

Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **McVICAR INDUSTRIES INC.**

For the three months ended March 31, 2011 and 2010

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102 if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of McVicar Industries Inc. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Income Statement

For the period,

(Expressed in Canadian dollars)

Notes	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
<b>Sales</b>	<b>7,075,461</b>	8,724,050
<b>Costs of goods sold</b>	<b>5,205,611</b>	6,031,076
Gross profit	<b>1,869,850</b>	2,692,974
<b>Operating expenses</b>		
General and administrative	<b>1,170,867</b>	1,218,467
Amortization	<b>148,242</b>	239,834
Foreign exchange loss	-	1,190
	<b>1,319,109</b>	1,459,491
Operating income before the under noted	<b>550,741</b>	1,233,483
Other income	<b>42,909</b>	15,245
Income from investment in associates	<b>51,193</b>	-
Unrealized gain (loss) on short term investments	<b>157,113</b>	(27,223)
Income before income taxes	<b>801,956</b>	1,221,505
Income taxes recovery (expense)	<b>(89,286)</b>	(142,773)
Net income	<b>712,670</b>	1,078,732
Net income attributable to non-controlling interest	<b>202,888</b>	369,809
Net income attributable to shareholders of the Company	<b>509,782</b>	708,923
	<b>712,670</b>	1,078,732
Basic income per share	<b>0.014</b>	0.021
Diluted income per share	<b>0.014</b>	0.021
Weighted average number of shares outstanding		
Basic	<b>37,323,337</b>	34,427,320
Diluted	<b>37,411,427</b>	34,427,320

See accompanying notes to consolidated interim financial statements.

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Statement of Comprehensive Income

For the period,

(Expressed in Canadian dollars)

	Notes	<b>3 months ended March 31, 2011</b>	3 months ended March 31, 2010
		\$	\$
Net Income for the period		<b>712,670</b>	1,078,732
Other comprehensive (loss)			
(Loss) gain on translation of foreign operations		<b>(807,558)</b>	(1,111,964)
		<b>(94,888)</b>	<b>(33,232)</b>

See accompanying notes to consolidated interim financial statements.

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian dollars, except shares)

	Notes	Common shares		Treasury stock	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity	Non-controlling Interest	Total equity
		Shares	Amount								
			\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>January 1, 2010</b>		34,427,320	26,052,375	\$ -	\$1,483,048	1,130,284	-	(2,115,242)	26,550,465	9,909,522	36,459,987
Net income		-	-	-	-	-	-	708,923	708,923	369,809	1,078,732
Share of stock-based compensation of subsidiary		-	-	-	-	17,201	-	-	17,201	-	17,201
Other comprehensive income		-	-	-	-	-	(868,012)	-	(868,012)	(243,952)	(1,111,964)
<b>Balance at March 31, 2010</b>		34,427,320	26,052,375	-	1,483,048	1,147,485	(868,012)	(1,406,319)	26,408,577	10,035,379	36,443,956
Shares issued for cash		3,000,000	1,350,000	-	-	-	-	-	1,350,000	-	1,350,000
Warrants expired		-	-	-	(1,483,048)	1,483,048	-	-	-	-	-
Acquisition of interests in subsidiaries	12	-	-	-	-	301,103	-	-	301,103	(2,303,189)	(2,002,086)
Net income		-	-	-	-	-	-	823,694	823,694	974,378	1,798,072
Stock-based compensation		-	-	-	-	333,277	-	-	333,277	-	333,277
Stock-based compensation of subsidiary		-	-	-	-	98,449	-	-	98,449	20,831	119,280
Other comprehensive income		-	-	-	-	-	502,946	-	502,946	54,702	557,648
<b>Balance at December 31, 2010</b>		37,427,320	27,402,375	-	-	3,363,362	(365,066)	(582,625)	29,818,046	8,782,101	38,600,147
Adjustment for treasury stock purchased and cancelled		(242,500)	(177,545)	-	-	-	-	61,434	(116,111)	-	(116,111)
Treasury stock		-	-	(140,790)	-	-	-	-	(140,790)	-	(140,790)
Net income		-	-	-	-	-	-	509,782	509,782	202,888	712,670
Stock-based compensation		-	-	-	-	47,332	-	-	47,332	-	47,332
Stock-based compensation of subsidiary		-	-	-	-	13,188	-	-	13,188	10,922	24,110
Changes in interests in subsidiary	12	-	-	-	-	278,753	-	-	278,753	(278,753)	-
Other comprehensive income		-	-	-	-	-	(630,471)	-	(630,471)	(177,087)	(807,558)
<b>Balance at March 31, 2011</b>		<b>37,184,820</b>	<b>27,224,830</b>	<b>(140,790)</b>	<b>-</b>	<b>3,702,635</b>	<b>(995,537)</b>	<b>(11,409)</b>	<b>29,779,729</b>	<b>8,540,071</b>	<b>38,319,800</b>

See accompanying notes to consolidated interim financial statements.

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Statement of Financial Position as at March 31, 2011

(Expressed in Canadian dollars)

	Notes	March 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		6,633,675	6,571,900	6,864,021
Short-term investments	4	3,438,572	2,896,962	2,826,566
Trade and other receivables	5	8,538,577	8,885,840	8,020,280
Inventories	6	7,091,232	7,176,163	7,056,056
Due from related parties	8	614,692	363,178	916,776
Other current assets		882,715	1,447,916	867,398
		27,199,463	27,341,959	26,551,097
Restricted cash		1,336,500	1,056,300	1,447,143
Due from related parties	8	862,743	1,079,081	-
Investments in associates	7	537,713	494,847	-
Property, plant and equipment	10	7,935,945	9,208,731	10,925,857
Investment property	11	1,158,528	-	-
Intangibles	13	20,268	26,880	515,574
Goodwill	13	6,291,947	6,393,635	6,495,323
Deferred income tax asset		517,499	712,347	371,100
		45,860,606	46,313,780	46,306,094

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Statement of Financial Position as at March 31, 2011

(Expressed in Canadian dollars)

	Notes	March 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities		3,705,817	3,908,536	6,013,615
Short-term borrowings	9	2,673,000	2,112,600	2,776,871
Income taxes payable		141,506	250,776	311,285
Deferred revenue	11	93,555	-	-
Due to related parties	8	422,258	714,792	-
		7,036,136	6,986,704	9,101,771
Deferred income tax liability		504,670	726,929	744,336
		7,540,806	7,713,633	9,846,107
<b>Shareholders' equity</b>				
Share capital	15(a)	27,224,830	27,402,375	26,052,375
Treasury shares	15(a)	(140,790)	-	-
Warrants		-	-	1,483,048
Contributed surplus	15(b)	3,702,635	3,363,362	1,130,284
Accumulated other comprehensive income		(995,537)	(365,066)	-
Retained earnings	16	(11,409)	(582,625)	(2,115,242)
Equity attributable to shareholders		29,779,729	29,818,046	26,550,465
Non-controlling interest		8,540,071	8,782,101	9,909,522
		38,319,800	38,600,147	36,459,987
Commitments and contingencies	17			
Events after the reporting period	21			
		45,860,606	46,313,780	46,306,094

Approved on behalf of the Board

Signed: "Dr. James Misener", Director

Signed: "Gang Chai", Director

See accompanying notes to interim consolidated financial statements.

# MCVICAR INDUSTRIES INC.

## Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the periods,

(Expressed in Canadian dollars)

Notes	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
<b>Operating activities</b>		
Net income	712,670	1,078,732
Items not involving cash		
Amortization	264,186	387,973
Loss on disposal of property, plant and equipment	21,228	-
Income taxes	89,286	142,773
Stock compensation expenses	71,442	17,201
Unrealized loss (gain) on short term investments	(157,113)	27,223
Income from investments in associates	(51,193)	
Changes in non-cash working capital	113,314	(166,476)
	<b>1,063,820</b>	<b>1,487,426</b>
<b>Financing activities</b>		
Increased in restricted cash	(299,600)	-
Net change in short-term borrowings	599,200	(305,000)
Repayment of non-current loans	-	(17,398)
Government compensation fund, net of moving costs	109,388	-
	<b>408,988</b>	<b>(322,398)</b>
<b>Investing activities</b>		
Acquisitions	(388,218)	-
Purchase of short-term investments	(499,640)	(475,360)
Proceeds from short-term investments	-	1,016,886
Due to and from related parties	(327,710)	-
Loans from related parties	-	762,500
Proceeds on disposal of property, plant and equipment	11,934	-
Additions of property, plant and equipment	(165,821)	(187,717)
	<b>(1,369,455)</b>	<b>1,116,309</b>
Effect of exchange rate changes on cash and cash equivalents	(41,578)	(72,767)
(Decrease) increase in cash	61,775	2,208,570
Cash and cash equivalents, beginning of period	6,571,900	6,864,021
<b>Cash and cash equivalents, end of period</b>	<b>6,633,675</b>	<b>9,072,591</b>
<b>Supplemental cash flow information</b>		
Interest paid	-	281
Income taxes paid	108,005	14,018
Accrued costs on construction in progress	-	773,760

See accompanying notes to consolidated interim financial statements.



# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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McVicar Industries Inc. (the "Company" or "McVicar") was incorporated under the Business Corporations Act (Ontario) on February 19, 2003. Its shares are listed on the Toronto Stock Exchange Venture ("TSXV"). The Company holds a 100% (December 31, 2010 – 100%) interest in its Hong Kong subsidiary, McVicar (Hong Kong) Advanced Materials Co. Ltd. ("MAM") and a 56.2% (December 31, 2010 - 54.7%) interest in a Canadian publicly listed company JITE Technologies Inc. ("JITE"). The Company is now operating in two different segments; the chemical industry and the technical industry.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These unaudited condensed consolidated financial statements have been prepared in accordance with Internal Financial Reporting Standards ("IFRS"), as issued by the IASB. As these interim financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These condensed interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting, valuation and presentation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in note 22 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, deficit and comprehensive loss.

The significant accounting policies are summarized as follows. All amounts in these consolidated financial statements are in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi, a "U.S. \$" to represent the U.S. dollar, and "HKD" to represent the Hong Kong dollar.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (b) Principles of consolidation:

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. The principal subsidiaries of the Company are:

- (i) JITE is a publicly listed company on the TSX-V (as JTI). JITE has a wholly owned subsidiary, Jite (Hong Kong) Limited ("Jite Hong Kong"), which owns 100% of Jite Industrial (Shenzhen) Co. Ltd. ("Jite Shenzhen") and 100% of Jite Industrial (Kunshan) Co., Ltd. ("Jite Kunshan"). The core business of JITE is the development, manufacture and sales primarily in North America and China of terminal blocks used in security, elevator, railway and automation systems.
- (ii) MAM, whose major operating subsidiary companies are a 100% owned Zhejiang Hongbo Chemical Co. Ltd. ("Hongbo"), a 92% (December 31, 2010 - 92%) owned Hangzhou Changlong Chemical Co. Ltd. ("Changlong"), a 100% owned McVicar (Hang Zhou) Management Co. Ltd., ("McVicar (HZ)"), and an indirect 80% interest in Luyuan Chemical Co. Ltd. ("Luyuan") which is held by Hongbo. The principal activities of all these chemical subsidiaries are the development, manufacture and sales of specialized refined chemical products used in pharmaceutical and cosmetic industries both in China and international markets.

### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and investments in Guaranteed Investment Certificates ("GIC") at a major Canadian chartered bank with original maturities of three months or less.

### (d) Investments:

Short-term investments consist primarily of investments in GICs with original maturities of greater than three months but less than one year and in shares of publicly traded companies both in Canada and China.

Investments in associates are long-term investments that the Company has significant influence and are recorded using the equity method.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (e) Business combinations, goodwill and non-controlling interests:

The purchase method of accounting is used to account for the acquisition of subsidiaries and businesses as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus transaction costs;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized as gain directly in the income statement.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value as at the acquisition date through profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are computed and also recorded in equity.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (f) Property, plant and equipment:

Property and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Costs comprise the fair value of consideration given to acquire or construct an asset and include the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation of property, plant and equipment commences when the assets are ready for their intent use. Depreciation is provided to the costs of the assets less their residual values over their estimated useful lives using the straight-line method:

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Buildings – power system component	20 years
Buildings – elevator system	20 years
Buildings – other	44.5 years
Land use rights	44.5 years
Office equipment	5 years
Leasehold improvements	5 years
Manufacturing equipment	10 years
Transportation equipment	5 years
Other equipment	5 years
Metal and plastic moulds	5 years

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Construction in progress represents plant and machinery under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction, net of any income received towards the construction in progress. Assets under construction are not depreciated. Completed items are transferred from construction in progress to proper categories of plant and equipment when they are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (g) Stock-based payments:

The Company has a stock-based compensation plan that is described in note 15(c). Share-based payments to employees and other providing similar services are measured at the fair value of the instruments issued at the grant date and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received, or the fair value of the equity instrument issued if it is determined that the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The offset to the recorded cost is to shares capital, warrants, or contributed surplus. Considerations received on the exercise of warrants and stock options are recorded as share capital and the related value of warrants or contributed surplus is transferred to share capital.

At each balance sheet date, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the income statement with a corresponding adjustment to equity or liabilities as appropriate.

### (h) Share issue costs:

Costs incurred for the issue of common shares are deducted from share capital.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (i) Impairment of non-current assets:

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-current assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). The Company evaluates impairment losses for potential reversals, when events or changes in circumstances warrant such consideration.

### (j) Income per share:

Basic earnings per share amounts are computed by dividing income for the year attributable to shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to compute the dilutive effects of options, warrants and similar instruments which assumes that proceeds from the exercise of such instruments are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the diluted weighted average number of common shares outstanding. No exercise or conversion is assumed during periods in which a net loss is incurred as the effect is anti-dilutive.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (k) Income taxes:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, which are not clearly defined. There is no statute of limitations in the case of tax evasion. The tax returns of the Company's PRC subsidiary for the 2008 to 2010 tax years are subject to examination by the relevant tax authorities.



# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (l) Foreign currency translation:

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency of the Company, Jite and MAM are Canadian dollars. The functional currency of Jite Hong Kong is Hong Kong dollars. The functional currency of the Company's subsidiaries in China is the RMB. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary are recognized in the income statement.

Assets and liabilities of entities ("foreign operations") with functional currencies other than Canadian dollars are translated to Canadian dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

Additionally, foreign exchange gains and losses related to certain intercompany loans that are part of a net investment in foreign operations are included in accumulated other comprehensive income.

Since the RMB is not a fully convertible currency, all foreign exchange translations involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

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## 1. Significant accounting policies (continued):

### (m) Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of product is recognized upon shipment, when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The transfer of risks and rewards occurs based on the terms of the sales contract. The amount of revenue is based on the formula in the sales contract.

Interest income is recorded on an accrual basis.

### (n) Intangible assets:

Intangible assets related to business acquisitions are recorded at their fair value at the acquisition date. The Company has definite life intangible assets. Intangible assets with a definite life are amortized over the useful life of the assets on a straight-line basis. The estimated useful lives of intangible assets are as follows:

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Non-contractual customer relationships	5 years
Below market lease agreements	9 years

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# McVICAR INDUSTRIES INC.

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## 1. Significant accounting policies (continued):

### (o) Environmental liabilities:

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed. Liabilities relating to future remediation costs are recorded when environmental assessments and/or cleanups are probable, and the costs can be reasonably estimated. Generally, the timing of these provisions is based on the regulations and/or the Company's commitment to a formal plan of action, such as an approved remediation plan or, if earlier, on divestment or on closure of inactive sites to evidence that it is probable that a future remediation commitment will be required.

### (p) Inventories:

Inventories include raw materials, parts and work in progress, and finished goods. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes material, labour and production overhead, and net realizable value is the anticipated selling price over costs to sell. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

### (q) Provisions:

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

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## 1. Significant accounting policies (continued):

### (r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

### (s) Investment property

Investment property, which is property held to earn rentals and for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at costs less accumulated depreciation and accumulated impairment losses. When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property. Depreciation of investment property commences when the assets are ready for their intent use. Depreciation is provided to the costs of the assets less their residual values over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

### (t) Government grant and compensation:

Government grant in assistance for the purchase of plant asset is recorded as a deduction to the plant asset costs.

Government compensation for impairment loss to plant assets expropriated is recorded as income when the compensation becomes receivable.

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## 1. Significant accounting policies (continued):

(u) Financial instruments:

### Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

#### *Financial assets at fair value through the income statement*

- **Classification**

Financial assets are classified as fair value through the income statement if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by management.

- **Recognition and measurement**

Financial assets carried at fair value through the income statement are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed.

#### *Loans and receivables*

- **Classification**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category include "trade receivables", "due from related parties" and "cash."

- **Recognition and measurement**

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

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## 1. Significant accounting policies (continued):

### *Available-for-sale financial assets*

- **Classification**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the assets within 12 months of the end of the reporting period.

- **Recognition and measurement**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs and are subsequently carried at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are included in the income statement.

### Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the income statement.

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payables and accrued liabilities, and due to related parties.

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## 1. Significant accounting policies (continued):

### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

- **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in income statement.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

- **Interest-bearing loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in profit or loss.

### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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## 1. Significant accounting policies (continued):

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

## 2. Standards issued but not yet effective:

### *IFRS 9 Financial Instruments: Classification and Measurement*

The IASB has issued IFRS 9 - *Financial Instruments (Classification and Measurement)*, which is mandatory for accounting periods beginning January 1, 2013.

IFRS 10, 11, 12 and 13 were all issued in May 2010. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

The Company has not yet determined the impact of these standards on its financial statements.



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### **3. Critical accounting estimates and judgements:**

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities and most critical judgments in applying accounting policies.

#### **Allowance for doubtful accounts**

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. See Note 5.

#### **Inventory**

In determining the net realizable of inventory the Company needs to estimate the saleability of the inventory, the price of sales, and the costs to sell. Changes in assumptions about these factors could affect the reported fair value of inventory.

#### **Useful lives of property and equipment, and investment property**

The Company estimates the useful lives of property and equipment, and investment property, at the end of each reporting period. The results will impact the depreciation costs recorded in the period and future periods.

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### 3. Critical accounting estimates and judgements (continued):

#### Impairment of assets

The Company assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mineral property, which is the lowest level for which cash inflows are largely independent of those of other assets.

#### Income taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. In interim periods, the income tax provision is based on estimates of full-year earnings by jurisdiction. The average annual effective income tax rates are re-estimated at each interim reporting date. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods. The Company's 2011 effective tax rate was 31% of earnings from continuing operations, and its subsidiary Jite Shenzhen in China is subject to tax rate of 22%, Hongbo is subject to tax rate of 12.5%, and its other subsidiaries in China are subject to tax rate of 25%.

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### 3. Critical accounting estimates and judgements (continued):

#### **Uncertain tax positions**

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, the IRS or other relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### **Fair value**

Where the fair value of financial assets and financial liabilities and the fair value of stock based payments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model and stock options and warrants valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments on the discounted cash flow model include considerations of inputs such as liquidity risk, credit risk and volatility. The judgments on the measurement of stock options and warrants valuation include dividends, life of the instruments, volatility and vesting of options. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the equity instruments.

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## 4. Short-term investments:

	March 31, 2011	December 31, 2010
GICs	\$ 400,000	\$ -
Investment in shares of publicly traded companies	3,038,572	2,896,962
	<u>\$ 3,438,572</u>	<u>\$ 2,896,962</u>

Included in the investment in shares are approximately \$3,004,921 (RMB20,235,158) (December 31, 2010 - \$2,815,642; RMB18,658,994) invested shares publicly traded on Chinese stock markets and \$33,650 (December 31, 2010 - \$81,320) invested in Canadian listed shares.

In 2008, Jite Shenzhen engaged a consulting company that is controlled by a director of the Company to manage certain investment in shares of publicly traded companies under Jite Shenzhen's name. Pursuant to the terms of the agreement, the consulting company guarantees the value of the initial amount of the portfolio investment of \$712,800 (RMB 4,800,000) (December 31, 2010 - \$724,320; RMB 4,800,000) and will be compensated 20% of any net gains in the portfolio when realized. The agreement can be cancelled by either party with three months notice. As at March 31, 2011, the market quoted value of the investments was \$653,535 (RMB 4,400,906) (December 31, 2010 - \$617,426; RMB 4,091,622).

## 5. Trade and other receivables:

	March 31, 2011	December 31, 2010
	\$	\$
Trade receivables	8,707,779	8,884,190
Allowance for doubtful debts	(317,990)	(322,428)
	8,389,789	8,561,762
Taxes receivable	6,333	-
Other receivables	142,455	324,078
	<u>8,538,577</u>	<u>8,885,840</u>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

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## 5. Trade and other receivables (continued):

The Company performs periodic credit reviews of its customers and customer credit is extended following an evaluation of creditworthiness. The credit terms granted to different customers range from 30 days to 150 days. The Company performs ongoing credit evaluations of its customers, but does not require collateral to support customer accounts receivable. No interest is charged on trade receivables outstanding. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical experience and other information. Trade receivables disclosed above include amounts that are past due at the end of the reporting period but against which the Company has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

As at December 31, 2010, trade receivables from one customer were 22% of total trade and other receivables. As at December 31, 2010 around 71% of trade and other receivables are outstanding for less than 90 days.

	3 months ended March 31, 2011	12 months ended December 31, 2010
	\$	\$
Balance at beginning of the period	322,428	417,967
Bad debt expenses	-	-
Bad debt recovery	-	(96,041)
Foreign exchange gain (loss)	(4,438)	502
	317,990	322,428

There is no impairment or reversal of impairment in the periods.

## 6. Inventories:

	March 31, 2010	December 31, 2010
Raw materials	\$ 899,419	\$ 1,165,441
Parts and work in process	1,975,448	2,135,424
Finished goods	4,216,365	3,875,299
	\$ 7,091,232	\$ 7,176,163

The Company recorded a provision of \$566,529 (December 31, 2010 - \$796,694) for slow moving inventory and reversed an impairment of \$nil (December 31, 2010 - \$104,812) related to 2008 finished goods inventory written off and subsequently sold.

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## 7. Investment in associates:

	Ownership percentage	December 31, 2010	Investment income	Foreign exchange	March 31, 2011
Shenzhen Relisen Electronic Co., Ltd. ("Relisen")	40	\$ 416,281	\$ 43,944	\$ (7,013)	\$ 453,212
Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng")	30	62,996	7,037	(1,064)	68,969
Shenzhen Jietexing Electronics Co., Ltd. ("Jietexing")	20	15,570	212	(250)	15,532
		\$494,847	\$ 51,193	\$ (8,327)	\$ 537,713

	Ownership percentage	December 31, 2009	Investments	Investment income	December 31, 2010
Shenzhen Relisen Electronic Co., Ltd. ("Relisen")	40	\$ –	\$ 301,800	\$ 114,481	\$ 416,281
Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng")	30	–	54,324	8,672	62,996
Shenzhen Jietexing Electronics Co., Ltd. ("Jietexing")	20	–	15,090	480	15,570
		\$ –	\$ 371,214	\$ 123,633	\$ 494,847

During 2010, Jite Shenzhen executed a plan for reforming the manufacturing structure and spinning off certain parts of manufacturing to employee ownership.

Relisen was incorporated to take over the tooling and moulding and parts production of Jite Shenzhen. Jite Shenzhen acquired a 40% interest through the investment of equipment into Relisen with a net book value of approximately \$301,800 (RMB 2,000,000). The remaining 60% interest in Relisen is owned by unrelated third parties. Jite Shenzhen subsequently sold equipment to Relisen with a net book value of \$786,131 (RMB 5,108,066) in consideration of cash. Jite Shenzhen further sold materials inventory to Relisen with a net book value of \$1,324,300 (RMB 8,776,013) in consideration for a loan receivable of the same amount with monthly payment terms of RMB 204,750, commencing January 1, 2011, bearing interest of 5.76%, maturing on December 31, 2014 (note 8(d)).

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## 7. Investment in associates (continued):

Delicheng was incorporated to take over the screws manufacturing of Jite Shenzhen. Jite Shenzhen acquired a 30% interest through the investment of equipment into Delicheng with a net book value of approximately \$54,324 (RMB 360,000). The remaining 70% interest in Delicheng is owned by unrelated third parties. Jite Shenzhen subsequently sold equipment to Delicheng with a net book value of \$59,340 (RMB 385,575) in consideration of cash. Jite Shenzhen further sold materials inventory to Delicheng with a net book value of \$106,959 (RMB 708,808) in consideration for a loan receivable of the same amount with monthly payment terms of RMB 30,000 commencing January 1, 2011, bearing interest of 5.76%, maturing on December 31, 2012 (note 8(e)).

Jietexing was incorporated as a sales agent to serve some small customers of Jite Shenzhen. Jite Shenzhen acquired a 20% interest through the investment of cash into Jietexing of \$15,090 (RMB100,000). The remaining 80% interest is owned by unrelated third parties.

## 8. Related party transactions:

- (a) Included in general and administration expenses is \$12,500 (2010 - \$12,500) charged in the three months in 2011 to the Company by a director and officer of the Company consulting fees related to management and strategic planning services.
- (b) Included in due from related parties assets as at March 31, 2011 are employee loans outstanding in the amount of \$11,000 (December 31, 2010 - \$13,000) that were repaid in April 2011.
- (c) Included in due to/from related parties as at March 31, 2011 was a loan receivable of \$1,242,427 (RMB8,366,513) (December 31, 2010 - \$1,324,300; RMB 8,776,013) from Shenzhen Relisen Electronic Co., Ltd. ("Relisen"), an associate of the Company, to Jite Shenzhen, of which \$824,310 (RMB 5,550,906) (December 31, 2010 - \$1,021,919; RMB 6,772,158) was classified as non-current. The loan bears annual interest of 5.76%. In addition, Jite Shenzhen has a payable of \$370,423 (RMB 2,494,431) (December 31, 2010 - \$666,632; RMB 4,417,706) to Relisen for parts purchased (note 7).

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## 8. Related party transactions (continued):

(d) Included in due to/from related parties as at March 31, 2011 was a loan receivable of \$91,893 (RMB618,808) (December 31 2010 - \$106,959; RMB 708,808) from Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng"), an associate of the Company, to Jite Shenzhen, of which \$38,433 (RMB258,808) (December 31, 2010 - \$57,162; RMB 348,808) was classified as non-current. The loan bears annual interest of 5.76%. In addition, Jite Shenzhen has a payable of \$51,835 (RMB 349,059) (December 31, 2010 - \$48,160; RMB 319,154) to Delicheng for screws purchased (note 7).

(e) Included in due from related parties as at March 31, 2011 was trade receivable of \$132,117 (RMB889,675) (December 31 2010 - \$94,010; RMB 622,996) from Jietexing, an associate of the Company, to Jite Shenzhen, that is current.

All transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 9. Short-term borrowings:

Hongbo, a subsidiary of the Company, maintains a credit facility with the Communication Bank of China for a total amount of \$2,970,000 (RMB 20,000,000) (December 31, 2010 - \$3,018,000; RMB20,000,000), of which \$1,707,750 (RMB11,500,000), is secured by the land use rights and facilities of Hongbo, and the remaining amount of \$1,262,250 (RMB8,500,000) is guaranteed by Jite Shenzhen. The credit facility is to be used for the issuance of notes payable up to a maximum amount of \$5,940,000 (RMB40,000,000). Under the terms of the facility, on issuance of notes half of the value must be deposited as cash in the bank by Hongbo and held until maturity of the notes. As at March 31, 2011, Hongbo utilized \$1,336,500 (RMB9,000,000) (December 31, 2010 - \$1,056,300; RMB7,000,000) of the facility by issuing \$2,673,000 (RMB18,000,000) (December 31, 2010 - \$2,112,600; RMB14,000,000) of notes payable due within six months from the dates of issuance. Included in restricted cash as at December 31, 2011 is a deposit of \$1,336,500 (RMB9,000,000) (December 31, 2010 - \$1,056,300; RMB7,000,000) or half the amount of these notes payable.



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## 10. Property, plant and equipment:

March 31, 2011	Cost	Accumulated amortization	Net book value
Land use rights	\$ 1,180,781	\$ 42,539	\$ 1,138,242
Buildings	4,012,723	729,811	3,282,912
Leasehold improvements	685,393	584,094	101,299
Office equipment	786,816	580,492	206,324
Manufacturing equipment	2,629,758	1,039,122	1,590,636
Metal and plastic moulds	2,145,884	1,633,119	512,765
Other equipment	544,703	247,731	296,972
Transportation equipment	409,908	166,944	242,964
	\$ 12,395,966	\$ 5,023,852	\$ 7,372,114
Construction in progress	\$ 563,831	\$ —	\$ 563,831
	\$ 12,959,797	\$ 5,023,852	\$ 7,935,945

December 31, 2010	Cost	Accumulated amortization	Net book value
Land use rights	\$ 1,462,105	\$ 38,855	\$ 1,423,250
Buildings	5,030,770	719,791	4,310,979
Leasehold improvements	696,470	564,910	131,560
Office equipment	787,987	557,026	230,961
Manufacturing equipment	2,486,994	1,000,555	1,486,439
Metal and plastic moulds	2,111,255	1,585,057	526,198
Other equipment	548,421	247,326	301,095
Transportation equipment	427,555	188,471	239,084
	\$ 13,551,557	\$ 4,901,991	\$ 8,649,566
Construction in progress	\$ 559,165	\$ —	\$ 559,165
	\$ 14,110,722	\$ 4,901,991	\$ 9,208,731

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## 10. Property, plant and equipment (continued):

The amortization expense for the three months in 2011 was \$264,186 (2010 - \$387,973), of which \$115,944 (2010 - \$148,139) was included in costs of goods sold in the consolidated income statement.

- (a) During the year 2009, the Company wrote-off \$675,925 (RMB4,409,165) net book value of property, plant and equipment related to the value of the assets adversely impacted by the suspension of production in Changlong (note 14).
- (b) During the year 2010, JITE, a subsidiary of the Company's disposed of equipment at net book value of \$1,201,595 (RMB7,853,641) to certain associates (note7).
- (c) During the year 2010, Luyuan reversed \$135,810 of equipment impairment recorded in 2009 (note 17(b)).

## 11. Investment property:

March 31, 2011	Cost	Accumulated amortization	Net book value
Building	\$ 938,033	\$ 30,244	\$ 907,789
Land use rights	258,070	7,331	250,739
	\$ 1,196,103	\$ 37,575	\$ 1,158,528

On March 23, 2011 the Company signed a rental agreement to lease a building in Kunshan plant to a third party. The term of the lease is from April 1, 2011 to April 1, 2014. Annual rent is \$160,380 (RMB 1,080,000). On the signing of the agreement, \$93,555 (RMB630,000) was received as half year rent and one month deposit, that was recorded as deferred revenue on the consolidated statement of financial position. The building and the land use rights of the building were reclassified from property, plant and equipment as investment property. The investment property is recorded at cost less accumulated amortization and impairment cost. Based on the annual rental of the agreement, the Company has determined there is no impairment loss to the investment property, and the fair value of the investment property, using a discounting cash flow method of valuation with the assumptions of an annual discount rate of 8% and 43 years of annual rental cash flow of \$160,380 (pre-tax), is \$1,931,495.

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## 12. Acquisition and divestitures:

### (a) MAM:

In December 2010, the Company finalized an arm's-length equity sale and share exchange agreement with Sanlong Holdings Co. Ltd. ("Sanlong"), the minority interest holder in MAM. The Company and Sanlong agreed to exchange Sanglong's 9.5% of MAM for 38% of Changlong, and then subsequently the Company purchased 30% interest of Changlong from Sanlong for cash consideration of \$995,940 (RMB6,600,000). The transaction with non-controlling interests is treated as transactions with equity owners of the Company. The Company allocated \$1,114,255 to the net identifiable assets acquired. The transaction resulted in a gain of \$118,315 recorded in the equity.

### (b) JITE:

In the second quarter of 2010, the Company purchased 705,500 of JITE's shares on the open market for cash consideration of \$243,280, representing 3.35% of JITE's shares outstanding. As a result of the acquisition the Company's interest in JITE was increased from 48.6% to 51.95%. The acquisition was accounted for as transactions with equity owner of the Company. The Company allocated \$617,858 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$374,578 which was used to reduce certain non-current tangible assets by \$213,256 with the excess of approximately \$161,322 recorded into contributed surplus.

In the third quarter of 2010, the Company purchased 200,000 of JITE's shares on the open market for cash consideration of \$122,000, representing 0.95% of JITE's shares outstanding. As a result of the acquisition the Company's interest in JITE was increased from 51.95% to 52.90%. The acquisition was accounted for as transactions with equity owner of the Company. The Company allocated \$178,175 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$56,175 which was used to reduce certain non-current tangible assets to nil.

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## 12. Acquisition and divestitures (continued):

In September 2010, JITE conducted a normal course issuer bid that allowed JITE to purchase up to a maximum of 1,000,000 of its own common shares representing approximately 4.75% of its 21,073,613 issued and outstanding shares as at September 20, 2010. In the fourth quarter JITE acquired and cancelled 435,500 common shares for total consideration of \$199,662 of which \$142,844 was reduced to share capital of JITE and the difference recorded to contributed surplus. As a result, the Company's proportionate interest in JITE increased from 52.9% to 54.05%. Since the transaction was similar in effect to the Company acquiring an additional interest in JITE, the acquisition was accounted for as transactions with equity owner of the Company. The Company allocated \$213,504 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$213,504 which was used to reduce certain non-current tangible assets by \$116,207 with the excess of \$97,297 recorded into contributed surplus.

In the fourth quarter of 2010, the Company purchased 130,500 of JITE's shares on the open market for cash consideration of \$64,868, representing 0.63% of JITE's shares then outstanding. As a result of the acquisition the Company's interest in JITE was increased from 54.05% to 54.68%. The acquisition was accounted for as transactions with equity owner of the Company. The Company allocated \$116,963 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$52,095 which was used to reduce certain non-current tangible assets by \$30,629 with the excess of approximately \$21,466 recorded into contributed surplus.

In the fourth quarter of 2010 JITE also acquired 348,000 shares of its own at \$171,300. In the first quarter of 2011, JITE acquired 216,500 common shares for total consideration of \$131,315. These shares were cancelled in the first quarter of 2011. \$185,156 was reduced to share capital of JITE and the difference recorded to contributed surplus. As a result, the Company's proportionate interest in JITE increased from 54.68% to 56.22%. Since the transaction was similar in effect to the Company acquiring an additional interest in JITE, the acquisition was accounted for as transactions with equity owner of the Company. The Company allocated \$305,851 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$305,851 which was used to reduce certain non-current tangible assets by \$27,098 with the excess of \$278,753 recorded into contributed surplus.

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## 13. Goodwill and intangible assets:

### (a) Goodwill:

	Goodwill in JITE	Goodwill in MAM	Total value
Balance, January 1, 2010	\$ 2,701,413	\$ 3,793,910	\$ 6,495,323
Impairment	-	-	-
Foreign exchange	(42,292)	(59,396)	(101,688)
Balance, December 31, 2010	\$ 2,659,121	\$ 3,734,514	\$ 6,393,635
Impairment	-	-	-
Foreign exchange	(42,292)	(59,396)	(101,688)
Balance, March 31, 2011	\$ 2,616,829	\$ 3,675,118	\$ 6,291,947

As at March 31, 2011 and December 31, 2010, the Company completed its impairment test and determined there was no impairment of goodwill for the period.

### (b) Intangible assets:

March 31, 2011	Cost	Impairment	Accumulated amortization	Carrying value
Below market lease agreement	\$ 222,633	\$ 97,228	\$ 105,137	\$ 20,268

December 31, 2010	Cost	Impairment	Accumulated amortization	Carrying value
Non-contractual customer relationships	\$ 1,201,322	\$ 335,945	\$ 865,377	\$ -
Below market lease agreement	226,231	98,799	100,553	26,880
	\$ 1,427,553	\$ 434,744	\$ 965,930	\$ 26,880

In the three months in 2011 the Company recorded amortization expense of \$5,720 (2010 - \$77,829).

In 2010, the Company completed an impairment analysis and determined that intangible assets related to Changlong's non-contractual customer relations were impaired by \$238,720 due to the relocation of Changlong (note 14).

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## 14. Relocation of Changlong plant:

In 2009, the facilities at Changlong, a subsidiary of the Company, were expropriated by the local government due to municipal development requirements. Changlong, along with Longshan Chemical Co., Ltd. ("Longshan"), a Company who owns the land use rights which Changlong leases, were to be moved to a new location granted by the government. As part of the initiative, the government committed to a cash compensation for reimbursement of certain relocation costs and expenditures.

In 2009, Changlong, reached an agreement with Longshan on a new factory relocation and lease agreement of the new property. Pursuant to the agreement, the total amount of government compensation fund attributed to Changlong was RMB8,508,614, of which RMB7,232,322 was received in 2009 after the signing of the agreement, and the remaining RMB1,276,292 was received in December 2010 and January 2011. The compensation was recorded as an income when receivable. \$1,208,549 (RMB7,232,322) was recorded in income statement in 2009, and \$194,124 (RMB1,276,292) was recorded as income in 2010. The moving expenses as incurred of \$810,991 (RMB5,331,956) in 2010 were recorded as expenses (2009 - \$65,089; RMB389,521).

In 2009 the Company determined the plant and equipment of Changlong were impaired and had written-off \$736,789 (RMB4,409,165) net book value of the plant and equipment of Changlong as impairment loss. The remaining net book value of the movable plant and equipment of Changlong was \$41,712 as at March 31, 2011 (December 31, 2010 - \$55,423).

During the second quarter of 2010, Changlong was required by the government to cease production activities and prepare for the relocation with Longshan, however, in December 2010, the Company's relocation and lease agreement with Changlong was terminated.

The Company reviewed the associated intangible assets for recoverability and recognized an impairment loss of \$238,720 in 2010 (note 13(b)).

In 2011 Management of Changlong is in the process of relocating Changlong into the plant where Luyuan is currently operating.

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## 15. Shareholder's equity:

### (a) Authorized and issued:

The Company's authorized capital stock consists of an unlimited number of common shares.

Issued and outstanding:

Common shares	Number of shares	Amount
Balance, December 31, 2009	34,427,320	\$ 26,052,375
Shares issued for cash (i)	3,000,000	1,350,000
Balance, December 31, 2010	37,427,320	\$ 27,402,375
Shares purchased and cancelled (ii)	(242,500)	(177,545)
Balance, March 31, 2011	37,184,820	\$ 27,224,830

- (i) In 2010, the Company completed a non-brokered private placement of 3,000,000 common shares for gross proceeds of \$1,350,000 at a price of \$0.45 per unit.
- (ii) In January 2011 the Company conducted a normal course issuer bid (shares buy back) that allowed the Company to purchase up to a maximum of 1,800,000 of its own common shares representing approximately 4.8% of its 37,427,320 issued and outstanding shares as at January 4, 2011. In the first three months in 2011 the Company purchased and cancelled 242,500 shares of its own at \$116,111, of which \$177,545 was reduced to share capital and the difference debited to retained earnings.
- (iii) During the three months in 2011 the Company also purchased 257,500 shares of its own at \$140,790. These shares were held by the Company at March 31, 2011 as treasury shares, and were cancelled after March 31, 2011, reducing share capital by \$192,189, with the difference debited to retained earnings.

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## 15. Shareholder's equity (continued):

### (b) Contributed surplus:

Balance, January 1, 2010	\$ 1,130,284
Expired of warrants	1,483,048
Stock based compensation (note 15(c))	333,277
Share of stock-based compensation expense of subsidiary	115,650
Acquisition of interests in subsidiaries (note 12)	301,103
Balance, December 31, 2010	3,363,362
Stock based compensation (note 15(c))	47,332
Acquisition of interests in subsidiary (note 12)	278,753
Share of stock-based compensation expense of subsidiary	13,188
Balance, March 31, 2011	\$ 3,702,635

### (c) Stock-based compensation plan:

The Company has established a common share purchase option plan for directors, officers, employees and consultants. Options are granted at a price no lower than the market price of the common shares at the time of the grant less allowable discounts.

On June 9, 2010, the Company granted 1,330,000 options to employees and directors. Each option entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 on or before June 8, 2015. The options are vesting within a year, with one fourth of the options vesting in each quarter after the grant date. Each tranche of one fourth of the options is considered a separate grant with a different vesting date and fair value. The grant date fair value of all the options issued has been estimated at \$422,261 using the Black-Scholes option pricing model. Assumptions used to determine the value of the options issued on June 9, 2010 were: expected dividend yield - 0%; risk-free interest rate - 2.4%; expected volatility - 86%; and expected life of 4.75, 4.5, 4.25 and 4 years for each tranche respectively. For the year ended December 31, 2010, \$333,277 of stock-based compensation expenses was recorded in general and administrative expenses due to the vesting of the 2010 options, after adjusting for the options forfeited due to termination of employment of employee. In the first three months of 2011 \$47,332 stock-based compensation expenses were recorded for the 2010 options.



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## 15. Shareholder's equity (continued):

In the three months in 2011, the Company recorded stock-based compensation expense of \$71,442 (2010 - \$17,201), of which \$24,110 (2010 - \$17,201) was from JITE. Of the stock-based compensation expense, \$71,442 (2010 - \$7,105) was for employees and others providing similar services and nil (2010 - \$10,096) for non-employees.

A summary of the Company's options granted and exercised is presented below:

	Options Outstanding	Weighted average exercise price
Options outstanding, January 1, 2010	960,000	\$ 1.10
Granted	1,330,000	0.50
Forfeited	(75,000)	0.50
Expired	(150,000)	1.10
Options outstanding, December 31, 2010	2,065,000	\$ 0.74
Expired	(175,000)	1.01
Options outstanding, March 31, 2011	1,890,000	\$ 0.71

The following table summarizes information about the options outstanding and exercisable at March 31, 2011:

Exercise price	Options outstanding			Options exercisable		
	Outstanding number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Remaining contractual life	
\$ 1.10	660,000	2.50	\$ 1.10	660,000	2.50 years	
0.50	1,230,000	4.17	0.50	922,500	4.17 years	
	1,890,000	3.59	0.71	1,582,500	3.47 years	

## 16. Retained earnings (deficit):

Pursuant to Chinese laws all foreign entities are required to set aside a portion of their net income each year as a general reserve fund and an expansion fund until the balance of the fund has reached 50% of the entity's registered capital. This fund is only eligible for distribution to shareholders at the time of winding up the foreign entity. The funds accumulated as at March 31, 2011 were \$1,009,670 (RMB6,157,534) (December 31, 2010 - \$1,025,988; RMB6,799,126) and are included as part of retained earnings (deficit).

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## 17. Commitments and contingencies:

### (a) Operating leases:

The Company and its subsidiaries have entered into various operating lease agreements for leased premises in the normal course of operations, with the rents being charged to operations in the year to which they relate. The consolidated minimum lease payments for all lease agreements in each of the next five years and thereafter are as follows:

	McVicar	JITE	Total
2011	\$ 32,262	\$ 337,433	\$ 369,695
2012	2,689	479,043	481,732
2013	–	469,659	469,659
2014	–	446,159	446,159
2015 and thereafter	–	600,679	600,679
	<u>\$ 34,951</u>	<u>\$ 2,332,973</u>	<u>\$ 2,367,924</u>

### (b) Legal proceedings settled in Luyuan:

The Company and its subsidiaries are from time to time subject to legal actions, both as a defendant and as a plaintiff, arising in the normal course of business. The following is a summary of a significant legal matter involving the Company:

In 2008, the Company's subsidiary, Luyuan, was a defendant in seven lawsuits filed by six individuals requesting Luyuan to repay loans and interests that were allegedly borrowed by Luyuan before being acquired by Hongbo in April 2008, and one lawsuit filed by a former employee of Luyuan for wrongful dismissal. In 2009, the local court ruled against Luyuan. The total amounts in connection with these legal proceedings determined by the court rulings was \$368,292 (RMB2,402,100) of principal and \$113,856 (RMB742,699) of compounded interest, and some contingent interest to be determined.

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## 17. Commitments and contingencies (continued):

Luyuan as a limited liability company was short in cash for the payments of the obligations. Some of Luyuan's equipment with a value of RMB250,000 (\$38,475) and inventory with a value of RMB334,142 (\$51,424) were seized by court orders. In July 2009, the operation of Luyuan was suspended.

As at December 31, 2009, Luyuan accrued contingent liabilities of \$367,200 (RMB2,400,000). In addition, Luyuan also wrote-off the value of its inventory by \$90,110 (RMB597,148) and the property, plant and equipment by \$153,900 (RMB1,000,000).

In the fourth quarter of 2010, the Company reached a settlement agreement and paid approximately RMB1,600,000 (\$246,240) to the plaintiffs. As of March 31, 2011, Luyuan is in the progress of resuming operations and the production starts in May 2011. The inventory write down of \$90,110 taken in 2009 has been reversed as this inventory is no longer impaired (note 6). The plant equipment written down in 2009 was reversed by \$135,810 in the year 2010.

## 18. Capital management:

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers its capital to consist of share capital, contributed surplus and warrants. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company manages its capital structure with the objective of providing sufficient resources to meet both operating and acquisition requirements, to make sure that the Company could grow steadily in a fast growing economy in China and maximize long-term shareholder value, while remaining a going concern. There were no changes in the Company's approach to capital management during the period.

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## 19. Financial instruments and risk management:

Financial assets and liabilities as of March 31, 2011 and December 31, 2010 were as follows.

March 31, 2011	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Available for sale	Other financial liabilities	Total
	\$	\$	\$	\$	\$
Cash and cash equivalents	6,633,675	-	-	-	6,633,675
Short term investments	-	3,438,572	-	-	3,438,572
Trade and other receivables	8,538,577	-	-	-	8,538,577
Due from related parties	1,477,435	-	-	-	1,477,435
Restricted cash	1,336,500	-	-	-	1,336,500
Accounts payable and accruals	-	-	-	(3,705,817)	(3,705,817)
Short term borrowings	-	-	-	(2,673,000)	(2,673,000)
Income taxes payable	-	-	-	(141,506)	(141,506)
Due to related parties	-	-	-	(422,258)	(422,258)
	17,986,187	3,438,572	-	(6,942,581)	14,482,178

December 31, 2010	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Available for sale	Other financial liabilities	Total
	\$	\$	\$	\$	\$
Cash and cash equivalents	6,571,900	-	-	-	6,571,900
Short term investments	-	2,896,962	-	-	2,896,962
Trade and other receivables	8,885,840	-	-	-	8,885,840
Due from related parties	1,442,259	-	-	-	1,442,259
Restricted cash	1,056,300	-	-	-	1,056,300
Accounts payable and accruals	-	-	-	(3,908,536)	(3,908,536)
Short term borrowings	-	-	-	(2,112,600)	(2,112,600)
Income taxes payable	-	-	-	(250,776)	(250,776)
Due to related parties	-	-	-	(714,792)	(714,792)
	17,956,299	2,896,962	-	(6,986,704)	13,866,557

There was no reclassification of financial assets during the period from January 1, 2010 to March 31, 2011.

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## 19. Financial instruments and risk management (continued):

The fair value of the Company's financial assets and liabilities approximate their carrying values due to the relatively short periods to maturity of these financial instruments and normal trade credit terms (with exception of the short term investments). Short-term investments are stated at fair value, which is based upon quoted market price at March 31, 2011 and December 31, 2010.

Unless otherwise noted, McVicar is not exposed to significant interest rate risk, concentration of credit risk and liquidity risk arising from the financial instruments due to their short-term maturity or capacity of prompt liquidation.

### (a) Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Company's income or value of its holdings in its holdings of financial instruments. The Company is exposed to foreign exchange rate risk from transactions, short-term borrowings and short-term investments in currencies other than Canadian dollars. A significant portion of the Company's business is carried out in U.S. dollar, HKD and RMB and the Company and its subsidiaries maintain foreign denominated bank accounts.

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers invoiced in foreign currencies and the purchase of services, raw materials and property and equipment from suppliers invoiced in foreign currencies. For the year ended December 31, 2010, approximately 100% of sales and approximately 95% of expenses were incurred in foreign currencies.

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## 19. Financial instruments and risk management (continued):

At March 31, 2011, the Company is exposed to translation foreign currency risk through the following financial assets and liabilities denominated in U.S. dollar, HKD and RMB:

	US dollar	HKD	RMB
Cash and cash equivalents	2,838,656	360,669	17,495,828
Short-term investments	-	-	20,235,164
Trade and other receivables	4,337,614	-	32,613,138
Due from related parties	-	-	9,949,057
Restricted cash	-	-	9,000,000
Accounts payable and accruals	-	(193,587)	(25,091,956)
Short-term borrowings	-	-	(18,000,000)
Income taxes payable	-	-	(952,902)
Due to related parties	-	-	(2,843,488)
<b>Total</b>	<b>7,176,270</b>	<b>167,082</b>	<b>42,404,841</b>

The Company and its subsidiaries do not use derivative instruments to reduce its exposure to foreign currency risk.

As at March 31, 2011, with other variables unchanged, a +/-10% change in the U.S. dollar to Cdn. dollar exchange rate would increase/decrease net loss for the year by \$697,390 (U.S. \$717,627), a +/-10% change in the exchange rate of HKD to Cdn. dollar will increase/decrease the net income by \$2,088 (HKD16,708), and a +/-10% change in the exchange rate of RMB would increase/decrease the net income by \$629,712 (RMB4,240,484).

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## 19. Financial instruments and risk management (continued):

### (b) Credit risk:

Credit risk is the risk of financial loss due to failure of the Company's customer or counterparties to meet its contractual obligations, and arises primarily in relation to accounts receivable and loan receivable from related parties. Exposure to credit risk is limited, due to the large number of customers. The Company and its subsidiaries perform regular credit assessments of its customers and provide allowances for potentially uncollectible accounts receivable based on the credit risk applicable to particular customers, historical experience and other information. In addition, the Company performs periodic credit reviews of its customers, and the customer credit is extended following an evaluation of creditworthiness. All of the Company's accounts receivable have been reviewed for collectability. As at December 31, 2010 approximately 71% of trade and other receivables are outstanding for less than 90 days. During the year ended December 31, 2010, the Company recorded bad debt expense recovery of \$96,041 and the allowance for doubtful accounts at March 31, 2011 was \$317,990 (December 31, 2010 - \$322,428).

In 2010 two customers accounted for approximately 26% of sales. As at December 31, 2010 one customer accounted for approximately 22% of total trade and other receivables.

### (c) Commodity price risk:

The Company uses various commodities in the manufacture of products, more significantly copper, electricity and natural gas. Commodity prices are subject to volatile price changes resulting from a variety of factors including international economic trends, global and regional demand, interest rates, and global and regional consumption patterns. Accordingly, the Company is exposed to market risk from fluctuating market prices of certain raw materials. The Company does not use derivative instruments to reduce its exposure to commodity price risk. In 2010, with other variables unchanged, a +/- 10% change in copper commodities price would decrease/increase net income for the year by +/- 2% of the sales.

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## 19. Financial instruments and risk management (continued):

### (d) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of the holdings of financial instruments. The Company's interest rate risk arises from short term investment balances and interest bearing debt at market interest rates. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions and in publicly traded common shares. The Company's interest rates on its debts are based on the prescribed rate of the People's Bank of China which is subject to fluctuation and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk. Due to the short-term nature of its investments the Company has limited exposure to interest rate risk.

### (e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to maintain sufficient readily available sources of funding in order to meet its liquidity requirements at any point in time. The Company achieves this by forecasting cash flows and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at March 31, 2011, the Company had cash and cash equivalents, restricted cash and short-term investments of \$11,408,747 to settle current liabilities of \$7,036,136.



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## 20. Segmented information:

The Company currently operates in two operating segments:

(a) Chemical industry: develops, manufactures and supplies specialized fine chemical products used in pharmaceutical and cosmetic industries; and

(b) Technical industry: designs, manufactures and supplies electronic and electrical connection devices for security, industrial control, automation and telecommunication and power supply industries.

Each segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. Industry and geographic segment information for the consolidated results in thousands of Canadian dollars are presented below:

(a) Segmented information:

For the three months ended March 31, 2011 (in thousands of dollars):

	Chemical products	Technical products	Total
Sales	\$ 3,035	\$ 4,040	\$ 7,075
Gross profit	\$ 711	\$ 1,159	\$ 1,870
Amortization	(59)	(89)	(148)
Operating expenses - excluding amortization and impairment of intangibles	(498)	(673)	(1,171)
Operating income	<u>154</u>	<u>397</u>	551
Other income			43
Investment income			208
Income tax expenses			(89)
Net income			<u>\$ 713</u>

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## 20. Segmented information (continued):

March 31, 2011	Chemical products	Technical products	Total
Total assets excluding goodwill	\$ 18,597	\$ 20,972	\$ 39,569
Goodwill	3,675	2,617	6,292
Total assets	\$ 22,272	\$ 23,589	\$ 45,861
 Purchase of property, plant and equipment	 \$ 34	 \$ 131	 \$ 165

For the three months ended March 31, 2010 (in thousands of dollars):

	Chemical products	Technical products	Total
Sales	\$ 4,378	\$ 4,346	\$ 8,724
Gross profit	\$ 1,232	\$ 1,461	\$ 2,693
Amortization	(95)	(145)	(240)
Operating expenses - excluding amortization and impairment of intangibles	(514)	(705)	(1,219)
Operating income	622	611	1,233
Other income			15
Investment loss			(27)
Income tax expenses			(143)
Net income			\$ 1,079

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

## 20. Segmented information (continued):

March 31, 2010	Chemical products	Technical products	Total
Total assets excluding goodwill	\$ 18,786	\$ 21,496	\$ 40,282
Goodwill	3,683	2,622	6,305
Total assets	\$ 22,469	\$ 24,118	\$ 46,587
Purchase of property, plant and equipment	\$ 63	\$ 125	\$ 188

(b) Information by geographic area consisted of the following:

For the three months ended March 31, 2011 (in thousands of dollars):

	Canada	US	China and Hong Kong	Other	Total
Sales	\$ 721	\$ 780	\$ 5,284	\$ 290	\$ 7,075
Total assets	4,210	-	41,651	-	45,861
Property plant and equipment	17	-	7,919	-	7,936
Investment property	-	-	1,159	-	1,159
Goodwill	\$ -	\$ -	\$ 6,292	\$ -	\$ 6,292

For the three months ended March 31, 2010 (in thousands of dollars):

	Canada	US	China and Hong Kong	Other	Total
Sales	\$ 658	\$ 709	\$ 7,139	\$ 218	\$ 8,724
Total assets	5,814	-	40,774	-	46,588
Property plant and equipment	27	-	11,204	-	11,231
Goodwill	\$ -	\$ -	\$ 6,035	\$ -	\$ 6,035

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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## **21. Event after the reporting period:**

Subsequent to March 31, 2011 the Company had purchased from open market 902,500 of its common shares for cancellation. As at June 23, 2011, a total of 1,422,500 shares were purchased pursuant to the normal course issuer bid announced in January 2011.

## **22. Transition to IFRS:**

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed interim financial statements were prepared as described in Note 1, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

### **Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

#### IFRS Exemption Options

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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## 22. Transition to IFRS (continued):

2. Currency translation differences - Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.

3. Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date.

4. Borrowing costs - IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 permits a first time adopter to apply IAS 23 with an effective date of July 1, 2009 or the Transition Date, whichever is later. The Company elected this exemption and therefore, borrowing costs prior to January 1, 2010 are expensed.

### IFRS Mandatory Exceptions

Set forth below are the applicable IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS.

1. Hedge accounting- Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively.

2. Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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For the three months ended March 31, 2011 and 2010

## 22. Transition to IFRS (continued):

### Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, income and comprehensive loss:

Reconciliation of equity	12/31/2010	3/31/2010	01/01/2010
	\$	\$	\$
Under Canadian GAAP	30,132,284	26,738,403	26,918,366
Government compensation income	1,208,549	1,234,814	1,208,549
Relocation costs expensed	(106,189)	(60,608)	(60,608)
Impairment of plant assets	(736,789)	(736,789)	(736,789)
Reversal of impairment	-	-	-
Amortization	(45,015)	(16,595)	-
Future income taxes	(102,788)	(102,788)	(102,788)
Non-controlling interest	8,925,448	10,249,961	9,882,647
Foreign exchange on goodwill and intangibles	(747,678)	(828,364)	(623,911)
Other comprehensive income	72,325	(34,078)	(25,479)
Total equity under IFRS	38,600,147	36,443,956	36,459,987

Reconciliation of income for the period ended	12/31/2010	3/31/2010
	\$	\$
Under Canadian GAAP	1,946,216	701,748
Business combination	(301,103)	-
Adjustment to amortization	(60,015)	(22,195)
Adjustment to stock-based compensation	(128,427)	-
Reversal of impairment of equipment	136,890	-
Government compensation and other	(61,258)	35,020
Adjustment to income taxes	(3,908)	(3,155)
Non-controlling interest	1,348,409	367,314
Total income under IFRS	2,876,804	1,078,732

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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## 22. Transition to IFRS (continued):

Reconciliation of comprehensive income for the period ended	12/31/2010	3/31/2010
	\$	\$
Under Canadian GAAP	1,522,587	(197,164)
Differences in net income	930,588	376,984
Translation of foreign operations	(130,687)	(213,052)
Total comprehensive income (loss) under IFRS	2,322,488	(33,232)

### Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

#### 1. Business combinations

As stated in the section entitled "IFRS Exemption Options," the Company applied the exemption in IFRS 1 for business combinations. Consequently, business combinations concluded prior to January 1, 2010 have not been restated and the carrying amount of assets acquired under IFRS as of January 1, 2010 is equal to the carrying amount under Canadian GAAP as of that date.

Business combinations after January 1, 2010 are accounted for in accordance with IFRS 3.

Canadian GAAP – purchases of interests of subsidiaries that the Company has control are accounted for using purchase method. If a negative goodwill is recorded in the transaction, it is used to reduce certain non-current tangible assets with the excess recorded as a gain in the consolidated statements of operations.

IFRS – such transactions are recorded as equity transaction and the gain is recorded into equity (contributed surplus).

As a result of this change in accounting policy, the \$301,103 gain recorded into statements of operations for 2010 under Canadian GAAP for the business combinations in 2010 (note 12) was recorded into contributed surplus. The total effect on the equity is nil but the income of the year 2010 is reduced by \$301,103.

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## 22. Transition to IFRS (continued):

### 2. Share based payments

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010; and,
- From January 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in Note 1.

### Recognition of Expense

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. There was no adjustment needed for the Company for share-based awards to reflect this difference in recognition.

As a result of applying this change, the 1,170,000 options granted by Jite on June 9, 2010 to its employees and others provided the similar services with graded vesting terms are treated as four separate grants according to their different vesting date, and are separately fair valued. The two grants vested in 2010 were fully expensed in 2010. The total compensation expenses of Jite in 2010 were increased by \$45,984 that were included in the consolidated income statement of the Company. The contributed surplus of the Company increased by \$25,153 being the share of increase in Jite's stock-based compensation and the non-controlling interest increased by \$20,831.

Also, the 1,330,000 options granted by the Company on June 9, 2010 to its employees and others provided the similar services with graded vesting terms are treated as four separate grants according to their different vesting date, and are separately fair valued. The two grants vested in 2010 were fully expensed in 2010. The total compensation expenses of the Company in 2010 were increased by \$82,443 that were adjusted to contributed surplus and income statement.



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## 22. Transition to IFRS (continued):

### Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. There was no adjustment needed for the Company for share-based awards to reflect this difference.

### Equity-Settled Share Based Payments

Canadian GAAP – Stock options granted to non-employees can be valued using an options pricing model and recognized at the date of grant.

IFRS – Stock options granted to non-employees are valued at the fair value of the goods and services received on the date of receipt, unless such value cannot be reliably measured in which case an options pricing model will be used to value the fair value of the options.

### Measurement of Deferred Tax Assets

Canadian GAAP - A deferred tax asset is recognized for share-based awards based upon the cumulative amount of compensation cost recognized for an award.

IFRS - The deferred tax asset for a deductible temporary difference is based on an estimate of the future tax deduction. For share-based payment awards, future tax deductions are generally measured by reference to the intrinsic value of the vested award at the balance sheet date. If the estimated future tax deduction exceeds the amount of the related cumulative compensation expense, the excess of the associated deferred tax is recognized directly in equity. If no or a reduced tax deduction is anticipated because the fair value of the shares has declined, the deferred tax asset is wholly or partly reversed to income or equity as appropriate depending on how the asset was originally recorded. The difference does not have significant impact on the Company.

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Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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## 22. Transition to IFRS (continued):

### 3. Impairments

Canadian GAAP – Non-current assets are measured at the lower of their carrying amount or fair value less costs to sell. The carrying amount for determining impairment includes cumulative translation adjustments.

IFRS - Assets are also measured at the lower of their carrying amount or fair value less costs to sell, but the carrying value used in the calculation excludes cumulative translation adjustments. As a result of this change in measurement methodology, there was no impact for the Company.

#### Recoverable Amount

Canadian GAAP - A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.

IFRS – The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. There is no significant impact on the Company as a result of the change in measurement methodology.

#### Reversal of Impairment

Canadian GAAP - Reversal of impairment losses is not permitted.

IFRS - Reversal of impairment losses is required for assets other than goodwill if certain criteria are met.

As a result of this change, the impairment of plant and equipment of Luyuan for the year 2009 was reversed in 2010 by \$135,810. See note 10 and note 17(b).

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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## 22. Transition to IFRS (continued):

### 4. Income taxes

#### Intercompany Transactions

Canadian GAAP - Recognition of a deferred tax asset or liability for a temporary difference arising from intercompany transactions is prohibited. Such temporary differences may arise when the tax base of the asset in the buyer's jurisdiction differs from the carrying amount of the asset in the consolidated financial statements. Further, cash tax paid or recovered as a result of a transfer of an asset is recorded as a deferred tax asset or liability in the financial statements and recognized through tax expense when the asset leaves the Company or is otherwise utilized.

IFRS - There are no such exceptions under IFRS. Therefore, deferred tax is recognized for temporary differences arising on intercompany transactions measured at the tax rate of the buyer, and cash tax paid or recovered on intercompany transactions is recognized in the period incurred. The difference does not impact the Company materially.

#### Deferred Tax Assets of an Acquired Company Not Previously Recognized

Canadian GAAP - Previously unrecognized deferred tax assets of an acquired company are recognized as part of the cost of the acquisition when such assets are more likely than not to be realized as a result of a business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, such benefit is also recognized through goodwill. The acquirer recognizes deferred tax assets that become realizable as a result of the acquisition as part of the cost of the acquisition.

IFRS - Previously unrecognized deferred tax assets of an acquired company are recognized as part of the cost of the acquisition if realization is more likely than not as a result of the business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, the tax benefit is recognized in the income statement and a corresponding amount of goodwill is recognized as an operating expense. The acquirer recognizes deferred tax assets that become realizable as a result of the acquisition through earnings. Adopting the change does not impact the Company.

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## 22. Transition to IFRS (continued):

### Accounting for Uncertainty in Income Tax Positions

Canadian GAAP - Benefits for uncertain tax positions are determined by reference to a two step process. First, the Company determines whether it is more likely than not that an uncertain tax position will be sustained upon examination. Where the position meets that criterion of likelihood, the amount of benefit is measured as the largest amount of benefit that is greater than 50% likely of being realized. Where the criterion of likelihood is not met, no benefit is recognized for the uncertain tax position. IFRS - The provision for uncertain tax positions is a best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. There is no impact of this change of policy.

### Accounting for Uncertainty in Income Taxes in Business Combinations

Canadian GAAP - Changes to provisions for uncertain tax position relating to pre-acquisition periods are adjusted through the purchase price allocation, first reducing goodwill and intangible assets associated with the business combination and, only after exhausting those amounts, reducing income tax expense.

IFRS - Changes to pre-acquisition provisions for uncertain tax positions beyond 12 months of the acquisition date are recorded to the income statement. There is no impact on the Company on this change.

## 5. Foreign exchange translation

Canadian GAAP - The Company's foreign operations are self-sustaining foreign subsidiaries that are financially or operationally independent on the Company. The Company uses the current method to translate the accounts of its self-sustaining operations into Canadian dollars. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. The resulting exchange gains or losses are recognized in other comprehensive income.

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## 22. Transition to IFRS (continued):

IFRS – Assets and liabilities of foreign operations with functional currencies other than Canadian dollars are translated to Canadian dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are part of a net investment in foreign operations are included in accumulated other comprehensive income.

The two methods are basically the same and as a result there is no significant difference. As noted in the section entitled "IFRS Exemption Options," the Company has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as of January 1, 2010 and adjust to deficit.

### 6. Amortization of property, plant and equipment and investment property

Canadian GAAP - The Company's policy was to commence amortization of property, plant and equipment and investment property on starting to use the asset.

IFRS – Such amortization must commence once the asset is ready for use.

Canadian GAAP – Assets (buildings) are amortized as one assets class over 44.5 years on straight-line basis.

IFRS – the significant components of an asset that has different useful life from the asset as a whole should be amortized separately.

As a result of the changes, the buildings and land use rights in the Kunshan plant are amortized from the beginning of 2010. And the power system and elevator system of the buildings are amortized separately from the buildings. The amortization expenses of the Kunshan plant increased by \$22,195 in the first three months of 2010 and by \$45,015 for the year 2010.

### 7. Government compensation for impairment of plant assets

Canadian GAAP – Government compensation received was recorded as a government compensation fund liability which was reduced by qualified expenses as incurred.

# McVICAR INDUSTRIES INC.

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## 22. Transition to IFRS (continued):

IFRS – Where an asset is impaired, lost or given up, any compensation from third parties is included in profit or loss when the compensation becomes receivable (IAS 16(65)). IFRS emphasizes that impairments or loss of items of property, plant and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for as such.

As a result, the \$1,208,459 government compensation received in 2009 for relocation of Changlong was recorded into income statement of 2009. The \$194,124 (RMB1,276,292) compensation receivable in December 2010 was recorded into income statement of 2010. The relocation expenses (including impairment loss of assets) of \$810,991 incurred in 2010 (\$65,089 in 2009) were recorded into income statement. The plant and equipment of Changlong was impaired by \$736,789 that was recorded in 2009. The impairment of intangible assets of \$238,720 was recorded into income statement in 2010. See note 14.

### 8. Goodwill and intangibles

Canadian GAAP – the goodwill and intangible assets acquired in business combinations were recorded as assets in the consolidated financial statements in the functional currency of the parent.

IFRS – such goodwill and intangible assets acquired must be recorded as assets of the acquirees in the functional currency of the acquirees.

As a result, the goodwill and intangible assets must be translated from the functional currency of the subsidiaries to the reporting currency of the Company that resulted into translation difference recorded into other comprehensive income. The carry value of goodwill was adjusted to \$6,291,947 as at March 31, 2011 (December 31, 2010 - \$6,393,635; January 1, 2010 - \$6,495,323) (note 13). The carrying value of intangibles was adjusted to \$20,268 as at March 31, 2011 (December 31, 2010 - \$26,880).

### 9. Non-controlling interest

Canadian GAAP – other comprehensive income resulting from translation of foreign operations are not attributed to non-controlling interest. Non-controlling interest are not included in equity. After tax income attributable for non-controlling interests are deducted from net income.

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## 22. Transition to IFRS (continued):

IFRS – other comprehensive income resulting from translation of foreign operations are proportionately attributed to non-controlling interest and non-controlling interests are included in equity. After tax income attributable to non-controlling interests are included in net income.

As a result, the non-controlling interests as at December 31, 2010 were adjusted to \$8,782,101 (January 1, 2010 - \$9,909,522).

### 10. Borrowing costs

Canadian GAAP - The Company can elect to expense borrowing costs incurred for qualified assets.

IFRS – Such borrow costs are required to be capitalized into the cost of the qualified assets. Applying this change has no material impact to the Company.

### 11. Investment property

Canadian GAAP – investment property is included in property, plant and equipment and recorded at costs less accumulated amortization and subject to impairment tests.

IFRS – investment property is presented separately from property, plant and equipment and is recorded at costs less accumulated amortization and impairment loss, or at fair value. The Company has selected to carry the investment property at costs method so there is no impact other than presentation separately.

### 12. Other

Deferred income taxes were adjusted due to the above adjustments under IFRS.

## Presentation Reclassifications

### 1. TAX RECLASSIFICATION

IFRS - All deferred tax assets and liabilities are classified as non-current.

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS.

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<b>MCVICAR INDUSTRIES INC.</b>						
<b>Reconciliation of Consolidated Statement of Financial Position as of January 1, 2010</b>						
(Expressed in Canadian dollars)						
Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts	
<b>Assets</b>					<b>Assets</b>	
Current assets					Current assets	
Cash and cash equivalents	6,864,021	-	-	6,864,021	Cash and cash equivalents	
Short-term investments	2,826,566	-	-	2,826,566	Short-term investments	
Accounts receivable	8,020,280	-	-	8,020,280	Accounts receivable	
Inventories	7,056,056	-	-	7,056,056	Inventories	
Due from related parties	916,776	-	-	916,776	Due from related parties	
Future tax assets - current	197,300	-	(197,300)	-		
Other current assets	867,398	-	-	867,398	Other current assets	
	26,748,397	-	(197,300)	26,551,097		
Restricted cash	1,447,143			1,447,143	Restricted cash	
Property, plant and equipment	11,601,782	(675,925)	-	10,925,857	Property, plant and equipment	
Intangible assets	491,080	24,494		515,574	Intangible assets	
Goodwill	7,143,728	(648,405)		6,495,323	Goodwill	
Future income tax asset - non-current	173,800	-	197,300	371,100	Deferred income tax asset	
	47,605,930	(1,299,836)	-	46,306,094		
<b>Liabilities</b>					<b>Liabilities</b>	
Current liabilities					Current liabilities	
Accounts payable and accrued liabilities	6,013,615	-	-	6,013,615	Accounts payable and accrued liabilities	
Short-term borrowings	2,776,871	-	-	2,776,871	Short-term borrowings	
Government compensation fund	1,053,107	(1,053,107)		-	Government compensation fund	
Income taxes payable	311,285	-	-	311,285	Income taxes payable	
Future taxes liabilities - current	650,039			-	Future taxes liabilities - current	
Due to related parties	-	-	-	-	Due to related parties	
	10,804,917	(1,053,107)	-	9,101,771		
Future income tax liability	-	94,297	650,039	744,336	Deferred income tax liability	
Non-controlling interest	9,882,647			-		
	20,687,564	(958,810)		9,846,107		
<b>Shareholders' equity</b>					<b>Shareholders' equity</b>	
Capital stock	26,052,375	-	-	26,052,375	Capital stock	
Warrants	1,483,048			1,483,048	Warrants	
Contributed surplus	1,130,284	-	-	1,130,284	Contributed surplus	
Accumulated other comprehensive income	36,508	(36,508)		-	Accumulated other comprehensive income	
Retained earnings	(1,783,849)	(331,393)		(2,115,242)	Retained earnings	
Equity to shareholders of the company	26,918,366	(367,901)	-	26,550,465		
Non-controlling interest	-	26,875		9,909,522	Non-controlling interest	
	26,918,366	(341,026)	-	36,459,987		
	47,605,930	(1,299,836)	-	46,306,094		



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<b>MCVICAR INDUSTRIES INC.</b>					
Unaudited interim consolidated income statement					
For the period ended March 31, 2010					
(Expressed in Canadian dollars)					
	Canadian				
Canadian GAAP accounts	GAAP	IFRS	IFRS	IFRS	IFRS accounts
	balance	adjustments	reclassifications	balance	
	\$	\$	\$	\$	
<b>Sales</b>	<b>8,724,050</b>			<b>8,724,050</b>	<b>Sales</b>
<b>Costs of goods sold</b>	<b>6,031,076</b>			<b>6,031,076</b>	<b>Costs of goods sold</b>
Gross profit	<b>2,692,974</b>	-	-	<b>2,692,974</b>	Gross profit
<b>Operating expenses</b>					<b>Operating expenses</b>
General and administrative	1,253,487	(35,020)		1,218,467	General and administrative
Amortization	217,639	22,195		239,834	Amortization
Loss on disposal of property, plant and equipment				-	Loss on disposal of property, plant and equipment
Impairment of intangible assets	-			-	Impairment of intangible assets
Foreign exchange loss	1,190	-		1,190	Foreign exchange loss
	<b>1,472,316</b>	<b>(12,825)</b>	-	<b>1,459,491</b>	
Operating income before the under noted	<b>1,220,658</b>	<b>12,825</b>	-	<b>1,233,483</b>	Operating income before the under noted
Other income	15,245			15,245	Other income
Gain on purchase of subsidiary shares	-	-		-	Interest income
Income from investment in associates	-			-	Income from investment in associates
Unrealized loss on short term investments	(27,223)	-		(27,223)	Unrealized loss on short term investments
Income before income taxes and non-controlling interest	<b>1,208,680</b>	<b>12,825</b>	-	<b>1,221,505</b>	Income before income taxes
Income taxes	(139,618)			(142,773)	Income taxes
Income before non-controlling interest	<b>1,069,062</b>			<b>1,078,732</b>	Net income
Non-controlling interest	(367,314)			369,809	Net income attributable to non-controlling interest
				<b>708,923</b>	Net income attributable to the shareholders
Net income	<b>701,748</b>	<b>12,825</b>	-	<b>1,078,732</b>	
Basic and diluted income per share	<b>0.020</b>			<b>0.021</b>	Basic and diluted income per share
Weighted average number of shares outstanding					Weighted average number of shares outstanding
Basic and diluted	<b>34,427,320</b>			<b>34,427,320</b>	Basic and diluted

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

<b>MCVICAR INDUSTRIES INC.</b>				
Unaudited interim consolidated statements of comprehensive income				
For the period ended March 31, 2010				
(Expressed in Canadian dollars)				
	Canadian			
Canadian GAAP accounts	GAAP	IFRS	IFRS	IFRS accounts
	balance	adjustments	balance	
	\$			
Net income for the period	<b>701,748</b>	376,984	<b>1,078,732</b>	Net income for the period
Other comprehensive loss (income)				Other comprehensive loss (income)
Loss on translation of foreign operations	<b>(898,912)</b>	(213,052)	<b>(1,111,964)</b>	Loss on translation of foreign operations
<b>Comprehensive income</b>	<b>(197,164)</b>	<b>163,932</b>	<b>(33,232)</b>	<b>Comprehensive income</b>
			125,857	Comprehensive income attributed to non-controlling interest
			(159,089)	Comprehensive loss attributed to shareholders
			<u>(33,232)</u>	

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

<b>MCVICAR INDUSTRIES INC.</b>					
<b>Reconciliation of Consolidated Statement of Financial Position as of March 31, 2010</b>					
(Expressed in Canadian dollars)					
Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
<b>Assets</b>					<b>Assets</b>
<b>Current assets</b>					<b>Current assets</b>
Cash and cash equivalents	9,072,591	-	-	9,072,591	Cash and cash equivalents
Short-term investments	1,862,442	-	-	1,862,442	Short-term investments
Accounts receivable	7,466,937	-	-	7,466,937	Accounts receivable
Inventories	7,682,391	-	-	7,682,391	Inventories
Due from related parties	77,720	-	-	77,720	Due from related parties
Future tax assets - current	-	-	-	-	
Other current assets	997,970	(18,505)	-	979,465	Other current assets
	27,160,051	(18,505)		27,141,546	
Restricted cash	1,190,400	-		1,190,400	Restricted cash
Due from related parties	-	-		-	Due from related parties
Investments in associates	-	-		-	Investments in associates
Property, plant and equipment	10,992,878	89,135	148,800	11,230,813	Property, plant and equipment
Intangible assets	562,051	10,706	(148,800)	423,957	Intangible assets
Goodwill	7,143,728	(839,070)		6,304,658	Goodwill
Future income tax asset - non-current	290,500	5,400	-	295,900	Deferred income tax asset
	47,339,608	(752,334)	-	46,587,274	
<b>Liabilities</b>					<b>Liabilities</b>
<b>Current liabilities</b>					<b>Current liabilities</b>
Accounts payable and accrued liabilities	6,721,713	-	-	6,721,713	Accounts payable and accrued liabilities
Short-term borrowings	2,380,800	-	-	2,380,800	Short-term borrowings
Government compensation fund	307,999	(307,999)		-	Government compensation fund
Income taxes payable	365,288	-	-	365,288	Income taxes payable
Future taxes liabilities - current	-	-	-	-	Future taxes liabilities - current
Due to related parties	-	-	-	-	Due to related parties
	9,775,800	(307,999)	-	9,467,801	
Future income tax liability	575,444	100,073	-	675,517	Deferred income tax liability
Non-controlling interest	10,249,961	-		-	
	20,601,205	(207,926)		10,143,318	
<b>Shareholders' equity</b>					<b>Shareholders' equity</b>
Capital stock	26,052,375	-	-	26,052,375	Capital stock
Warrants	1,483,048	-		1,483,048	Warrants
Contributed surplus	1,147,485	-	-	1,147,485	Contributed surplus
Accumulated other comprehensive income	(862,404)	(5,608)		(868,012)	Accumulated other comprehensive income
Retained earnings	(1,082,101)	(324,218)		(1,406,319)	Retained earnings
Equity to shareholders of the company	26,738,403	(329,826)	-	26,408,577	Equity to shareholders of the company
Non-controlling interest	-	(214,582)		10,035,379	Non-controlling interest
	26,738,403	(544,408)	-	36,443,956	
	47,339,608	(752,334)	-	46,587,274	

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

<b>MCVICAR INDUSTRIES INC.</b>					
Unaudited consolidated income statement					
For the year ended December 31, 2010					
(Expressed in Canadian dollars)					
	<b>Canadian</b>				
Canadian GAAP accounts	<b>GAAP</b>	IFRS	IFRS	IFRS	IFRS accounts
	<b>balance</b>	adjustments	Reclassifications	<b>balance</b>	
	\$	\$	\$	\$	
<b>Sales</b>	<b>33,461,148</b>	-		<b>33,461,148</b>	<b>Sales</b>
<b>Costs of goods sold</b>	<b>23,767,741</b>	-		<b>23,767,741</b>	<b>Costs of goods sold</b>
Gross profit	<b>9,693,407</b>	-	-	<b>9,693,407</b>	Gross profit
<b>Operating expenses</b>					<b>Operating expenses</b>
General and administrative	<b>5,561,891</b>	<b>246,919</b>		<b>5,808,810</b>	General and administrative
Amortization	<b>723,614</b>	<b>60,015</b>		<b>783,629</b>	Amortization
Loss on disposal of property, plant and equipment	<b>66,793</b>	-		<b>66,793</b>	Loss on disposal of property, plant and equipment
Impairment of intangible assets	<b>238,720</b>	-		<b>238,720</b>	Impairment of intangible assets
Foreign exchange loss	<b>70,517</b>	-		<b>70,517</b>	Foreign exchange loss
	<b>6,661,535</b>	<b>306,934</b>	-	<b>6,968,469</b>	
Operating income before the under noted	<b>3,031,872</b>	<b>(306,934)</b>	-	<b>2,724,938</b>	Operating income before the under noted
Other income	<b>135,138</b>	<b>194,124</b>		<b>329,262</b>	Other income
Gain on purchase of subsidiary shares	<b>301,103</b>	<b>(301,103)</b>		-	Interest income
Income from investment in associates	<b>124,616</b>	-		<b>124,616</b>	Income from investment in associates
Unrealized loss on short term investments	<b>(207,017)</b>	-		<b>(207,017)</b>	Unrealized loss on short term investments
Income before income taxes and non-controlling interest	<b>3,385,712</b>	<b>(413,913)</b>	-	<b>2,971,799</b>	Income before income taxes
Income taxes	<b>(91,087)</b>	<b>(3,908)</b>		<b>(94,995)</b>	Income taxes
Income before non-controlling interest	<b>3,294,625</b>	<b>(417,821)</b>		<b>2,876,804</b>	Net income
Non-controlling interest	<b>(1,348,409)</b>			<b>1,344,187</b>	Net income attributable to non-controlling interest
Net income	<b>1,946,216</b>			<b>2,876,804</b>	Net income attributable to shareholders
Basic and diluted income per share	<b>0.054</b>			<b>0.043</b>	Basic and diluted income per share
Weighted average number of shares outstanding					Weighted average number of shares outstanding
Basic and diluted	<b>35,890,334</b>			<b>35,980,334</b>	Basic and diluted

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

<b>MCVICAR INDUSTRIES INC.</b>				
Unaudited consolidated statements of comprehensive income				
For the year ended December 31, 2010				
(Expressed in Canadian dollars)				
	Canadian			
Canadian GAAP accounts	GAAP	IFRS	IFRS	IFRS accounts
	Balance	adjustments	balance	
	\$			
Net income for the period	1,946,216	930,588	2,876,804	Net income for the period
Other comprehensive loss (income)				Other comprehensive loss (income)
Loss on translation of foreign operations	(423,629)	(130,687)	(554,316)	Loss on translation of foreign operations
Comprehensive income	1,522,587	799,901	2,322,488	Comprehensive income
			1,154,937	Comprehensive income attributed to non-controlling interest
			1,167,551	Comprehensive loss attributed to shareholders
			<u>2,322,488</u>	

# McVICAR INDUSTRIES INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

For the three months ended March 31, 2011 and 2010

<b>MCVICAR INDUSTRIES INC.</b>						
Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010						
(Expressed in Canadian dollars)						
Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts	
<b>Assets</b>					<b>Assets</b>	
Current assets					Current assets	
Cash and cash equivalents	6,571,900	-	-	6,571,900	Cash and cash equivalents	
Short-term investments	2,896,962	-	-	2,896,962	Short-term investments	
Accounts receivable	8,885,840	-	-	8,885,840	Accounts receivable	
Inventories	7,176,163	-	-	7,176,163	Inventories	
Due from related parties	363,178	-	-	363,178	Due from related parties	
Future tax assets - current	353,500	-	(353,500)	-		
Other current assets	1,447,916	-	-	1,447,916	Other current assets	
	27,695,459	-	(353,500)	27,341,959		
Restricted cash	1,056,300			1,056,300	Restricted cash	
Due from related parties	1,079,081			1,079,081	Due from related parties	
Investments in associates	494,847			494,847	Investments in associates	
Property, plant and equipment	9,132,463	76,268	-	9,208,731	Property, plant and equipment	
Intangible assets	24,465	2,415		26,880	Intangible assets	
Goodwill	7,143,728	(750,093)		6,393,635	Goodwill	
Future income tax asset - non-current	377,900	(19,053)	353,500	712,347	Deferred income tax asset	
	47,004,243	(690,463)	-	46,313,780		
<b>Liabilities</b>					<b>Liabilities</b>	
Current liabilities					Current liabilities	
Accounts payable and accrued liabilities	3,908,535	-	-	3,908,536	Accounts payable and accrued liabilities	
Short-term borrowings	2,112,600	-	-	2,112,600	Short-term borrowings	
Government compensation fund	310,508	(310,508)		-	Government compensation fund	
Income taxes payable	250,776	-	-	250,776	Income taxes payable	
Future taxes liabilities - current	649,300	-	(649,300)	-	Future taxes liabilities - current	
Due to related parties	714,792	-	-	714,792	Due to related parties	
	7,946,511	(310,508)	(649,300)	6,986,704		
Future income tax liability	-	77,629	649,300	726,929	Deferred income tax liability	
Non-controlling interest	8,925,448	-	(8,925,448)	-		
	16,871,959	(232,879)	(8,925,448)	7,713,633		
<b>Shareholders' equity</b>					<b>Shareholders' equity</b>	
Capital stock	27,402,375	-	-	27,402,375	Capital stock	
Warrants	-			-	Warrants	
Contributed surplus	2,954,663	408,699	-	3,363,362	Contributed surplus	
Accumulated other comprehensive income	(387,121)	22,055	-	(365,066)	Accumulated other comprehensive income	
Retained earnings	162,367	(744,992)	-	(582,625)	Retained earnings	
Equity to shareholders of the company	30,132,284	(314,237)	-	29,818,046	Equity to shareholders of the company	
Non-controlling interest	-	(143,347)	8,925,448	8,782,101	Non-controlling interest	
	30,132,284	(457,584)	8,925,448	38,600,147		
	47,004,243	(690,463)	-	46,313,780		