

Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For each of the periods ended
December 31, 1998, 1997 and May 31, 1997

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Management Report

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody LLP, the external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal controls and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the financial statements, including notes thereto, with management and BDO Dunwoody LLP. The financial statements have been approved by the Board of Directors on the recommendations of the audit committee.

April 27, 1999

Auditors' Report

**To the Shareholders of
Omni-Lite Industries Canada Inc.**

We have audited the consolidated balance sheet of Omni-Lite Industries Canada Inc. as at December 31, 1998 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The comparative figures included herein for each of the seven month period and year ended December 31, 1997 and May 31, 1997 were audited by another firm of Chartered Accountants (Note 17).

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta

April 27, 1999

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

	December 31 1998	December 31 1997	May 31 1997
Assets			
Current			
Cash	\$ 102,560	\$ 92,573	\$ 154,230
Accounts receivable	297,821	59,720	82,229
Due from related parties (Note 6)	160,500	-	-
Inventory	249,144	242,062	298,300
Prepays	18,882	7,900	7,900
	<u>828,907</u>	<u>402,255</u>	<u>542,659</u>
Due from related parties (Note 6)	219,919	188,840	-
Deposit (Note 11(b))	200,000	72,000	-
Investment (Note 15)	17,985	-	-
Advances to Formed Fast Inc.	-	250,000	-
Capital assets (Note 4)	1,224,266	248,797	210,293
Deferred development and patent expenditures (Note 5)	515,801	475,949	466,503
	<u>\$ 3,006,878</u>	<u>\$ 1,637,841</u>	<u>\$ 1,219,455</u>
Liabilities			
Current			
Bank indebtedness	\$ -	\$ -	\$ 78,982
Accounts payable	110,392	56,088	49,327
Income taxes payable	29,262	-	-
Due to related parties (Note 6)	32,467	-	101,306
Current portion of long-term debt (Note 7)	-	28,572	-
	<u>172,121</u>	<u>84,660</u>	<u>229,615</u>
Long-term debt (Note 7)	300,000	92,350	-
Deferred income taxes	211,000	110,000	-
	<u>683,121</u>	<u>287,010</u>	<u>229,615</u>
Shareholders' equity			
Share capital (Note 8)	2,169,387	1,362,060	1,111,184
Retained earnings (deficit)	154,370	(11,229)	(121,344)
	<u>2,323,757</u>	<u>1,350,831</u>	<u>989,840</u>
	<u>\$ 3,006,878</u>	<u>\$ 1,637,841</u>	<u>\$ 1,219,455</u>

On behalf of the Board:

_____ Director

David Grant

_____ Director

Don Kelly

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

Omni-Lite Industries Canada Inc.
Consolidated Statement of Operations and Retained Earnings (Deficit)
United States Dollars

	For the year ended December 31 1998	For the seven month period ended December 31 1997	For the year ended May 31 1997
Revenue	\$ 1,701,395	\$ 613,274	\$ 375,084
Direct costs			
Cost of goods sold and related overhead	<u>486,294</u>	<u>293,957</u>	<u>115,237</u>
Gross margin	<u>1,215,101</u>	<u>319,317</u>	<u>259,847</u>
Overhead expenses			
Amortization	95,269	26,710	52,741
General and administrative	190,477	80,988	130,932
Interest on long term debt	6,167	1,142	6,231
	<u>291,913</u>	<u>108,840</u>	<u>189,904</u>
Income before other items	923,188	211,849	69,943
Foreign exchange and other	<u>8,193</u>	<u>8,266</u>	<u>17,686</u>
Income before income taxes	931,381	220,115	87,629
Income taxes			
Current	105,537	105,000	53,000
Deferred	101,000	110,000	-
Utilization of loss carryovers	<u>(76,275)</u>	<u>(105,000)</u>	<u>(53,000)</u>
	<u>130,262</u>	<u>110,000</u>	<u>-</u>
Net income for the period	801,119	110,115	87,629
Deficit, beginning of period	(11,229)	(121,344)	(208,973)
Excess of purchase price paid on carrying value for purchase of subsidiary (Note 3(b))	<u>(635,520)</u>	<u>-</u>	<u>-</u>
Retained earnings (deficit), end of period	\$ 154,370	\$ (11,229)	\$ (121,344)
Earnings per share	\$ 0.08	\$ 0.01	\$ 0.01
Weighted average number of shares outstanding	10,256,321	8,021,893	7,158,398

Omni-Lite Industries Canada Inc.
Consolidated Statement of Changes in Financial Position
United States Dollars

	For the year ended December 31 1998	For the seven month period ended December 31 1997	For the year ended May 31 1997
Cash resources provided by (used for)			
Operating activities			
Operations			
Net income for the period	\$ 801,119	\$ 110,115	\$ 87,629
Items not requiring cash			
Amortization	95,269	26,710	52,741
Deferred income taxes	101,000	110,000	-
Cash flow from operations	997,388	246,825	140,370
Net change in non-cash working capital balances			
Accounts receivable	(203,901)	22,509	(60,763)
Inventory	(7,082)	56,238	(12,680)
Prepays	(10,982)	-	(3,000)
Accounts payable	54,304	6,761	(26,972)
Income taxes payable	29,262	-	-
Due to related parties	32,467	-	-
	891,456	332,333	36,955
Financing activities			
Issue of share capital, net of share issue costs	807,327	250,876	651,061
Repurchase of share capital	-	-	(15,510)
Repayments and advances to related parties, net	(191,579)	(290,146)	(252,234)
Repayment of long-term debt	(354,922)	(2,381)	(150,502)
Proceeds from long-term debt	300,000	123,303	-
Increase in deposits	-	-	(4,900)
	560,826	81,652	227,915
Investing activities			
Purchase of capital assets	(755,738)	(45,752)	(14,358)
Deferred development costs	(104,852)	(28,908)	(152,553)
Advances to Formed Fast Inc.	250,000	(250,000)	-
Deposit on capital assets acquisition	(128,000)	(72,000)	-
Investment in shares	(17,985)	-	-
Acquisition of subsidiary, net of cash	(685,720)	-	-
	(1,442,295)	(396,660)	(166,911)
Increase in cash for the period	9,987	17,325	97,959
Cash, beginning of period	92,573	75,248	(22,711)
Cash, end of period	\$ 102,560	\$ 92,573	\$ 75,248
Cash comprised of:			
Cash	\$ 102,560	\$ 92,573	\$ 154,230
Bank indebtedness	-	-	(78,982)
	\$ 102,560	\$ 92,573	\$ 75,248

Omni-Lite Industries Canada Inc.

Notes to Consolidated Financial Statements

December 31, 1998

1. Nature of Operations

Omni-Lite Industries Canada Inc. (the "Company") is a public company incorporated under the Laws of the Business Corporations Act of Alberta in 1992. Its operations are currently located in Cerritos, California, U.S.A. and Sundre, Alberta with international offices in Barbados and consist of developing, producing and marketing specialized metal matrix composite, aluminum and carbon steel products. These products include components for the sports and recreation, automobile, and military industries. Since the most significant portion of the Company's operations are located in the United States and its normal transaction currency is United States dollars, these financial statements are stated in United States dollars.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Consolidation

These financial statements include the accounts of the Company and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc. (Note 3(b)) and Formed Fast Barbados Inc. Foreign subsidiaries included in the consolidation are translated using the temporal method for integrated operations.

(b) Inventory

Inventory consists of work-in-progress and finished goods inventory that is carried at lower of average cost, which includes materials, labour and overhead costs, and net realizable value.

(c) Revenue recognition

Revenue is recognized when goods are shipped to the customer.

(d) Capital assets

Capital assets are carried at cost less accumulated amortization calculated on the following basis-

Production equipment	- 30 year straight-line
Computer equipment	- 30% declining balance
Furniture & fixtures	- 20% declining balance
Leasehold improvements	- 5 year straight-line

One-half the normal amortization is provided in the year of acquisition.

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

December 31, 1998

2. Significant Accounting Policies - Continued

(e) Investments

Investments are carried at original cost and are only written down if there is other than a temporary decline in value. Realized gains and losses are recognized when shares are actually disposed.

(f) Deferred development costs and patent expenditures

Expenditures on development of new products are capitalized as incurred. Deferred development costs are being amortized over 10 years using the straight-line basis. The unamortized costs are reviewed on an annual basis and are written down if the value which can be considered reasonably recoverable from net revenues over the remaining amortization period is less than the carrying value at that time. These costs are recorded net of related investment tax credits claimed.

(g) Deferred income taxes

The Company follows the tax allocation basis in accounting for income taxes. Deferred income taxes result primarily from claiming capital cost allowance on capital assets and research and development expenditures for income tax purposes in excess of amortization recorded in the accounts.

(h) Foreign exchange

Foreign currency balances of foreign subsidiaries are translated using the temporal method for integrated operations on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- non-monetary assets, liabilities and related amortization and depletion expense are translated at historical rates;
- sales, other revenue, royalties and all other expenses are translated at the average rate of exchange during the month in which they are recognized.

The resulting foreign exchange gains and losses are included in earnings.

(i) Financial instruments

The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

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

December 31, 1998

2. Significant Accounting Policies - Continued

(j) Measurement uncertainty

The amounts for work in progress in inventory is based on standard costing and other cost allocation estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in estimates in future periods could be significant.

The Company is currently conducting a study in conjunction with the process of developing and documenting 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 same or similar product. This study may result in the final pricing used on inter-corporate transactions to be different from those used to estimate the current tax provision.

The consolidated financial statements include estimates of useful economic life of capital and development costs. 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 effect on the financial statements resulting from such adjustments, if any, required to the above estimates will be reflected in the period of settlement.

3. Business Combination

a) Omni-Lite Industries Corp.

On September 5, 1997 the shareholders of Omni-Lite Industries Inc. ("Omni Inc.") and Omni-Lite Industries Corp. ("Omni-Corp.") approved the amalgamation of the two companies. The amalgamation was completed on September 15, 1997 by issuing 4.337 new shares of the amalgamated company for each three issued and outstanding shares of Omni Inc. and one new share for each three, issued and outstanding shares of Omni Corp. No other consideration was granted on the amalgamation. Since both companies were essentially controlled by the same group prior to the amalgamation, the combination has been accounted for using the continuity of interest method. The following are the relative amounts for each of the combining companies at the date of the amalgamation.

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

December 31, 1998

3. Business Combination - Continued

	Omni Inc.	Omni Corp.	Total
Common shares issued	6,907,903	1,166,667	8,074,570
Total assets	\$ 1,114,819	\$ 148,504	\$ 1,263,323
Total liabilities	160,192	-	160,192
Net assets	\$ 954,627	\$ 148,504	\$ 1,103,131
Operations – June 1, 1997 – September 15, 1997			
Revenue	\$ 365,631	\$ -	\$ 365,631
Net income	\$ 65,831	\$ (8,221)	\$ 57,610
Operations – Year ended May 31, 1997			
Revenue	\$ 375,084	\$ -	\$ 375,084
Net income	\$ 115,181	\$ (27,552)	\$ 87,629

b) Formed Fast Inc.

On February 28, 1998, the Company completed its acquisition of Formed Fast Inc., a customer of the Company's automotive components since July of 1996. Consideration paid was 2,026,000 shares at a value of \$685,720. Subject to attainment by the Company of certain sales objectives, additional shares not exceeding 1,500,000 will be released from escrow. Any shares remaining in escrow on February 27, 2003 will be cancelled. This business combination has been accounted for using the purchase method, however because the combination was with a related party, it has been accounted for at the carrying amount in accordance with CICA Handbook Section 3840.

The assets acquired on the purchase of Formed Fast Inc. are as detailed below:

Working capital	\$ 34,200
Capital assets	250,000
Debts assumed	(234,000)
Net book value of assets acquired	\$ 50,200
Purchase price paid	\$ 685,720
Net purchase price discrepancy allocated to retained earnings	\$ 635,520

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

December 31, 1998

4. Capital Assets

			December 31 1998	December 31, 1997	May 31, 1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Production and other equipment	\$ 1,297,813	\$ 77,298	\$ 1,220,515	\$ 243,026	\$ 205,721
Computer equipment	13,136	10,297	2,839	4,056	2,389
Leasehold improvements	4,013	3,101	912	1,715	2,183
	\$ 1,314,962	\$ 90,696	\$ 1,224,266	\$ 248,797	\$ 210,293

5. Deferred Development and Patent Expenditures

			December 31, 1998	December 31, 1997	May 31, 1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
	\$ 675,910	\$ 160,129	\$ 515,801	\$ 475,949	\$ 466,503

6. Due from (to) Related Parties

The amount includes a housing loan to the Company's officers in the amount of \$ 220,000 bearing interest at 5%, repayable over a maximum period of 10 years and advances of \$ 160,500 which were repaid in January 1999. The property acquired with the housing loan currently serves as security on the Company's revolving line of credit (Note 7).

During the year, a shareholder loaned the Company CDN\$50,000 (US\$32,467) bearing interest at 12%, with no terms of repayment.

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

December 31, 1998

7. Long-term Debt

	December 31, 1998	December 31, 1997	May 31, 1997
Bank loan, with monthly principal payments of \$2,381, plus interest at the Bank's reference rate plus 1.5% per annum, secured by specific production equipment.	\$ -	\$ 120,922	\$ -
Revolving line of credit, bearing interest at the Bank's reference rate plus 1%, maturing March 6, 1999, secured by general blanket security agreement on all of the assets of the Company along with a deed of trust on the California home of the President and a Director of the Company.	300,000	-	-
	300,000	120,922	-
Current portion	-	(28,572)	-
	\$ 300,000	\$ 92,350	\$ -

The Company has refinanced their revolving line of credit subsequent to year end (Note 13(a)) and therefore continue to classify it as a long-term debt.

8. Share Capital

(a) Authorized

Unlimited number of common shares

(b) Issued

	For the year ended December 31, 1998		For the period May 31 to December 31, 1997		For the year ended May 31, 1997	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Total issued and outstanding, beginning of period	8,431,236	\$ 1,362,060	8,032,918	\$ 1,111,184	4,898,678	\$ 490,131
Issued for cash	-	-	134,495	77,807	2,030,000	135,576
Issued for debt	-	-	-	-	1,326,840	500,987
Cancelled on repayment of loan	-	-	-	-	(114,267)	-
Shares reacquired	-	-	-	-	(108,333)	(15,510)
Issued for cash upon exercise of stock options	296,666	121,607	110,938	46,017	-	-
Issued on acquisition of subsidiary (1)	2,026,000	685,720	-	-	-	-
Issued to effect amalgamation	-	-	15,945,357	-	-	-
Adjustment for share consolidation (2)	-	-	(16,149,138)	-	-	-
Post consolidation balance	-	-	8,074,570	1,235,008	-	-
Issued for cash on exercise of agent options	-	-	33,333	7,194	-	-
Issued for cash on exercise of stock options	-	-	323,333	119,858	-	-
Total issued and outstanding, end of period	10,753,902	\$ 2,169,387	8,431,236	\$ 1,362,060	8,032,918	\$ 1,111,184

(1) 1,500,000 of these shares are held in escrow as per Note 3(b)

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

December 31, 1998

(2) Stock consolidation on a 3:1 basis on September 15, 1997

8. Share Capital – Continued

(c) Stock options

As at December 31, 1998 the Company has the following stock options outstanding:

	Number of Shares	Price Cdn \$/Share	Expiry Date
Directors and employees	133,000	\$0.60	Sept. 5, 2002
Consultant	300,000 ⁽¹⁾	\$2.25	Nov. 1, 2002
Consultant	30,000 ⁽²⁾	\$2.40	Feb. 13, 2003
Consultant	10,000	\$2.25	Feb. 25, 2003
Consultant	10,000	\$3.00	Apr. 23, 2003
Consultant	20,000	\$2.72	Aug. 6, 2003
Directors and employees	403,333	\$2.10	Oct. 8, 2003
Directors and employees	140,000	\$2.10	Oct. 16, 2003

(1) These options vest at the rate of 1/3 each year over three years commencing November 1, 1998.

(2) These options vest at the rate of 1/3 each year over three years commencing February 13, 1999.

At December 31, 1997, the Company had stock options to employees, consultants and directors outstanding to purchase 846,667 common shares at exercise prices ranging from \$0.30 to \$2.25 per share. The options vest at a rate of 1/3 each year over a three year period and expire between June 2, 1998 to November 17, 2002.

9. Income Taxes

	December 31, 1998	December 31, 1997	May 31, 1997
Statutory tax rate	44.6%	44.6%	44.6%
Income taxes at the statutory rate	\$ 415,400	\$ 96,500	\$ 39,000
Rate differential on income earned in foreign jurisdiction	(285,138)	-	-
Other permanent differences	-	13,500	14,000
Recognition of loss carryovers not previously recorded	-	-	(53,000)
	\$ 130,262	\$ 110,000	\$ -

At December 31, 1998, the Company had approximately \$384,000 (December 31, 1997 - \$344,000; May 31, 1997 - \$160,000) of Canadian loss carryover balances which commence expiring in 1999. In addition, the Company has capital cost pools and deferred development cost pools approximating \$100,000 (December 31, 1997 - \$166,000; May 31, 1997 - \$160,000) to deduct against future taxable income.

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

December 31, 1998

10. Segmented Information

Operating Segments:

The Company operates in three industry segments, the sports and recreation, automobile, and military industries all of which operate as one operational segment.

Geographic Segments:

The Company has its operations in the United States, Canada and internationally.

December 31, 1998	United States	Canada	International	Total
Revenues, external	\$ 337,905	\$ -	\$ 1,363,490	\$ 1,701,395
Amortization	\$ 95,269	\$ -	\$ -	\$ 95,269
Segment profit (loss)	\$ (311,020)	\$ (77,381)	\$ 1,189,520	\$ 801,119
Segment assets	\$ 2,191,568	\$ 412,701	\$ 402,609	\$ 3,006,878
December 31, 1997	United States	Canada	International	Total
Revenues, external	\$ 515,519	\$ -	\$ 97,755	\$ 613,274
Amortization	\$ 26,710	\$ -	\$ -	\$ 26,710
Segment profit	\$ 61,995	\$ (29,030)	\$ 77,150	\$ 110,115
Segment assets	\$ 1,073,331	\$ 514,901	\$ 49,609	\$ 1,637,841
May 31, 1997	United States	Canada	International	Total
Revenues, external	\$ 375,804	\$ -	\$ -	\$ 375,084
Amortization	\$ 52,741	\$ -	\$ -	\$ 52,741
Segment profit	\$ 119,636	\$ (32,007)	\$ -	\$ 87,629
Segment assets	\$ 1,064,920	\$ 154,535	\$ -	\$ 1,219,455

In 1998, revenues from four customers of the Company's international segment represent approximately

11. Commitments

- a) On October 1, 1996 the Company entered into a lease agreement for its office and production facilities. The lease expires September 30, 1999 and requires minimum monthly lease payments of \$2,200. The Company must also pay its share of operating costs.
- b) The Company has paid \$200,000 to December 31, 1998 in deposits and subsequent to the year end a further \$400,000 on the purchase of five cold forging machines. The total purchase price for the machines is approximately \$1,000,000. The company had paid a \$72,000 deposit in 1997 for one cold forging machine with a total purchase price of \$234,000.

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

December 31, 1998

12. Related Party Transactions

- (a) During 1998, the Company paid management fees to directors of the Company of approximately \$59,000 (December 31, 1997 – \$26,000, May 31, 1997 - \$35,000). The company also purchased machinery and equipment from a Company controlled by a director in the amount of \$977,873 (December 31, 1997 - \$234,000). These transactions were recorded at exchange amounts.
- (b) During the period ended December 31, 1997, the Company sold goods to a company controlled by a director in the amount of \$16,200 (May 31, 1997 - \$37,830) recorded at the exchange amount. Another company controlled by the same director also provided the use of some plant space during the each of the periods ended December 31, 1998, 1997 and May 31, 1997 at no charge.
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13. Subsequent Events

- (a) Financing
Subsequent to the year end the Company increased their revolving line of credit to \$500,000, requiring monthly payments of interest at the Bank reference rate plus 0.5%, maturing April 2000 (Note 7).
- (d) Stock options
Subsequent to the year end, the Company granted a further 123,333 stock options to employees and a new director of the Company. These new options carry an exercise price between \$2.01 and \$2.40 Canadian per share and expire between February 3, 2004 to April 1, 2004.
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14. Earnings Per Share

Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the year ending December 31, 1998 was 10,256,321 (December 31, 1997 – 8,021,893, May 31, 1997 – 7,158,398) inclusive of the issued but escrowed shares (Note 8(b)).

Fully diluted per share amounts resulting from potential exercise of the options outstanding have not been disclosed as these exercises are not materially dilutive.

15. Investment

Investment of CDN \$25,000 in an unrelated corporation. This investment is accounted for by the cost method as there is no significant influence.

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

December 31, 1998

16. Financial Instruments

As disclosed in Note 2 (i), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The Company's short and long term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 1998, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$3,000 (December 31, 1997 - \$1,200, May 31, 1997 - \$nil). The related disclosures regarding these debt instruments are included in Note 7 of these financial statements.

17. Comparative Figures

The comparative financial statements included herein for each of the periods ended December 31 and May 31, 1997 were audited by another firm of chartered accountants who issued a qualified audit opinion of these financial statements in their report dated March 20, 1998. The qualification was with respect to a scope limitation for the auditor as they were not able to observe the counting of inventory or satisfy themselves through alternative means with respect to the existence of inventory at May 31, 1997 and 1996.

Certain comparative figures have been reclassified to conform with the current year's presentation

18. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000.

If the Year 2000 Issue is not addressed by the Company and its major customers, suppliers and other third party business associates, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.
