374,687              | 508,266            |
| <p>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.</p>   | <b>2,292</b>        | 3,208                | 8,708              |
|   | <b>\$ 2,130,019</b> | \$ 2,787,504         | \$ 3,576,546       |
| Less: current portion   | <b>(727,161)</b>    | (1,202,567)          | (1,290,670)        |
|   | <b>\$ 1,402,858</b> | \$ 1,584,937         | \$ 2,285,876       |

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**9. Long-term Debt - continued**

There were no borrowing costs capitalized during the three month period ended March 31, 2010 (December 31, 2010 – nil, January 1, 2010 - nil). The credit facilities of the Company are subject to annual review.

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

|      |    |                  |
|------|----|------------------|
| 2011 | \$ | 727,161          |
| 2012 |    | 1,331,849        |
| 2013 |    | 71,009           |
| 2014 |    | -                |
| 2015 |    | -                |
|      | \$ | <u>2,130,019</u> |

**10. Share Capital**

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued

|   | <b>Number of<br/>Shares</b> | <b>Amount</b>       |
|---|-----------------------------|---------------------|
| Total issued and outstanding, January 1, 2010                         | 10,620,854                  | \$5,519,546         |
| Total issued and outstanding, March 31, 2010                          | 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)           |
| <b>Total issued and outstanding, December 31, 2010</b>                | <b>10,233,866</b>           | <b>\$5,046,031</b>  |
| <b>Issued under private placement</b>                                 | <b>3,220,000</b>            | <b>7,007,668</b>    |
| <b>Share issuance costs</b>   | <b>-</b>                    | <b>(642,008)</b>    |
|   | <b>13,453,866</b>           | <b>\$11,411,691</b> |
| <b>To be cancelled from repurchase under normal course issuer bid</b> | <b>(34,700)</b>             | <b>(29,433)</b>     |
| <b>Total issued and outstanding, March 31, 2011</b>                   | <b>13,419,166</b>           | <b>\$11,382,258</b> |

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

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**10. Share Capital - continued**

(c) Share options

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

|   | Number         | Option Price per Share Range | Weighted Average Exercise Price |
|---|----------------|------------------------------|---------------------------------|
| Options outstanding at Jan. 1, 2010         | 496,667        | CDN \$0.82 to \$2.55         | CDN \$1.88                      |
| - expired                                   | (47,500)       | CDN \$0.94 to \$1.55         | CDN \$1.21                      |
| Options outstanding at Mar. 31, 2010        | 449,167        | CDN \$0.60 to \$2.55         | CDN \$1.95                      |
| 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                      |
| - forfeited                                 | (2,500)        | CDN \$2.00 to \$2.55         | CDN \$2.43                      |
| - expired                                   | (132,500)      | CDN \$0.94 to \$1.55         | CDN \$1.45                      |
| Options outstanding at Dec. 31, 2010        | 749,500        | CDN \$0.60 to \$2.55         | CDN \$1.32                      |
| Options - forfeited                         | (5,000)        | <b>CDN \$0.60 to \$0.90</b>  | <b>CDN \$0.70</b>               |
| - expired                                   | (90,000)       | <b>CDN \$2.00 to \$2.55</b>  | <b>CDN \$2.55</b>               |
| <b>Options outstanding at Mar. 31, 2011</b> | <b>654,500</b> | <b>CDN \$0.60 to \$2.43</b>  | <b>CDN \$1.16</b>               |
| <b>Options exercisable at Mar. 31, 2011</b> | <b>174,167</b> | <b>CDN \$1.38 to \$2.43</b>  | <b>CDN \$2.28</b>               |

The Company established a share option plan for employees, directors and consultants on September 15, 1997. Under this plan, the Company is authorized to issue options up to 10% of the outstanding number of issued and outstanding shares. From grant date, options vest at one-third of the total grant annually with an expiration term of 5 years.

The options that are exercisable at March 31, 2011 are summarized as follows:

| Options Outstanding | Option price         | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|---------------------|----------------------|---------------------------------|---|
| 480,333             | CDN \$0.60 to \$0.90 | CDN \$0.75                      | 3.98 years                                  |
| 33,333              | CDN \$1.38 to \$2.00 | CDN \$1.98                      | 0.47 years                                  |
| 140,834             | CDN \$2.01 to \$2.43 | CDN \$2.43                      | 1.50 years                                  |
| 654,500             | CDN \$0.60 to \$2.43 | CDN \$1.16                      | 3.27 years                                  |

  

| Number of Options Currently Vested | Option price         | Weighted Average Exercise Price of Options Currently Exercisable | Weighted Average Remaining Contractual Life |
|------------------------------------|----------------------|--|---|
| 33,333                             | CDN \$1.38 to \$2.00 | CDN \$1.98   | 0.47 years                                  |
| 140,834                            | CDN \$2.00 to \$2.43 | CDN \$2.36   | 1.50 years                                  |
| 174,167                            | CDN \$1.38 to \$2.43 | CDN \$2.28   | 1.31 years                                  |

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**10. Share Capital - continued**

(c) Share options - continued

The options that are exercisable at December 31, 2010 are summarized as follows:

| Options Outstanding | Option price         | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|---------------------|----------------------|---------------------------------|---|
| 485,333             | CDN \$0.60 to \$0.90 | CDN \$0.75                      | 4.22 years                                  |
| 33,333              | CDN \$1.38 to \$2.00 | CDN \$1.98                      | 0.72 years                                  |
| 230,834             | CDN \$2.01 to \$2.55 | CDN \$2.43                      | 1.14 years                                  |
| 749,500             | CDN \$0.60 to \$2.55 | CDN \$1.32                      | 3.12 years                                  |

  

| Number of Options Currently Vested | Option price         | Weighted Average Exercise Price of Options Currently Exercisable | Weighted Average Remaining Contractual Life |
|------------------------------------|----------------------|--|---|
| 33,333                             | CDN \$1.38 to \$2.00 | CDN \$1.98   | 0.72 years                                  |
| 230,834                            | CDN \$2.01 to \$2.55 | CDN \$2.43   | 1.14 years                                  |
| 264,167                            | CDN \$1.38 to \$2.55 | CDN \$2.37   | 1.09 years                                  |

The options that were outstanding at January 1, 2010 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                                  |

  

| Options Outstanding | Option price         | Weighted Average Exercise Price | 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:

|                             | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|-----------------------------|----------------|-------------------|-----------------|
| Risk free interest rate (%) | 3.0 – 3.5%     | 4.0 – 4.5%        | 4.0 – 4.5%      |
| Expected life (years)       | 5              | 5                 | 5               |
| Volatility rate (%)         | 52 – 62%       | 52 – 62%          | 52 – 62%        |
| Dividend yield (%)          | 0.87 – 2.02%   | 0.87 – 2.02%      | 0.87 – 2.02%    |

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

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**10. Share Capital - continued**

(d) Normal course issuer bid

During the period, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 34,700 (December 31, 2010 – nil, January 1, 2010 – nil) of its issued and outstanding common shares. The Company repurchased the common shares for \$71,977 (December 31, 2010 – \$nil, January 1, 2010 – \$nil) resulting in a \$29,433 (December 31, 2010 – \$nil, January 1, 2010 – \$nil) reduction in share capital and a \$42,544 (December 31, 2010 – \$nil, January 1, 2010 – \$nil) decrease in retained earnings.

**11. Segmented Information**

**Geographic Segments:**

The Company has its operations and subsidiaries in the United States, Canada and in Barbados. The Company allocates its revenues between countries based on location that has title to the contract. The Company has utilized and reported revenues from products sold based on the Company locations for each of these segments as follows:

| March 31, 2011 | United States | Canada    | Barbados   | Inter-corporate<br>elimination | Total        |
|----------------|---------------|-----------|------------|--------------------------------|--------------|
| Revenues       | \$ 1,394,148  | \$ -      | \$ 280,572 | \$ (192,406)                   | \$ 1,482,314 |
| Net income     | \$ 166,422    | \$ 68,273 | \$ 73,204  | \$ -                           | \$ 307,899   |

  

| March 31, 2010 | United States | Canada    | Barbados  | Inter-corporate<br>elimination | Total        |
|----------------|---------------|-----------|-----------|--------------------------------|--------------|
| Revenues       | \$ 1,793,380  | \$ -      | \$ 98,204 | \$ (57,508)                    | \$ 1,834,076 |
| Net income     | \$ 439,758    | \$ 11,217 | \$ 33,112 | \$ -                           | \$ 484,087   |

**12. Seasonality**

Seasonal fluctuations have no material impact on the Company's revenues.

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**13. Commitments**

- (a) The Company has agreements with various customers to supply parts in 2011, 2012 and 2013.
- (b) The Company has a commitment to purchase equipment in the amount of \$61,900 in April, 2011. As at June 8, 2011, this commitment has been met.

**14. Financial Instruments**

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

|   | March 31, 2011 |              | March 31, 2010 |            |
|---|----------------|--------------|----------------|------------|
|   | Carrying Value | Fair Value   | Carrying Value | Fair Value |
| <b>At fair value through profit or loss</b> |                |              |                |            |
| Cash  | \$ 5,896,924   | \$ 5,896,924 | \$ 30,301      | \$ 30,301  |
| <b>Loans and receivable</b>                 |                |              |                |            |
| Accounts receivable                         | 834,938        | 834,938      | 645,851        | 645,851    |
| Due from related parties                    | 791,449        | 791,449      | 670,765        | 670,765    |
| <b>Available for sale</b>                   |                |              |                |            |
| Investments                                 | 342,724        | 342,724      | 176,176        | 176,176    |
| <b>Other financial liabilities</b>          |                |              |                |            |
| Accounts payable and accrued liabilities    | 540,936        | 540,936      | 432,575        | 432,575    |
| Long-term debt                              | 2,130,019      | 2,130,019    | 2,787,504      | 2,787,504  |

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

|               | Total        | Level 1      | Level 2 | Level 3 |
|---------------|--------------|--------------|---------|---------|
| <b>Assets</b> |              |              |         |         |
| Cash          | \$ 5,896,924 | \$ 5,896,924 | \$ -    | \$ -    |
| Investments   | 342,724      | 342,724      | -       | -       |

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



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**14. Financial Instruments - continued**

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to various risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off statement of financial position contracts to manage these risks.

Interest rate risk

The Company's revolving line of credit and the two promissory note borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at March 31, 2011, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$21,277 (2010 - \$27,843). The related disclosures regarding these debt instruments are included in Note 9 of these financial statements.

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. As at March 31, 2011, 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.

|                  | <b>USD</b>            | <b>USD</b>        | <b>USD</b>      |
|------------------|-----------------------|-------------------|-----------------|
|                  | <b>March 31, 2011</b> | December 31, 2010 | January 1, 2010 |
| Cash             | <b>\$ 29,502</b>      | \$ 21,860         | \$ 42,187       |
| Accounts payable | <b>84,908</b>         | 82,340            | 112,373         |

At March 31, 2011, 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:

|  | <b>Impact on Net Income</b> |
|--|-----------------------------|
| U.S. Dollar Exchange Rate – 10% increase | <b>\$ (2,950)</b>           |
| U.S. Dollar Exchange Rate – 10% decrease | <b>2,950</b>                |

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**14. Financial Instruments - continued**

Foreign currency risk - continued

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:

|  | <b>Impact on Net Income</b> |
|--|-----------------------------|
| U.S. Dollar Exchange Rate – 10% increase | <b>\$ (8,491)</b>           |
| U.S. Dollar Exchange Rate – 10% decrease | <b>8,491</b>                |

Other Price Risk

The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nanotechnologies Corp. This investment is recorded on the statement of financial position at fair value as of the statement of financial position date for the shares which have been released from escrow while the shares remaining in escrow are carried at cost, with changes from the prior 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 March 31, 2011 and includes the related interest charges:

|  | ≤ 1 year            | > 1 year<br>≤ 3 years | > 3 year<br>≤ 4 years | > 5<br>years | Total               |
|--|---------------------|-----------------------|-----------------------|--------------|---------------------|
| Trade accounts payable and accrued liabilities | \$ 468,959          | \$ -                  | \$ -                  | \$ -         | \$ 468,959          |
| Bank loan and interest                         | 779,899             | 1,353,399             | 71,126                | -            | 2,204,424           |
| <b>Total</b>                                   | <b>\$ 1,248,858</b> | <b>\$ 1,353,399</b>   | <b>\$ 71,126</b>      | <b>\$ -</b>  | <b>\$ 2,673,383</b> |

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

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**14. Financial Instruments - continued**

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the three months ended March 31, 2011, the Company was engaged in contracts for products with five (March 31, 2010 – three) customers in excess of 10% of revenue, which accounted for \$1,116,620 (March 31, 2010 - \$1,272,929) or 75% (March 31, 2010 – 69%) of the Company's total revenue. During the same period, export sales to one (March 31, 2010 – three) customer(s) in various international countries (outside of the United States) amounted to \$207,200 (March 31, 2010 - \$98,204) or 14% (March 31, 2010 – 5%) 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<br>≤ 60 days | 60 days<br>≤ 90 days | > 90 days |
|---------------------|------------|------------|------------------------|----------------------|-----------|
| Accounts Receivable | \$ 723,616 | \$ 101,242 | \$ 10,080              | \$ -                 | \$ -      |

**15. Contributed Surplus**

The following is a continuity schedule of contributed surplus:

|                                  | March 31,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|----------------------------------|-------------------|----------------------|--------------------|
| Balance, beginning of period     | \$ 1,124,861      | \$ 1,071,378         | \$ 1,071,378       |
| Share-based compensation expense | 11,025            | 60,650               | 3,400              |
| Exercise of options              | -                 | (7,167)              | -                  |
| Balance, end of period           | \$ 1,135,866      | \$ 1,124,861         | \$ 1,077,778       |

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**16. Earnings per Common Share**

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

518,666 (March 31, 2010 – 466,667) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended March 31, 2011, 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.

**17. Capital Disclosures**

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

Maintaining an appropriate balance between short-term borrowings, long-term debt and shareholders' equity; maintaining sufficient undrawn committed credit capacity to provide liquidity; ensuring ample covenant room to draw credit lines as required; and ensuring the Company maintains 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 as follows:

| <b>Net Debt</b>                | <b>March 31, 2011</b> | <b>December 31, 2010</b> | <b>January 1, 2010</b> |
|--------------------------------|-----------------------|--------------------------|------------------------|
| Long-term debt                 | \$ 1,402,858          | \$ 1,584,937             | \$ 2,285,876           |
| Current portion long-term debt | 727,161               | 1,202,567                | 1,290,670              |
| Cash                           | (5,896,924)           | (30,301)                 | (39,935)               |
| <b>Total Net Debt</b>          | <b>\$ (3,766,905)</b> | <b>\$ 2,757,203</b>      | <b>\$ 3,536,611</b>    |
| Shareholders' Equity           | \$ 19,736,044         | \$ 12,956,889            | \$ 11,265,329          |

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**17. Capital Disclosures - continued**

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 statement of financial position. 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. For the twelve month period ended March 31, 2011, the net debt to cash flow from operating activities was (1.23) times compared to 0.96 times at December 31, 2010. 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 strengthened in 2011 from 12.6 times at March 31, 2010 to 29.6 times at March 31, 2011. 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.

|                            | <b>March 31, 2011</b> | March 31, 2010 |
|----------------------------|-----------------------|----------------|
| Net Income                 | <b>\$ 307,899</b>     | \$ 484,087     |
| Add:                       |                       |                |
| Interest Expense           | <b>20,096</b>         | 27,238         |
| Provision for Income Taxes | <b>13,700</b>         | 201,850        |
| Amortization               | <b>233,589</b>        | 207,822        |
| <b>EBITDA</b>              | <b>\$ 575,284</b>     | \$ 920,997     |

The Company has no externally imposed capital requirements.

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**18. Transition to IFRS**

The Company has adopted IFRS effective January 1, 2010 and has prepared its opening IFRS statement of financial position as at that date. Prior to adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's condensed consolidated interim financial statements for the year ending December 31, 2010 will be the first annual consolidated financial statements that comply with IFRS.

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on shareholders' equity of the transition at January 1, 2010, March 31, 2010, and December 31, 2010. The following five reconciliations provide details of the impact of the transition on:

- Statement of financial position at January 1, 2010
- Statement of financial position at March 31, 2010
- Statement of financial position at December 31, 2010
- Comprehensive income March 31, 2010
- Comprehensive income December 31, 2010

The following is a summary of shareholders' equity:

|   | January 1,<br>2010 | Note  | March 31,<br>2010 | Note  | December<br>31, 2010 | Note  |
|---|--------------------|-------|-------------------|-------|----------------------|-------|
| Total shareholders' equity reported under Canadian GAAP | \$11,265,329       |       | \$ 11,758,286     |       | \$ 12,956,889        |       |
| Restatement of share based compensation                 | 5,100              | 18(a) | 6,650             | 18(a) | 6,650                | 18(a) |
| Total adjustments were reclassified within equity       | <u>(5,100)</u>     | 18(a) | <u>(6,650)</u>    | 18(a) | <u>(6,650)</u>       | 18(a) |
| Total shareholders' equity reported under IFRS          | \$11,265,329       |       | \$ 11,758,286     |       | \$ 12,956,889        |       |

**(a) Share Based Payments**

Under Canadian GAAP, the corresponding share based compensation expense was recognized by the Company on a straight line method over the vesting period of the options. This differs under "IFRS 2, Share Based Payments", where share options granted vest in installments (tranches) over the vesting period, and each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period. The Company elected not to apply IFRS 2 to share-based payments that vested before the date of transition to IFRSs, January 1, 2010. As a result, retained earnings increased by \$5,100 at January 1, 2010, and share compensation expense was reduced by an additional \$1,550 and recognized in the income statement for the three months ended March 31, 2010 and the year ended December 31, 2010.

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**18. Transition to IFRS - continued**

The following is a reconciliation of the Company's Statement of Financial Position reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at January 1, 2010.

| <b>As at January 1, 2010</b>                      | <b>Note</b> | <b>Canadian<br/>GAAP</b> | <b>Effect of<br/>transition<br/>to IFRS</b> | <b>IFRS</b>         |
|---|-------------|--------------------------|---|---------------------|
| <b>Assets</b>                                     |             |                          |   |                     |
| <b>Current</b>                                    |             |                          |   |                     |
| Cash  |             | \$ 39,935                |   | \$ 39,935           |
| Accounts receivable                               |             | 744,809                  |   | 744,809             |
| Inventory   |             | 3,374,041                |   | 3,374,041           |
| Income taxes receivable                           |             | 167,549                  |   | 167,549             |
| Prepaid expenses                                  |             | 62,962                   |   | 62,962              |
|   |             | <u>4,389,296</u>         | -   | <u>4,389,296</u>    |
| Investments                                       |             | 184,778                  |   | 184,778             |
| Property, plant and equipment                     |             | 12,999,246               |   | 12,999,246          |
| Due from related parties                          |             | 342,203                  |   | 342,203             |
| Deferred tax asset                                |             | 218,600                  |   | 218,600             |
| <b>Total assets</b>                               |             | <u>\$18,134,123</u>      | -   | <u>\$18,134,123</u> |
| <b>Liabilities and Shareholders' Equity</b>       |             |                          |   |                     |
| <b>Current liabilities</b>                        |             |                          |   |                     |
| Accounts payable and accrued liabilities          |             | \$ 630,910               |   | \$ 630,910          |
| Current portion of long-term debt                 |             | 1,290,670                |   | 1,290,670           |
|   |             | <u>1,921,580</u>         | -   | <u>1,921,580</u>    |
| Long-term debt                                    |             | 2,285,876                |   | 2,285,876           |
| Deferred tax liability                            |             | 2,661,338                |   | 2,661,338           |
| <b>Total Liabilities</b>                          |             | <u>6,868,794</u>         | -   | <u>6,868,794</u>    |
| Share capital                                     |             | 5,519,546                |   | 5,519,546           |
| Share subscription receivable                     |             | (492,459)                |   | (492,459)           |
| Contributed surplus                               | 18(a)       | 1,076,478                | (5,100)                                     | 1,071,378           |
| Retained earnings                                 | 18(a)       | 5,163,975                | 5,100                                       | 5,169,075           |
| Accumulated other comprehensive income            |             | (2,211)                  |   | (2,211)             |
| <b>Total shareholders' equity</b>                 |             | <u>11,265,329</u>        | -   | <u>11,265,329</u>   |
| <b>Total liabilities and shareholders' equity</b> |             | <u>\$18,134,123</u>      | -   | <u>\$18,134,123</u> |

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**18. Transition to IFRS - continued**

The following is a reconciliation of the Company's Statement of Financial Position reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at March 31, 2010.

| <b>As at March 31, 2010</b>                       | <b>Note</b> | <b>Canadian<br/>GAAP</b> | <b>Effect of<br/>transition<br/>to IFRS</b> | <b>IFRS</b>         |
|---|-------------|--------------------------|---|---------------------|
| <b>Assets</b>                                     |             |                          |   |                     |
| <b>Current</b>                                    |             |                          |   |                     |
| Cash  |             | \$ 43,110                |   | \$ 43,110           |
| Accounts receivable                               |             | 992,684                  |   | 992,684             |
| Inventory   |             | 3,486,021                |   | 3,486,021           |
| Income taxes receivable                           |             | 41,538                   |   | 41,538              |
| Prepaid expenses                                  |             | 80,569                   |   | 80,569              |
|   |             | <u>4,643,922</u>         | -   | <u>4,643,922</u>    |
| Investments                                       |             | 190,248                  |   | 190,248             |
| Property, plant and equipment                     |             | 12,948,684               |   | 12,948,684          |
| Due from related parties                          |             | 376,980                  |   | 376,980             |
| Deferred tax asset                                |             | 218,600                  |   | 218,600             |
| <b>Total assets</b>                               |             | <u>\$18,378,434</u>      | -   | <u>\$18,378,434</u> |
| <b>Liabilities and Shareholders' Equity</b>       |             |                          |   |                     |
| <b>Current liabilities</b>                        |             |                          |   |                     |
| Accounts payable and accrued liabilities          |             | \$ 434,551               |   | \$ 434,551          |
| Current portion of long-term debt                 |             | 1,346,740                |   | 1,346,740           |
|   |             | <u>1,781,291</u>         | -   | <u>1,781,291</u>    |
| Long-term debt                                    |             | 2,104,519                |   | 2,104,519           |
| Deferred tax liability                            |             | 2,734,338                |   | 2,734,338           |
| <b>Total Liabilities</b>                          |             | <u>6,620,148</u>         | -   | <u>6,620,148</u>    |
| Share capital                                     |             | 5,519,546                |   | 5,519,546           |
| Share subscription receivable                     |             | (492,459)                |   | (492,459)           |
| Contributed surplus                               | 18(a)       | 1,081,428                | (6,650)                                     | 1,074,778           |
| Retained earnings                                 | 18(a)       | 5,646,512                | 6,650                                       | 5,653,162           |
| Accumulated other comprehensive income            |             | 3,259                    |   | 3,259               |
| <b>Total shareholders' equity</b>                 |             | <u>11,758,286</u>        | -   | <u>11,758,286</u>   |
| <b>Total liabilities and shareholders' equity</b> |             | <u>\$18,378,434</u>      | -   | <u>\$18,378,434</u> |



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**18. Transition to IFRS - continued**

The following is a reconciliation of the Company's Statement of Financial Position reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010.

| <b>As at December 31, 2010</b>                    | <b>Note</b> | <b>Canadian<br/>GAAP</b> | <b>Effect of<br/>transition<br/>to IFRS</b> | <b>IFRS</b>         |
|---|-------------|--------------------------|---|---------------------|
| <b>Assets</b>                                     |             |                          |   |                     |
| <b>Current</b>                                    |             |                          |   |                     |
| Cash  |             | \$ 30,301                |   | \$ 30,301           |
| Accounts receivable                               |             | 645,851                  |   | 645,851             |
| Inventory   |             | 3,417,898                |   | 3,417,898           |
| Income taxes receivable                           |             | 336,455                  |   | 336,455             |
| Prepaid expenses                                  |             | 53,039                   |   | 53,039              |
|   |             | <u>4,483,544</u>         | -   | <u>4,483,544</u>    |
| Investments                                       |             | 176,176                  |   | 176,176             |
| Property, plant and equipment                     |             | 13,704,501               |   | 13,704,501          |
| Due from related parties                          |             | 670,765                  |   | 670,765             |
| Deferred tax asset                                |             | 206,000                  |   | 206,000             |
| <b>Total assets</b>                               |             | <u>\$19,240,986</u>      | -   | <u>\$19,240,986</u> |
| <b>Liabilities and Shareholders' Equity</b>       |             |                          |   |                     |
| <b>Current liabilities</b>                        |             |                          |   |                     |
| Accounts payable and accrued liabilities          |             | \$ 432,575               |   | \$ 432,575          |
| Current portion of long-term debt                 |             | 1,202,567                |   | 1,202,567           |
|   |             | <u>1,635,142</u>         | -   | <u>1,635,142</u>    |
| Long-term debt                                    |             | 1,584,937                |   | 1,584,937           |
| Deferred tax liability                            |             | 3,064,018                |   | 3,064,018           |
| <b>Total Liabilities</b>                          |             | <u>6,256,097</u>         | -   | <u>6,256,097</u>    |
| Share capital                                     |             | 5,046,031                |   | 5,046,031           |
| Contributed surplus                               | 18(a)       | 1,131,511                | (6,650)                                     | 1,124,861           |
| Retained earnings                                 | 18(a)       | 6,779,183                | 6,650                                       | 6,785,833           |
| Accumulated other comprehensive income            |             | 164                      |   | 164                 |
| <b>Total shareholders' equity</b>                 |             | <u>12,956,889</u>        | -   | <u>12,956,889</u>   |
| <b>Total liabilities and shareholders' equity</b> |             | <u>\$19,240,986</u>      | -   | <u>\$19,240,986</u> |

**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
(Unaudited – Prepared by Management)  
**United States Dollars**

**For the three month period ended March 31, 2011**

**18. Transition to IFRS - continued**

The following is a reconciliation of the Company's total comprehensive income reported in accordance with Canadian GAAP to its total comprehensive income in accordance with IFRS for the three months ended March 31, 2010.

| Three months ended March 31, 2010           | Note  | Canadian<br>GAAP | Effect of<br>Transition<br>to IFRS | IFRS        |
|---|-------|------------------|------------------------------------|-------------|
| <b>Revenue</b>                              |       | \$1,834,076      |                                    | \$1,834,076 |
| <b>Cost of goods sold</b>                   |       | 495,846          |                                    | 495,846     |
| <b>Gross margin</b>                         |       | 1,338,230        | -                                  | 1,338,230   |
| <b>Overhead expenses</b>                    |       |                  |                                    |             |
| Amortization                                |       | 207,822          |                                    | 207,822     |
| Foreign exchange                            |       | (429)            |                                    | (429)       |
| General and administrative                  |       | 369,013          |                                    | 369,013     |
| Commissions                                 |       | 25,704           |                                    | 25,704      |
| Interest on long-term debt                  |       | 27,238           |                                    | 27,238      |
| Share-based compensation                    | 18(a) | 4,950            | (1,550)                            | 3,400       |
| Research and product design                 |       | 23,633           |                                    | 23,633      |
|   |       | 657,931          | (1,550)                            | 656,381     |
| <b>Income from operations</b>               |       | 680,299          | 1,550                              | 681,849     |
| Other income                                |       | 4,088            |                                    | 4,088       |
| Income before income taxes                  |       | 684,387          | 1,550                              | 685,937     |
| Income tax provision                        |       |                  |                                    |             |
| Current                                     |       | 128,850          |                                    | 128,850     |
| Deferred                                    |       | 73,000           |                                    | 73,000      |
|   |       | 201,850          | -                                  | 201,850     |
| <b>Net income</b>                           |       | 482,537          | 1,550                              | 484,087     |
| Other comprehensive income                  |       |                  |                                    |             |
| Gain on available for sale financial assets |       | 5,470            | -                                  | 5,470       |
| <b>Comprehensive income</b>                 |       | \$488,007        | 1,550                              | \$489,557   |

**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
(Unaudited – Prepared by Management)  
**United States Dollars**

**For the three month period ended March 31, 2011**

**18. Transition to IFRS - continued**

The following is a reconciliation of the Company's total comprehensive income reported in accordance with Canadian GAAP to its total comprehensive income in accordance with IFRS for the year ended December 31, 2010.

| <b>For the year ended December 31, 2010</b> | <b>Note</b> | <b>Canadian<br/>GAAP</b> | <b>Effect of<br/>Transition<br/>to IFRS</b> | <b>IFRS</b>      |
|---|-------------|--------------------------|---|------------------|
| <b>Revenue</b>                              |             | \$7,120,813              |   | \$7,120,813      |
| <b>Cost of goods sold</b>                   |             | <u>2,194,285</u>         |   | <u>2,194,285</u> |
| <b>Gross margin</b>                         |             | <u>4,926,528</u>         | -   | <u>4,926,528</u> |
| <b>Overhead expenses</b>                    |             |                          |   |                  |
| Amortization                                |             | 872,145                  |   | 872,145          |
| Foreign exchange                            |             | 11,028                   |   | 11,028           |
| General and administrative                  |             | 1,612,297                |   | 1,612,297        |
| Commissions                                 |             | 130,184                  |   | 130,184          |
| Interest on long-term debt                  |             | 94,853                   |   | 94,853           |
| Share-based compensation                    | 18(a)       | 62,200                   | (1,550)                                     | 60,650           |
| Research and product design                 |             | <u>190,985</u>           |   | <u>190,985</u>   |
|   |             | <u>2,973,692</u>         | <u>(1,550)</u>                              | <u>2,972,142</u> |
| <b>Income from operations</b>               |             | 1,952,836                | 1,550                                       | 1,954,386        |
| Other income                                |             | <u>22,166</u>            |   | <u>22,166</u>    |
| Income before income taxes                  |             | <u>1,975,002</u>         | <u>1,550</u>                                | <u>1,976,552</u> |
| Income tax provision/(recovery)             |             |                          |   |                  |
| Current                                     |             | (258,800)                |   | (258,800)        |
| Deferred                                    |             | <u>415,280</u>           |   | <u>415,280</u>   |
|   |             | <u>156,480</u>           | -   | <u>156,480</u>   |
| <b>Net income</b>                           |             | 1,818,522                | 1,550                                       | 1,820,072        |
| Other comprehensive income                  |             |                          |   |                  |
| Gain on available for sale financial assets |             | <u>2,375</u>             | -   | <u>2,375</u>     |
| <b>Comprehensive income</b>                 |             | \$1,820,897              | 1,550                                       | \$1,822,447      |

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**Omni-Lite Industries Canada Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited – Prepared by Management)**  
**United States Dollars**

**For the three month period ended March 31, 2011**

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**19. Subsequent event**

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On April 26, 2011, the Company announced that the Board of Directors approved a dividend of two cents (CDN) per share for shareholders of Omni-Lite's Common Class A shares of record on May 5, 2011. The dividend was paid on May 18, 2011.