

# **MCVICAR INDUSTRIES INC.**

Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

For the three and nine months ended September 30, 2009 and 2008

(Unaudited)

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

Under National Instrument 51-102, Part 4 subsection 4.3(3)(a), 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 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.

Kevin Ming Zhang  
CFO

November 25, 2009

**MeVICAR INDUSTRIES INC.**  
**Consolidated Balance Sheets**  
(Expressed in Canadian dollars)

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,577,435	\$ 6,764,070
Short term investments (note 4)	2,558,387	2,638,189
Restricted cash (note 5)	1,570,007	2,145,037
Accounts receivable	8,263,248	7,940,157
Inventories	6,790,301	7,945,635
Loans receivable from related parties (note 9)	1,033,717	361,040
Prepaid expenses, advances and deposits	881,926	1,177,358
Other receivable (note 7)	267,227	-
Asset held for sale (note 7)	-	733,935
	30,942,247	29,705,421
Construction in progress	1,060,963	649,761
Property, plant and equipment	7,702,630	9,927,737
Intangible assets	748,407	981,888
Future income tax asset	185,400	185,400
Goodwill	9,220,865	9,220,865
	\$49,860,512	\$ 50,671,072
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Loans payable (note 6)	\$ 35,405	\$ 206,651
Notes payable (note 5)	3,140,013	4,290,074
Accounts payable and accrued liabilities	5,539,323	5,745,346
Due to related parties (note 9)	370,522	761,084
Income tax payable	201,025	7,580
Government compensation reserve (note 13)	1,134,171	-
	\$10,420,459	\$ 11,010,735
Long term loans (note 6)	-	189,279
Future income taxes liability	560,886	635,468
	\$10,981,345	\$ 11,835,482
Non-controlling interest	8,732,313	9,960,738
<b>Shareholders' equity:</b>		
Capital stock (note 8a)	26,052,375	26,052,375
Warrants (note 8a)	1,483,048	1,483,048
Contributed surplus (note 8b)	1,121,739	1,067,281
	28,657,162	28,602,704
(Deficit) retained earning	(47,351)	(2,271,832)
Accumulated other comprehensive income (page 5)	1,537,043	2,543,980
	1,489,692	272,148
	30,146,854	28,874,852
	\$49,860,512	\$ 50,671,072

Commitments and contingencies (note 11)

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

Approved on behalf of the Board

"D. James Misener"  
\_\_\_\_\_  
Director

"Gang Chai"  
\_\_\_\_\_  
Director

**McVICAR INDUSTRIES INC.****Interim Consolidated Statements of Earnings**

(Expressed in Canadian dollars)

For three and nine months ended September 30, 2009 and 2008

(Unaudited)

	3 months ended		3 months ended		9 months ended		9 months ended	
	September 30,2009		September 30,2008		September 30,2009		September 30,2008	
Sales	\$	9,519,705	\$	9,538,670	\$	26,579,956	\$	28,879,551
Cost of goods sold		6,315,762		7,379,069		18,518,140		21,515,405
Gross profit		3,203,943		2,159,601		8,061,816		7,364,146
Expenses:								
General and administrative		1,424,081		1,254,098		4,479,034		4,090,315
Loss on disposal of property,plant and equipments		48,200		443		157,260		9,027
Amortisation on intangible assets		77,827		77,827		233,482		190,707
Loss on foreign exchange		151,362		32,739		214,060		124,064
Total operating expenses		1,701,470		1,365,107		5,083,836		4,414,113
Operating income		1,502,473		794,494		2,977,980		2,950,033
Other income		-		-		55,231		28,265
Investment income (loss)		643		-		118,126		(115,862)
Gain on disposal of equity investment (note 7)		-		145,730		254,190		145,730
Interest expense (income)		10,149		(14,300)		8,849		(70,517)
Income before income taxes and								
Non-controlling interest		1,513,265		925,924		3,414,376		2,937,649
Income taxes-current		189,762		53,836		453,303		295,123
Income taxes-future		27,799		(23,800)		11,156		(66,256)
Total income taxes		217,561		30,036		464,459		228,867
Non-controlling interest		416,773		121,918		725,436		1,294,308
Net earnings for period	\$	878,931	\$	773,970	\$	2,224,481	\$	1,414,474
Retained earnings (deficit), beginning of period	\$	(926,282)	\$	1,425,310	\$	(2,271,832)	\$	784,806
Retained earnings(deficit), end of period	\$	(47,351)	\$	2,199,280	\$	(47,351)	\$	2,199,280
Earnings per share:								
Basic	\$	0.03	\$	0.02	\$	0.06	\$	0.05
Diluted	\$	0.03	\$	0.02	\$	0.06	\$	0.05
Weighted average number of shares outstanding:								
Basic		34,427,320		32,889,553		34,427,320		29,163,632
Diluted		34,427,320		32,889,553		34,427,320		29,163,632

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

**McVICAR INDUSTRIES INC.****Interim Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)

For three and nine months ended September 30, 2009 and 2008

(Unaudited)

	3 months ended		3 months ended		9 months ended		9 months ended	
	September 30,2009		September 30,2008		September 30,2009		September 30,2008	
<b>Cash provided by (used in):</b>								
<b>Operating activities:</b>								
Net income for period	\$	878,931	\$	773,970	\$	2,224,481	\$	1,414,474
Add: Items not affecting cash:								
Amortisation		568,939		292,685		1,465,658		946,982
Loss on disposal of property, plant and equipment		48,200		443		157,260		33,973
Future income taxes		27,799		(23,800)		11,156		(66,256)
Non-controlling interest		416,773		121,918		725,436		1,294,308
Stock-based compensation		17,583		63,731		112,056		318,385
Gain on disposal of equity investment (note 7)		-		(145,730)		(254,190)		(145,730)
Investment (income) loss		214		-		(117,269)		116,065
Change in non-cash items from operations (note 10)		(1,484,091)		352,172		574,305		(3,778,897)
Net cash provided by (used in) operating activities		474,348		1,435,389		4,898,893		133,304
<b>Financing activities:</b>								
Proceeds (repayment) of notes payable		1,060,292		(196,558)		(800,571)		677,310
Proceeds (repayment) from loans		(338,775)		(44,860)		(678,498)		703,163
Proceeds from subsidiary share issuance		-		76,048		-		76,048
Issuance of capital stock for cash		-		-		-		3,888,539
Proceeds from government compensation on moving (note 13)		-		-		1,235,977		-
Net cash provided by (used in) financing activities		721,517		(165,370)		(243,092)		5,345,060
<b>Investing activities:</b>								
Business acquisitions (net of cash and cash equivalents acquired) (note 7)		-		-		(40,000)		(487,395)
Short term investment		(365,330)		750,000		73,227		(3,530,859)
Proceeds on disposal of equity investment		623,528		-		623,528		-
Loans receivable from related parties		(786,169)		-		(695,089)		-
Purchase of property, plant and equipment		(539,643)		(639,248)		(796,584)		(1,548,009)
Net cash provided by (used in) investing activities		(1,067,614)		110,752		(834,918)		(5,566,263)
Effect of exchange rate changes on cash and cash equivalents:		(618,429)		324,674		(1,007,518)		749,373
<b>Net change in cash and cash equivalents</b>		<b>(490,178)</b>		<b>1,705,445</b>		<b>2,813,365</b>		<b>661,474</b>
Cash and cash equivalents, beginning of period		10,067,613		3,848,211		6,764,070		4,892,181
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>9,577,435</b>	<b>\$</b>	<b>5,553,656</b>	<b>\$</b>	<b>9,577,435</b>	<b>\$</b>	<b>5,553,656</b>

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

**McVICAR INDUSTRIES INC.****Interim Consolidated Statements of Other Comprehensive Income**

(Expressed in Canadian dollars)

For three and nine months ended September 30, 2009 and 2008

(Unaudited)

	<b>3 months ended</b>	<b>3 months ended</b>	<b>9 months ended</b>	<b>9 months ended</b>
	<b>September 30,2009</b>	<b>September 30,2008</b>	<b>September 30,2009</b>	<b>September 30,2008</b>
Net income	\$ 878,931	\$ 250,630	\$ 2,224,481	\$ 3,173,378
Other Comprehensive Income				
unrealized income (loss) on translating financial				
statements of self-sustaining subsidiaries	(350,604)	(332,214)	(1,006,937)	(649,703)
<b>Total Comprehensive Income (loss)</b>	<b>\$ 528,327</b>	<b>\$ (81,584)</b>	<b>\$ 1,217,544</b>	<b>\$ 2,523,675</b>

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

---

McVicar Industries Inc. (the "Company" or "McVicar"), formerly McVicar Resources Inc., was incorporated under the Business Corporations Act (Ontario) on February 19, 2003.

The Company holds a 90.5% interest in its Hong Kong subsidiary McVicar (Hong Kong) Advanced Materials Co. Ltd. ("MAM"), and a 48.6% (2008 - 47.5%) interest in a Canadian publicly listed company JITE Technologies Inc. ("JITE"). The Company is now operating in two different segments:

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

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

### 1. Basis of presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and follow the same accounting policies as set out in Note 2 to the financial statements for the year ended December 31, 2008 except as noted below. These financial statements do not contain all disclosures required by Canadian GAAP and should be read in conjunction with the most recently audited annual financial statements for the year ended December 31, 2008. All amounts in these financial statements are in Canadian dollars unless indicated with a "RMB" to represent the Chinese Renminbi. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

### 2. Change in accounting policies

#### Goodwill and intangible assets

Effective January 1, 2009, the Company adopted new accounting standards issued by CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the Company's financial statements.

### 3. Future accounting changes

#### International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board has announced that Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial Consolidated Financial Statements under IFRS, including comparative information, not later than for the quarter ended March 31, 2011, and will keep monitoring and assessing the impact of the convergence of Canadian GAAP and IFRS.

#### Financial Instruments

On May 29, 2009, the CICA Accounting Standards Board issued amendments to CICA 3862, Financial Instruments-Disclosures. The amendments require all financial instruments measured at fair value to be classified into one of three levels that reflects the significance of the inputs used in making the measurements as defined in the standard. In addition, the amendments require enhanced disclosure regarding the liquidity risk arising from financial instruments to which an entity is exposed. The amendments are applicable for years ending after September 30, 2009. The Company will include these disclosures in its annual consolidated financial statements for the year ending December 31, 2009. The adoption of this standard is not expected to affect the amounts reported in the Company's Consolidated Financial Statements, but will result in enhanced and increased disclosure.

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 4. Short-term investments:

Short-term investments consist of investments classified as held-for-trading and measured at fair value, which include the following amounts.

	September 30, 2009	December 31, 2008
GIC	\$ 1,593,475	\$ 1,776,589
In various shares	964,912	861,600
	\$ 2,558,387	\$ 2,638,189

Interest rates on the Guaranteed Investment Certificates (GIC), held at a major Canadian chartered bank, range from prime rate minus 2.25% to 1.9% and maturing within one year from acquisition. Investments in various shares have a face value of \$964,075 and fair value of \$964,912 as at September 30, 2009.

Included in various shares is approximately \$753,600 (4,800,000 RMB) Jite Shenzhen's short-term investment in China stock market. In 2008, Jite Shenzhen engaged a consulting company that is controlled by a director of JITE to manage this short-term investment. Pursuant to the terms of agreement, the consulting company will guarantee the principal amount of the investment and will be compensated 20% of any net gains in the portfolio when realized. The agreement can be cancelled by either party on three months notice. There is no agreed time period within which the related company has to pay any shortfall of the principal amount invested; therefore the amount of the guarantee is subject to measurement uncertainty. The principal amount of the investment was approximately \$753,600 (4,800,000 RMB)(December 31, 2008 –\$861,600 (4,800,000 RMB)), and the market value based on quoted prices as at September 30,2009 was \$716,498 (4,563,683 RMB) (September 30, 2008 – \$465,357(3,006,181 RMB)). The unrealized investment loss was approximately \$37,102(236,317 RMB) (September 30, 2008 – \$273,139(1,793,819 RMB)).

### 5. Notes payable

During the first nine months of 2009, Hongbo, a subsidiary of the Company, renewed its credit facility with China local bank for a total amount of 20 million RMB, in replacement of an existing total amount of 20.9 million RMB credit facilities due to part of that facility or 14 million RMB expired on April 11, 2009. A portion of the renewed credit facilities, representing 11.5 million RMB, will be secured by Hongbo's real estate, and the remaining amount of 8.5 million RMB will be guaranteed by an independent company, for which Hongbo provided a guarantee for the same amount.

The renewed credit facility continues to permit the issuance of notes payable up to the maximum book value of 40 million RMB, half of such notes issued (maximum of 20 million RMB) must be deposited in the bank. As at September 30, 2009, Hongbo had utilized approximately \$1.6 million (10 million RMB) of the facilities by issuing \$3.1 million (20 million RMB) in the form of notes payable, accordingly, approximately \$1.6 million (10 million RMB) or half the amount of notes payable issued has been reflected as restricted cash in the consolidated balance sheets.

### 6. Loans payable

The loans payable of 225,510 RMB (\$35,405 CDN) is owed by JITE for its equipment financing. The loan bears an effective interest rate of 10.7% per annum with blended monthly principal and interest payments of 38,620 RMB (\$6,205 CDN), and was secured by equipment with a net book value of 2,068,030 RMB (\$381,344 CDN).

Total interest payable for the period ended September 30, 2009 was \$737 (September 30, 2008 – \$9,167).



# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

---

### 7. Acquisitions and divestiture

#### Acquisitions

(a) January 7, 2009, the Company announced that MAM, a 90.5%-owned subsidiary, reached an agreement with Sanlong Holdings Co. Ltd. ("Sanlong") to exchange Sanlong's 9.5% equity interest in MAM for a 38% equity interest in Changlong, MAM's subsidiary. Upon closing of the transaction, McVicar's interest in MAM will increase from the existing 90.5% to 100% while MAM's interest (and thereby McVicar's) in Changlong will decrease to 62%. Subject to regulatory approval, the transaction is expected to close in 2009.

(b) During the first quarter of 2009, the Company accumulatively purchased 237,500 of JITE's shares for cash consideration of \$40,000, representing 1.1 % of its public listed shares, through the open market, as a result, the Company's interest in JITE was increased to 48.6% from 47.5%, and the minority interest was reduced by \$40,000.

(c) On August 14, 2009, Jite signed a purchase agreement to acquire 56 acres of land with 17,642 square meters of existing buildings in Kunshan Economic and Technological Development Zone, Jiangsu Province, China. A plant on the site is being purchased from Kunshan Jicheng Precision Components Co., Ltd. for a total consideration of RMB 28 million (approximately \$4.7 million CDN) in cash. Jite intends to use the purchased land to relocate its existing plant in Shenzhen, which was rented since 2006.

Kunshan Economic and Technological Development Zone, located to the Northwest of Shanghai City, was approved as a state-level economic development zone in August 1992. It is one of the largest electronic manufacturing bases in China. There were several reasons for Jite's intention to move its present Shenzhen plant to Kunshan, including that Kunshan is close to most of the suppliers and the representative offices of existing and potential customers. The new plant can accommodate all the operations of the old plant with additional room for expansion, and the purchase will be financed by cash on hand.

During the third quarter, 2.8 million RMB (approximately \$0.4 million CDN) was paid towards the purchase of Kunshan building, which is included in Construction in Progress in the Consolidated Balance Sheets. (See Note 14 subsequent events for more information).

#### Divestiture

On June 9, 2009, the Company obtained Chinese government approval for withdrawal of its 27% equity interest in Sino Lion Nanjing Ltd., ("Sino Lion") in Jiangsu province, China. The withdrawal agreement, valued at US \$850,000 in cash, was initially signed on October 2, 2008 with Ascend Technologies Ltd., a holding company controlled by one of the directors of Sino Lion (USA) Ltd. For the nine months ended September 30, 2009, the Company did not recognize its share of its operating income (September 30, 2008 —loss of \$115,862), and recognized the \$254,190 gain on divestiture in the consolidated statements of earnings.

This 27% equity investment was made in 2006 for a total consideration of \$1,000,000 USD in cash. The reason to divest this investment was mainly due to the fact that Sino Lion had not been able to achieve its expected results, and incurred significant operating loss since its inception of operation, as a result of its potential major customer delaying its major orders indefinitely. This disposal has no material impact on the other chemical businesses which the Company currently owns or controls.

During this quarter, proceeds amounting to 4.1 million RMB (approximately \$0.7 million CDN) or 80% proceeds from divestiture were received, and the remaining balance of approximately \$0.27 million CDN is expected to be received before the end of 2009.

# McVICAR INDUSTRIES INC.

**Notes to the Interim Consolidated Financial Statements**  
 (Expressed in Canadian dollars, unless otherwise indicated)  
 Three and nine months ended September 30, 2009 and 2008

## 8. Share capital

### (a) Authorized

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, 2007	26,006,463	17,178,952
Private placement	2,314,057	3,239,680
Valuation of warrants	-	(525,049)
Less: Share issue costs		(380,595)
Private placement	5,239,800	5,501,790
Options exercised	260,000	195,000
Allocation from options	-	43,763
Warrants exercised	607,000	758,750
Allocation from warrants	-	40,084
Balance, December 31, 2008	34,427,320	\$ 26,052,375
Balance, September 30, 2009	34,427,320	\$ 26,052,375

The Company has issued warrants as follows:

	Number of warrants	Amount
Balance, December 31, 2007	2,322,000	140,905
Private placement	1,288,014	600,753
Private placement	2,619,900	882,295
Exercised	(607,000)	(40,084)
Expired	(1,715,000)	(100,821)
Balance, December 31, 2008	3,907,914	\$ 1,483,048
Balance, September 30, 2009	3,907,914	\$ 1,483,048

### (b) Contributed surplus

Balance, December 31, 2007	\$	512,294
Stock based compensation		318,517
Stock options exercised		(43,763)
Warrants expired		100,821
Share of stock-based compensation expense in subsidiary		179,412
Balance, December 31, 2008	\$	1,067,281
Share of stock-based compensation expense in subsidiary		54,458
Balance, September 30, 2009	\$	1,121,739

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 8. Share capital (continued)

#### (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.

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

	Options Outstanding	Weighted average exercise price
Options outstanding, December 31, 2006	1,095,000	\$ 0.75
Granted	210,000	0.75
Granted	190,000	1.10
Exercised	(410,000)	0.75
Options outstanding, December 31, 2007	1,085,000	0.81
Exercised	(260,000)	\$ 0.75
Expired	(150,000)	0.75
Granted	1,175,000	1.10
Options outstanding, December 31, 2008	1,495,000	\$ 1.10
Expired	(130,000)	\$ 0.75
Expired	(355,000)	\$ 1.10
Options outstanding, September 30, 2009	1,010,000	\$ 1.10

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

The following table summarizes information about the options outstanding and exercisable at June 30, 2009:

Exercise Prices	Options outstanding		Options exercisable		
	Outstanding number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Remaining contractual life
\$ 1.10	1,010,000	4.00	\$1.10	1,010,000	4.00 years

#### (d) Warrants

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

	Warrants Outstanding and exercisable	Weighted-Average Exercise price
Warrants outstanding, December 31, 2006	2,340,000	\$1.40
Exercised	(18,000)	1.25
Warrants outstanding, December 31, 2007	2,322,000	\$1.40
Exercised	(607,000)	1.25
Expired	(1,175,000)	1.38
Issued	3,907,914	1.83
Warrants outstanding, December 31, 2008	3,907,914	\$1.83
Warrants outstanding, September 30, 2009	3,907,914	\$1.83

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 8. Share capital (continued)

The following table summarizes information about the warrants outstanding at September 30, 2009:

	Warrants Outstanding and exercisable	Remaining contractual life
\$1.85	2,619,900	0.83 years
\$1.85	1,157,030	0.66 years
\$1.40	130,984	0.66 years
Warrants outstanding, September 30, 2009	3,907,914	0.77 years

### 9. Related parties transactions:

Included in accrued liabilities is \$50,000 (December 31, 2008- \$50,000) payable to GC Consulting & Investment Corp., a company controlled by a director of the Company for consulting fees charged in 2008.

As at September 30, 2009, there were employee loans outstanding in the amount of \$102,913 (December 31, 2008 – 91,089). These loans were advanced to the officers of the Company and non-interest bearing. The repayment period is one year and repayment is satisfied by monthly salary deduction.

Due to related parties of \$370,522 (2.36 million RMB) (December 31, 2008 – \$761,084 (4 million RMB)), was advanced by individuals related to a key management official and director of the Company. The loan bears interest at 6% per annum and is unsecured, repayable on demand, and has no fixed terms of repayment. Total interest paid and payable for the nine months periods ended September 30, 2009 was \$20,569 (September 30, 2008 – \$9,200).

Loan receivable from related parties is approximately \$1 million, of which \$248,714 (1.5 million RMB) (December 31, 2008 – \$361,040 (2 million RMB)) was initially advanced to an officer of a Company's subsidiary on October 31, 2007 with a fixed interest rate of 5% per annum and being mature within six months. On maturity, the loan was extended by another six months with the term unchanged, and then got another one-year extension with the maturity being on October 31, 2009. Pursuant to the extended agreement, the annual interest rate was raised to 6% from 5%, and 500,000 RMB (\$91,080) of the principal of the loan was paid in the first quarter of 2009. Total interest received and receivable for the nine months ended September 30, 2009 was \$3,532 (September 30, 2008 – \$3,802). Of which another approximately \$0.8 million CDN (5 million RMB) was a six-month term loan to a company, which is controlled by a director of the Company's subsidiary in China. This term loan is unsecured, non-interest bearing and will mature on January 1, 2010.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 10. Supplementary cash flow information:

Change in non-cash items from operations for three months ended September 30, 2009 and 2008.

	Three months ended September 30,	
	2009	2008
(Increase) in restricted cash	\$ (429,659)	\$ (204,754)
(Increase) decrease in accounts receivable	(1,401,256)	2,057,193
(Increase) in prepaid expenses, deposits and other receivables	(275,348)	(243,324)
(Increase) in inventories	(240,714)	(624,867)
Increase (decrease) in accounts payable and accrued liabilities	862,886	(632,076)
	<b>\$ (1,484,091)</b>	<b>\$ 352,172</b>

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 10. Supplementary cash flow information (continued):

Change in non-cash items from operations for nine months ended September 30, 2009 and 2008.

	Nine months ended September 30,	
	2009	2008
Decrease (Increase) in restricted cash	\$ 575,030	\$ (493,149)
(Increase) decrease in accounts receivable	(650,671)	303,556
(Increase) in prepaid expenses, deposits and other receivables	(255,358)	(473,155)
Decrease (increase) in inventories	266,026	(457,188)
Increase (decrease) increase in accounts payable and accrued liabilities	639,278	(2,658,961)
	<b>\$ 574,305</b>	<b>\$ (3,778,897)</b>

### 11. Commitment 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 are as follows:

	McVicar	JITE	Total
2009	\$ 21,356	\$ 171,149	\$ 192,505
2010	64,067	685,602	749,669
2011	-	688,772	688,772
2012	-	692,195	692,195
2013 and after	-	2,497,260	2,497,260
	<b>\$85,423</b>	<b>\$ 4,734,978</b>	<b>\$ 4,820,401</b>

#### (b) Legal proceedings

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 some of the more significant legal matters involving the Company.

The Company's subsidiary, Xiangshui Luyuan Chemical Co., Ltd., was a defendant in collective lawsuits, filed by external parties which requested to return loans that were allegedly borrowed by Luyuan before being acquired by Hongbo in April 2008. As of September 30, 2009, the total amounts in connection with these legal proceedings was approximately 4,000,000 RMB (approximately \$680,000), including principal and unpaid accrued interest. It is possible that additional claims against Luyuan could come up.

In response to these lawsuits, Luyuan had filed appeals, and it has a strong defence to all these claims based on the purchase agreement signed by Hongbo and the previous shareholder, who, as an existing minority shareholder and current co-defendant in these lawsuits, guaranteed all the existing and any contingent liabilities incurred prior to acquisition.

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

---

### 11. Commitment and contingencies(continued):

During the third quarter, Xiangshui District Court ruled against Luyuan. Luyuan filed appeals against these decisions. Xiangshui Appeals Court ruled to uphold the decision of the lower court and ordered Luyuan to pay back the loans allegedly borrowed by Luyuan prior to acquisition.

In July 2009, the Company decided to temporarily suspend Luyuan's operations, partly to discourage individual claims for repayment of any loans allegedly borrowed by Luyuan subsequent to the court ruling, and partly due to the fall in demands of Luyuan's products. The Company is negotiating with the plaintiffs trying to reach a collective settlement plan. The resumption of Luyuan's operations will depend in part on how well and when these liabilities are settled.

As previously reported in the fourth quarter of fiscal 2008, the Company established a provision of 600,000 RMB (approximately \$100,000) related to these legal proceedings, and an additional provision in the amount of 2,400,000 RMB (approximately \$400,000) was provided for the first nine months of 2009, which reflects the developments in connection with these legal proceedings during the year. Additional expenses and provisions may need to be recorded in the future in connection with these legal proceedings.

#### (c) Guarantee

The Company's subsidiary, Hongbo has made a guarantee to a bank of 5 million RMB (approximately \$0.9 million) for an independent company, in exchange for guarantee for its line of credit for the same amount. The guarantee is valid until January 31, 2010.

### 12. Segmented information

The Company currently operates in two segments: technical products and chemical products segments in Canada, China and Hong Kong. The technical products segment principally involves research, development and production of electronic connection devices for use in elevators, railways, security, and automation systems. The chemical products segment principally involves research, development and production of specialized fine chemical products used in the pharmaceutical and cosmetic industries.

Each segment operates as a strategic business unit under 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:

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 12. Segmented information (continued)

#### (a) Segmented information:

For the three months ended September 30, 2009 (in thousand of dollars):

	Chemical products	Technical products	Corporate	Total
Revenue	\$ 5,214	\$ 4,306	\$ -	\$ 9,520
Gross profit:	1,666	1,538		3,204
Operating expenses	(672)	(805)	(225)	(1,701)
Operating income (loss)	994	734	(225)	1,502
Other income	-	-	-	-
Investment income	-	-	-	1
Gain on disposal of equity investment	-	-	-	-
Interest expenses	-	-	-	10
Income tax expenses	-	-	-	(218)
Non-controlling interest	-	-	-	(417)
Net income:	-	-	-	879
Tangible assets	18,910	18,566	2,415	39,891
Intangible assets	538	210	-	748
Goodwill	4,442	4,779	-	9,221
<b>Total assets:</b>	<b>\$ 23,890</b>	<b>\$ 23,555</b>	<b>\$ 2,415</b>	<b>\$ 49,861</b>

For the three months ended September 30, 2008 (in thousand of dollars):

	Chemical products	Technical products	Corporate	Total
Revenue	\$ 5,200	\$ 4,339	\$ -	\$ 9,539
Gross profit:	1,338	822	-	2,160
Operating expenses	(479)	(782)	(105)	(1,365)
Operating income (loss)	859	40	(105)	784
Other income	-	-	-	-
Share of income (loss) of equity investment	-	-	-	-
Gain on disposal of equity investment (subsidiary)	-	-	-	146
Interest expense	-	-	-	(14)
Income tax expenses	-	-	-	(30)
Non-controlling interest	-	-	-	(122)
Net income:	-	-	-	774
Tangible assets	19,887	15,712	3,741	39,340
Intangible assets	733	325	-	1,058
Goodwill	6,029	4,779	-	10,808
<b>Total assets:</b>	<b>\$ 26,648</b>	<b>\$ 20,815</b>	<b>\$ 3,741</b>	<b>\$ 51,205</b>

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 12. Segmented information (continued)

For the nine months ended September 30, 2009 (in thousand of dollars):

	Chemical products	Technical products	Corporate	Total
Revenue	\$ 14,740	\$ 11,840	\$ -	\$ 26,580
Gross profit:	4,314	3,748		8,062
Operating expenses	(2,122)	(2,457)	(505)	(5,084)
Operating income (loss)	2,192	1,291	(505)	2,978
Other income	-	-	-	55
Investment income	-	-	-	118
Gain on disposal of equity investment (subsidiary)	-	-	-	254
Interest expense	-	-	-	9
Income tax expenses	-	-	-	(464)
Non-controlling interest	-	-	-	(725)
Net income:	-	-	-	2,224
<b>Total assets:</b>	<b>\$ 23,890</b>	<b>\$ 23,555</b>	<b>\$ 2,415</b>	<b>\$ 49,861</b>

For the nine months ended September 30, 2008 (in thousand of dollars):

	Chemical products	Technical products	Corporate	Total
Revenue	\$ 15,658	\$ 13,222	\$ -	\$ 28,880
Gross profit:	4,685	2,679	-	7,364
Operating expenses	(1,322)	(2,654)	(438)	(4,414)
Operating income (loss)	3,363	25	(438)	2,950
Other income	-	-	-	28
Share of income (loss) of equity investment	-	-	-	(116)
Gain on disposal of equity investment (subsidiary)	-	-	-	146
Interest expenses	-	-	-	(70)
Income tax expenses	-	-	-	(229)
Non-controlling interest	-	-	-	(1,294)
Net income:	-	-	-	1,414
<b>Total assets:</b>	<b>\$ 26,648</b>	<b>\$ 20,815</b>	<b>\$ 3,741</b>	<b>\$ 51,205</b>



# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

### 12. Segmented information (continued)

#### (b) Sales by geographic area consisted of the following:

For the three months ended September 30, 2009 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 721	\$ 628	\$ 7,936	\$ 235	\$ 9,520
Total assets:	\$ 9,924	-	\$ 39,937	-	\$ 49,861
Property, plant and equipment:	\$ 30	-	\$ 7,673	-	\$ 7,703

For the three months ended September 30, 2008 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 735	\$ 688	\$ 7,956	\$ 160	\$ 9,539
Total assets:	\$ 9,441	-	\$ 41,764	-	\$ 51,205
Property, plant and equipment:	\$ 36	-	\$ 8,802	-	\$ 8,838

For the nine months ended September 30, 2009 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 2,240	\$ 2,026	\$ 21,790	\$ 524	\$ 26,580
Total assets:	\$ 9,924	-	\$ 39,937	-	\$ 49,861
Property, plant and equipment:	\$ 30	-	\$ 7,673	-	\$ 7,703

For the nine months ended September 30, 2008 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 1,970	\$ 2,108	\$ 24,246	\$ 556	\$ 28,880
Total assets:	\$ 9,441	-	\$ 41,764	-	\$ 51,205
Property, plant and equipment:	\$ 36	-	\$ 8,802	-	\$ 8,838

# McVICAR INDUSTRIES INC.

## Notes to the Interim Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise indicated)

Three and nine months ended September 30, 2009 and 2008

---

### 13. Pending relocation of Changlong plant

During the first nine months of 2009, Changlong, a subsidiary of the Company, reached an agreement in principal with Longshan Chemical Co., Ltd. ("Longshan"), on its factory relocation plan. Changlong's current location will be expropriated by the local government due to its local government municipal development requirements. Changlong, along with Longshan who currently owns the land rights which Changlong leases, will be moved to a new location granted by the government, which is located in Linjiang Industrial Development Park in Hangzhou, Zhejiang Province. Changlong would receive compensation from the government for all of its moving costs, including any losses on the disposal of existing buildings and equipment.

Longshan, as a landlord of the current location, was the principal recipient of the government compensation funds, from whom Changlong would indirectly receive government compensation. As a result, the agreement reached by Changlong and Longshan includes in principal the time schedule on moving, the amount of government compensation fund attributed to Changlong and future leasing relationship on the new location, etc.. Pursuant to the agreement, the total amount of government compensation fund attributed to Changlong was 8,508,614 RMB (approximately \$1.45 million CDN), 49% higher than its net book value of 5.7 million RMB (approximately \$1 million CDN) of fixed assets as at the date of the agreement, and 85% or 7,232,322 RMB (approximately \$1.23 million CDN) was paid upon the signing the agreement as presented in government compensation reserve in the Consolidated Balance Sheets, and the remaining 15% or 1,276,292 RMB (approximately \$0.21 million CDN) will be paid after the completion of moving. Changlong' share of government compensation fund was mainly calculated based on an official valuation report on the assets of Changlong, and no provision or impairments on its long-lived assets were recognized.

During the third quarter of 2009, Changlong reached a ten-year building lease agreement with Longshan on the term and rental at the new site. Pursuant to the lease agreement, the building will be built, owned by Longshan, and then rented to Changlong for ten years starting from January 1, 2010 to December 31, 2019. The annual rental will be 680,000 RMB (approximately \$0.11 million CDN) for the first three years. In subsequent years, the rental will be subject to inflation rate adjustment up to a maximum rate of 10% every three years. The exact adjustment rate would be ultimately determined by actual inflation rate in the future in Hangzhou, China.

The preparations and constructing work at the new location are proceeding on schedule. In order to cope with the challenges on the moving, especially to minimize possible shortage on inventories caused by production cuts during moving period, local managements have taken measures, which include increase in production capacity by leasing existing equipments from Longshan, increase in working time, raising product sale price and more.

It is expected that the pending relocation would be completed in the first half year of 2010.

### 14. Subsequent events

Subsequent to the quarter end, Jite registered its wholly-owned subsidiary of Kunshan plant in Jiangsu province, China. The total registered capital for Kunshan plant was \$20 million USD, of which 20% or \$4 million USD for its first phase registered capital has been fully injected, accordingly, the remaining balance amounting to 25.2 million RMB (approximately \$3.9 million CDN) was paid in connection with the purchase of building at Kunshan plant. The Company is working on the development of an optimal strategic expansion plan for Kunshan plant. The expectation is that the resulting expansion plan will not only both keep existing business operation steady and minimize capital expenditure in the short term, but also fit the Company's business growth strategy in the long run.

### 15. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform to the presentation of financial statements adopted for 2009. The changes do not affect prior year's earnings.