

OMNITEK ENGINEERING CORP.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

C O N T E N T S

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Omnitek Engineering Corp.
San Marcos, California

We have audited the accompanying consolidated balance sheet of Omnitek Engineering Corp. (the "Company") as of December 31, 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2006 and 2005. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omnitek Engineering Corp. as of December 31, 2006, and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

HJ Associates & Consultants, LLP
Salt Lake City, Utah
February 24, 2007

OMNITEK ENGINEERING CORP.

Consolidated Balance Sheet

ASSETS

	December 31, 2006
CURRENT ASSETS	
Cash	\$ 17,861
Accounts receivable	58,535
Inventory (Note 3)	1,241,373
Deposits	142,694
Deferred tax asset (Note 2)	<u>130,645</u>
Total Current Assets	<u>1,591,108</u>
FIXED ASSETS, NET (Note 4)	<u>45,828</u>
OTHER ASSETS	
Investment	71
Intellectual property, net (Note 5)	<u>473,165</u>
Total Other Assets	<u>473,236</u>
TOTAL ASSETS	<u><u>\$ 2,110,172</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Trade accounts payable and accrued expenses	\$ 153,653
Accrued expenses – related parties (Note 7)	169,153
Customer deposits (Note 6)	75,997
Shareholder loans (Note 7)	<u>15,000</u>
Total Current Liabilities	<u>413,803</u>
MINORITY INTEREST (NOTE 1)	<u>-</u>
STOCKHOLDERS' EQUITY	
Common stock, no par value, 25,000,000 shares authorized; 3,934,038 shares issued and outstanding	2,141,697
Additional paid-in capital	474,409
Accumulated deficit	<u>(919,737)</u>
Total Stockholders' Equity	<u>1,696,369</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 2,110,172</u></u>

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

OMNITEK ENGINEERING CORP.
Consolidated Statements of Operations

	For the Years Ended December 31,	
	2006	2005
REVENUE		
Sales	\$ 906,971	\$ 727,021
Cost of sales	810,754	701,913
Gross profit	96,217	25,108
OPERATING EXPENSES		
General and administrative	326,307	228,218
Bad debt expense	27,361	117,070
Research and development expense	167,610	143,726
Depreciation and amortization expense	34,802	8,627
Total Operating Expenses	556,080	497,641
Loss from Operations	(459,863)	(472,533)
OTHER INCOME (EXPENSE)		
Impairment of investments	(559)	(1,370)
Interest expense	-	(2,484)
Interest income	6,590	10,556
Total Other Income (Expense)	6,031	6,702
LOSS BEFORE INCOME TAX EXPENSE	(453,832)	(465,831)
Income tax benefit (expense)	36,424	149,133
NET LOSS	\$ (417,408)	\$ (316,698)
BASIC LOSS PER SHARE	\$ (0.12)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	3,554,334	3,264,298

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

OMNITEK ENGINEERING CORP.
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit
	Shares	Amount		
Balance, December 31, 2004	3,136,570	\$ 783,185	\$ 463,909	\$ (185,631)
Common stock issued for extinguishment of debt at a price of \$1.99	100,000	199,212	-	-
Common stock issued for cash at a price of \$2.12	236,086	500,000	-	-
Stock offering costs	-	(50,000)	-	-
Services contributed by related parties	-	-	10,500	-
Net loss for the year ended December 31, 2005	-	-	-	(316,698)
Balance, December 31, 2005	3,472,656	1,432,397	474,409	(502,329)
Common stock issued for cash at an average price of \$1.58	126,382	200,000	-	-
Stock offering costs	-	(20,000)	-	-
Common stock issued for services and related party payable	35,000	55,300	-	-
Common stock issued for purchase of Pensare, Inc.	300,000	474,000	-	-
Net loss for the year ended December 31, 2006	-	-	-	(417,408)
Balance, December 31, 2006	<u>3,934,038</u>	<u>\$ 2,141,697</u>	<u>\$ 474,409</u>	<u>\$ (919,737)</u>

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

OMNITEK ENGINEERING CORP.
Consolidated Statements of Cash Flows

	For the Years Ended December 31.	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (417,408)	\$ (316,698)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization and depreciation expense	34,802	8,627
Contribution of related party services	-	10,500
Impairment of investments	559	1,370
Bad debt expense – related party note	-	98,698
Stock for services	17,925	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	26,450	(36,704)
Increase in inventory	(507,152)	(565,278)
(Increase) decrease in deposits	271,991	(153,395)
(Increase) decrease in deferred tax asset	7,330	(136,940)
Increase in accounts payable and customer deposits	89,193	57,240
Increase in related party payable	97,999	70,300
Decrease in accrued income taxes payable	-	(21,077)
Decrease in accrued commissions	(9,943)	(32,916)
Net Cash Used by Operating Activities	(388,254)	(1,016,273)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(5,322)	(8,289)
Purchase of fixed assets	(24,228)	(32,629)
Proceeds from related party receivable	-	39,395
Net Cash Used by Investing Activities	(29,550)	(1,523)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable – related party	15,000	-
Common stock issued for cash	200,000	500,000
Stock offering costs	(20,000)	(50,000)
Net Cash Provided by Financing Activities	195,000	450,000
NET INCREASE (DECREASE) IN CASH	(222,804)	(567,796)
CASH AT BEGINNING OF YEAR	240,665	808,461
CASH AT END OF YEAR	\$ 17,861	\$ 240,665

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

OMNITEK ENGINEERING CORP.
 Consolidated Statements of Cash Flows (Continued)

	For the Years Ended December 31,	
	2006	2005
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ -	\$ 2,484
Income taxes	\$ 800	\$ 800
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Services contributed by related parties	\$ -	\$ 10,500
Stock issued for purchase of Pensare, Inc.	\$ 474,000	\$ -
Stock issued for related party payable	\$ 37,375	\$ -

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

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 1- ORGANIZATION AND BUSINESS ACTIVITY

Omnitek Engineering Corp.

Omnitek Engineering, Corp. (Omnitek) was incorporated on October 9, 2001 as a California corporation. Omnitek is in the business of designing, developing, manufacturing and marketing advanced technologies for the transportation sector. Omnitek is involved in the development of transportation safety systems, advanced engine technologies and emissions control systems for internal combustion engines burning gasoline, diesel, compressed natural gas (CNG), liquefied petroleum gas (LPG) or hydrogen. This includes passenger cars, commercial trucks and buses, off-road construction equipment, stationary industrial engines such as pumps, compressors and generators, locomotives and ships. Omnitek also offers solutions to reduce emissions of flairs, boilers and other combustion devices that need a spark energy source to operate. Omnitek began operations on October 10, 2001, and was a spin-off from Nology Engineering, Inc.

Performance Stores, Inc.

On May 23, 2002, Omnitek, along with Werner Funk, Kevin Schulties, Tom Moore and Gigi Ho formed a Nevada Corporation under the name of PerformanceDepot.com ("Performance"). Performance is an internet based E-commerce site. Performance was 40% owned by Omnitek and 45.3% owned by Werner Funk, president of Omnitek. In December 2003, Performance changed its corporate name to Performance Stores, Inc." As of August 31, 2004 the ownership by Omnitek changed from 40% down to 23%. As part of the change in accounting from a consolidation to an equity method, the company recognized a \$246,122 increase to additional paid in capital.

The minority interest value associated with Performance at December 31, 2004 was zero because the loss attributable to the minority interest shareholders exceeded the basis of the shareholders.

Pensare, Inc.

On November 3, 2006, Omnitek acquired Pensare, Inc., which included two technologies and their customer list with the issuance of 300,000 shares of the Company's common stock. Both technologies will be used on every new engine and diesel-to-natural gas conversion kit sold by the Company. Effective January 1, 2007, Pete Petersen, formerly president of Pensare, joined the Company as Vice President of Engineering. The Company believes that the acquisition is an integral part of implementing its business plan.

The acquisition of Pensare was accounted for as a purchase pursuant to *SFAS No. 141 Business Combinations* and was valued at the fair market value of the common stock issued for the acquisition. The 300,000 shares issued for the acquisition were valued at \$1.58 per share which was the last price the Company sold shares of common stock to outside investors in an arms length transaction. The total purchase price of \$474,000 was allocated \$82,000 to customer lists and \$392,000 to purchased technology relating to high pressure filters. The customer lists and purchased technology are being amortized on 2 year and 5 year terms, respectively. No amounts were allocated to goodwill. At the time of acquisition, Pensare had no other assets or liabilities.

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 1- ORGANIZATION AND BUSINESS ACTIVITY (continued)

The financial statements at December 31, 2005 (the Company) include Omnitek Engineering Corp only. For the year ended December 31, 2006, the financial results are those of Omnitek as Pensare ceased to exist at the acquisition date. All significant intercompany accounts and transactions have been eliminated, if any.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Methods

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a December 31, year-end.

b. Basic Loss Per Share

The computations of basic loss per share of common stock are based on the weighted average number of common shares outstanding during the period of the consolidated financial statements.

	December 31,	
	2006	2005
Numerator - loss	\$ (417,408)	\$ (316,698)
Denominator - weighted average Number of shares outstanding	3,554,334	3,264,298
Loss per share	\$ (0.12)	\$ (0.10)

The Company does not have any outstanding common stock equivalents.

c. Newly Issued Accounting Pronouncements

During the year ended December 31, 2006, the Company adopted the following accounting pronouncements, which had no impact on the financial statements or results of operation:

SFAS No. 123(R) -- In December 2004, the FASB issued SFAS No. 123 (Revised 2005) (SFAS 123 (R)) "Share-based payment". SFAS 123 (R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be re-measured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. FASB 123 (R) replaces FASB 123, Accounting for Stock-Based Compensation and supersedes APB option No. 25, Accounting for Stock Issued to Employees. This guidance is effective as of the first interim or annual reporting period after December 15, 2005 for Small Business filers. The adoption of SFAS No. 123 (R) did not have a material impact on the results of operations of the Company.

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Provision For Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The provision (benefit) for income taxes for the year ended December 31, 2006 and 2005 consists of the following:

	2006	2005
Federal:		
Current	\$ -	\$ -
Deferred	(33,934)	(108,850)
State:		
Current	800	(12,193)
Deferred	(3,290)	(28,090)
	\$ (36,424)	\$ (149,133)

The amount of deferred income tax expense (benefit) is impacted by the difference between the estimated Federal and State statutory income tax rates used to estimate deferred tax assets and liabilities and actual rates utilized when determining incomes taxes due or the application of net operating losses which are impacted by lower rates for taxable income less than \$100,000 along with differences in state tax rates. In addition, other estimates utilized in determining deferred income tax expense (benefit) resulting from anticipated timing differences may differ from amount initially determined when the timing differences are realized. Net deferred tax assets consist of the following components as of December 31, 2006 and 2005:

	2006	2005
Deferred tax assets:		
NOL Carryover	\$ 119,670	\$ 127,710
Depreciation	-	2,600
R&D Carryforward	15,515	7,665
Deferred tax liabilities:		
Depreciation	(4,540)	-
Valuation allowance	-	-
Net deferred tax asset	\$ 130,645	\$ 137,975

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Provision For Taxes (Continued)

The income tax provision differs from the amount of income tax determined by applying the estimated U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the year ended December 31, 2006 and 2005 due to the following:

	2006	2005
Book income	\$ (177,305)	\$ (181,986)
Meals & Entertainment	93	264
State Tax Deduction	(312)	(312)
Contributed Services	34,280	4,095
Related Party Bad Debt	-	38,492
Related Party Stock For Services	21,565	-
Research & Development Limitation	8,460	7,670
State Tax Expense	-	800
NOL Carryover	114,019	131,777
Income Tax Expense	\$ 800	\$ 800

e. Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

f. Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. During the year ended December 31, 2006 and 2005, the Company expensed \$23,504 and \$0, respectively.

g. Revenue Recognition

The Company recognizes revenue from the sale of new engines for use with compressed natural gas and engine components to convert existing engines to compressed natural gas use. Revenue is recognized after delivery of the products, and when collection is reasonably assured.

h. Concentration of Risks

Customers

During the year ended December 31, 2006, three customers accounted for approximately 64% of sales. For the year ended December 31, 2005, two customers accounted for approximately 84% of sales.

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Concentration of Risks (continued)

Suppliers

During the year ended December 31, 2006, one supplier accounted for 17% of products purchased. For the year ended December 31, 2005, one supplier accounted for approximately 22% of the products purchased.

i. Technology Development and Website Designs

The costs of computer software developed or obtained for internal use, during the preliminary project phase, as defined under Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or obtained for Internal use", are expensed as incurred. The costs of website development, during the planning stage, as defined under Emerging Issues Task Force No. 00-2 "Accounting for Web Site Development Costs", are expensed as incurred. Computer software and website development costs incurred during the application and infrastructure development stage, including external direct costs of materials and services consumed in developing software, creating graphics and website content, payroll, and interest costs, are capitalized and amortized over the estimated useful life, beginning when the software is ready for use and after all substantial testing is completed and the website is operational.

j. Long – Lived Assets

The Company assesses the recoverability of its long lived assets annually and when ever circumstances would indicate that there may be an impairment. The Company compares the estimated undiscounted future cash flows to the carrying value of the long lived assets to determine if an impairment has occurred. In the event that an impairment has occurred, the Company will recognize the impairment immediately.

NOTE 3 - INVENTORY

Inventory is stated at the lower of cost or market. The Company's inventory consists of finished goods and raw material and is located in San Marcos, California and Bayswater, Australia.

<u>Location</u>	<u>Amount</u>
San Marcos, CA	\$ 1,320,881
Bayswater, Australia	15,181
Allowance for obsolete inventory	<u>(94,689)</u>
Total	<u>\$ 1,241,373</u>

The Company has established an allowance for obsolete inventory. Expense for obsolete inventory was \$94,689 and \$0, for the years ended December 31, 2006 and 2005, respectively.

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006 consisted of the following:

Research and Development Equipment	\$	39,684
Tooling Equipment		22,453
Less accumulated depreciation		<u>(16,309)</u>
Total	\$	<u>45,828</u>

Depreciation expense for the years ended December 31, 2006 and 2005 was \$10,818 and \$5,447, respectively.

NOTE 5 - INTELLECTUAL PROPERTY

The Companies patents and trademarks at December 31, 2006 was as follows:

Patents	\$	32,217
Trademarks		1,320
Intellectual property and customer list		474,000
Less accumulated amortization		<u>(34,372)</u>
Total	\$	<u>473,165</u>

Amortization expense for the years ended December 31, 2006 and 2005 was \$23,984 and \$3,180, respectively.

NOTE 6 - CUSTOMER DEPOSITS

The Company may require a customer deposit based on the purchasing requirements placed on the Company by the vendor. These are usually special or unique orders that may not be sold to other customers. As of December 31, 2006 the Company had customer deposits of \$75,997.

NOTE 7 - RELATED PARTY TRANSACTIONS

Note Receivable

At December 31, 2005, the Company had a note receivable from Performance Depot in the amount of \$112,474 consisting of the following: \$100,000 note and accrued interest of \$12,474. The note receivable is considered a related party transaction based on common management. The Company fully impaired the note and accrued interest during the year ended December 31, 2005. There has been no change to the note and accrued interest during the year ended December 31, 2006.

Note Payable – Related Party

At December 2006, the Company had a promissory note payable outstanding to the President of the Company for \$15,000. The note is a non-interest bearing note and due on demand.

OMNITEK ENGINEERING CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

NOTE 7 - RELATED PARTY TRANSACTIONS (Continued)

Accrued Expenses – Related Parties

During the year ended December 31, 2006, related parties were due amounts for services performed for the Company. As of December 31, 2006 the related parties' payables consisted of the following:

Amounts due to the President	\$ 149,118
Amounts due to related party company	<u>20,035</u>

Total \$ 169,153

NOTE 8 - EQUITY ACTIVITY

During 2006, the Company issued 126,382 shares of no par value common stock valued at \$1.58 per share, for \$200,000 cash net of stock offering costs of \$20,000.

In 2006, the Company issued 35,000 shares of no par value common stock valued at \$1.58 per share, for \$55,300 worth of prior year and current year services.

In November 2006 the Company issued 300,000 shares of no par common stock valued at \$1.58 per share, for the acquisition of Pensare, Inc.

NOTE 9 – SUBSEQUENT EVENT

On January 1, 2007 the Company issued options to purchase 300,000 shares of the Company's common stock to an employee of the Company. The options vest 25% over 4 years and are exercisable at \$1.58 to \$2.00 per share. The Company will expense the fair value of the options over the vesting term of the options.