# Sigma Industries Inc.

Consolidated Financial Statements
**April 25, 2009 and April 26, 2008**

PricewaterhouseCoopers

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
Chartered Accountants
Place de la Cité, Tour Cominar
2640 Laurier Boulevard, Suite 1700
Québec, Quebec
Canada G1V 5C2
Telephone +1 418 522 7001
Facsimile +1 418 522 5663

## Auditors' Report

**To the Shareholders of**
**Sigma Industries Inc.**

We have audited the consolidated balance sheets of **Sigma Industries Inc.** as at April 25, 2009 and April 26, 2008 and the consolidated statements of earnings, retained earnings, comprehensive loss, accumulated other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 25, 2009 and April 26, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP[1]

Quebec, Quebec, Canada
August 17, 2009

[1] Chartered accountant auditor permit No. 7871



"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

# Sigma Industries Inc.

Consolidated Balance Sheets

**As at April 25, 2009 and April 26, 2008**

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 3,411 | 652,993 |
| Short-term investment | - | 55,620 |
| Accounts receivable (note 8) | 7,462,068 | 11,813,479 |
| Income taxes receivable | 544,775 | 473,056 |
| Inventories (notes 5 and 8) | 8,103,254 | 8,178,156 |
| Derivative foreign currency forward contracts | 73,003 | 106,988 |
| Prepaid expenses | 185,165 | 872,865 |
| Future income tax assets (note 16) | 602,776 | 151,848 |
| | 16,974,452 | 22,305,005 |
| **Property, plant and equipment** (notes 6, 8 and 9) | 22,495,157 | 23,174,960 |
| **Deferred charges**, at cost less accumulated amortization of $186,680 in 2008 | - | 48,197 |
| **Intangible assets** (notes 7 and 8) | 5,014,697 | 7,597,478 |
| **Future income tax assets** (note 16) | 423,441 | 1 423 223 |
| **Goodwill** (note 13c) | 1,650,256 | 2,486,389 |
| | 46,558,003 | 57,035,252 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank loans (notes 8 and 9) | 3,451,883 | - |
| Accounts payable and accrued liabilities | 8,363,034 | 10,849,413 |
| Deferred revenues | 629,907 | 127,582 |
| Derivative foreign currency forward contracts | 189,589 | - |
| Income taxes | 1,546,464 | 2,046,245 |
| Current portion of long-term debt | 1,048,928 | 4,968,430 |
| | 15,229,805 | 17,991,670 |
| **Long-term debt** (note 9) | 20,787,627 | 14,675,077 |
| **Future income tax liabilities** (note 16) | 909,111 | 4,055,112 |
| | 36,926,543 | 36,721,859 |
| **Shareholders' Equity** | | |
| **Share capital** (note 10) | 13,125,309 | 13,125,309 |
| **Stock options** (note 10) | 347,831 | 415,508 |
| **Warrants** (note 10) | 962,086 | 2,236,328 |
| **Contributed surplus** (note 10) | 1,732,926 | 374,188 |
| **Retained earnings (deficit)** | (5,899,035) | 4,168,312 |
| **Accumulated other comprehensive loss** | (637,657) | (6,252) |
| | 9,631,460 | 20,313,393 |
| | 46,558,003 | 57,035,252 |
| **Commitments and contingencies** (notes 21 and 22) | | |

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



**Approved by the Board of Directors**

*(s) Denis Bertrand* Director (s) Bruno Doyon Director

# Sigma Industries Inc.

Consolidated Statements of Retained Earnings (Deficit), Comprehensive Loss and Accumulated Other Comprehensive Loss

**For the years ended April 25, 2009 and April 26, 2008**

| **Retained Earnings (Deficit)** | **2009**<br>**$** | **2008**<br>**$** |
|---|---|---|
| **Balance – Beginning of year** | 4,168,312 | 4,744,152 |
| Adjustment related to the implementation of a new accounting standard on financial instruments | - | 16,035 |
| Deferment of the expiry date of warrants issued as part of the private placement completed in May 2006 | - | (41,707) |
| Net loss for the year | (10,067,347) | (550,438) |
| **Balance – End of year** | (5,899,035) | 4,168,312 |

| **Comprehensive Loss** | **2009**<br>**$** | **2008**<br>**$** |
|---|---|---|
| **Net loss for the year** | (10,067,347) | (550,438) |
| Unrealized losses on available-for-sale financial assets, net of related future income taxes of $22,742 in 2008 | - | (48,328) |
| Other-than-temporary losses in value on available-for-sale securities reclassified into earnings | 4,203 | - |
| Translation adjustment of a self-sustaining foreign operation's financial statements (note 3) | (635,608) | (2,049) |
| **Comprehensive loss for the year** | (10,698,752) | (600,815) |

| **Accumulated Other Comprehensive Loss** | **2009**<br>**$** | **2008**<br>**$** |
|---|---|---|
| **Balance – Beginning of year** | (6,252) | - |
| Adjustment related to the implementation of a new accounting standard on financial instruments | - | 44,125 |
| Unrealized losses on available-for-sale financial assets, net of related future income tax benefits of $22,742 in 2008 | - | (48,328) |
| Other-than-temporary losses in value on available-for-sale securities reclassified into earnings | 4,203 | - |
| Translation adjustment of a self-sustaining foreign operation's financial statements (note 3) | (635,608) | (2,049) |
| **Balance – End of year** | (637,657) | (6,252) |

Total deficit and accumulated other comprehensive loss amount to $6,536,692 as at April 25, 2009 and total retained earnings and accumulated other comprehensive loss amounted to $4,162,060 as at April 26, 2008.

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

# Sigma Industries Inc.

Consolidated Statements of Earnings

**For the years ended April 25, 2009 and April 26, 2008**

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Sales** | 57,483,141 | 69,769,023 |
| **Cost of sales and operating expenses before the following items** (note 13e) | 61,732,436 | 67,500,035 |
| | (4,249,295) | 2,268,988 |
| Financial expenses (note 15a) | 1,740,749 | 1,842,947 |
| Depreciation and amortization (note 15a) | 3,413,578 | 3,287,175 |
| Restructuring costs (note 12) | 554,356 | - |
| Other non-cash charges (note 13c) | 3,455,346 | - |
| Other-than-temporary loss in value on short-term investment | 61,800 | - |
| Foreign exchange gain | (454,447) | (51,235) |
| Loss on disposal of property, plant and equipment | - | 26,848 |
| Gain on settlement of an insurance claim (note 14) | - | (1,436,135) |
| | 8,771,382 | 3,669,600 |
| **Loss before income taxes** (note 15a) | (13,020,677) | (1,400,612) |
| **Income tax recovery** (note 16) | | |
| Current | (159,178) | 1,202,588 |
| Future | (2,794,152) | (2,052,762) |
| | (2,953,330) | (850,174) |
| **Net loss for the year** | (10,067,347) | (550,438) |
| **Basic and diluted net loss per share** (note 17) | (0.235) | (0.013) |
| **Weighted average number of shares outstanding** (note 17) | | |
| Basic | 42,899,095 | 42,899,095 |
| Diluted | 42,899,095 | 43,228,059 |



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

# Sigma Industries Inc.

Consolidated Statements of Cash Flows

**For the years ended April 25, 2009 and April 26, 2008**

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the year | (10,067,347) | (550,438) |
| Items not affecting cash | | |
| Depreciation of property, plant and equipment | 2,050,115 | 1,640,474 |
| Amortization of intangible assets | 1,315,266 | 1,599,706 |
| Amortization of deferred financing expenses | 128,711 | 143,055 |
| Amortization of deferred charges | 48,197 | 46,995 |
| Stock-based compensation | 16,819 | 91,104 |
| Loss on disposal of property, plant and equipment | - | 26,848 |
| Other non-cash charges (note 13c) | 3,455,346 | - |
| Other-than-temporary loss in value on short-term investment | 61,800 | - |
| Unrealized loss on derivative foreign currency forward contracts | 116,586 | 53,153 |
| Interest capitalized on long-term debt | 22,192 | 66,947 |
| Future income taxes | (2,794,152) | (2,052,762) |
| | (5,646,467) | 1,065,032 |
| Change in non-cash working capital items (note 15b) | 2,642,672 | 7,364,360 |
| | (3,003,795) | 8,429,392 |
| **Cash flows from financing activities** | | |
| Variation in bank loans | 3,451,883 | (5,387,174) |
| Long-term debt contracted | 6,036,682 | 7,270,029 |
| Payments on long-term debt | (4,691,068) | (2,543,549) |
| Increase in deferred financing expenses | (316,404) | - |
| Equity component issue expenses | - | (1,115) |
| | 4,481,093 | (661,809) |
| **Cash flows from investing activities** | | |
| Short-term investments cashed | - | 15,434 |
| Additions to property, plant and equipment | (1,214,235) | (3,429,973) |
| Increase in intangible assets | (65,772) | (167,778) |
| Proceeds from disposal of property, plant and equipment | - | 325,498 |
| Business acquisitions, less net cash acquired (note 4) | (517,608) | (4,334,099) |
| | (1,797,615) | (7,590,918) |
| **Effect of foreign exchange rate changes on cash** | (329,265) | (160,121) |
| **Net change in cash** | (649,582) | 16,544 |
| **Cash – Beginning of year** | 652,993 | 636,449 |
| **Cash – End of year** | 3,411 | 652,993 |

**Additional information** (note 15b and c)

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

## 1 Statutes and nature of activities

Sigma Industries Inc. (the "company"), incorporated under the Canada Business Corporations Act, is a composite and metal products manufacturer. The company is active in the growing heavy duty truck, coach, transit and bus, train and subway, machinery, agriculture and alternative energy market segments. The common shares of the company trade under ticker symbol SIC on the TSX Venture Exchange.

## 2 Accounting changes

On April 27, 2008, the company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Section 1535, "*Capital Disclosures*", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.

Section 3031, "*Inventories*", prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862, "*Financial Instruments – Disclosures*", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "*Financial Instruments – Presentation*", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "*Financial Instruments – Disclosure and Presentation*".

The CICA amended Section 1400 "*General Standards of Financial Statement Presentation*" to include the criteria for determining and presenting an entity's ability to continue as going concern (going concern assumption).

The company has applied these changes prospectively. The implementation of these standards had no impact on the company's financial results.

*Future accounting changes*

The CICA issued new Section 3064 "*Goodwill and Intangible Assets*", which replaces Section 3062, "*Goodwill and Other Intangible Assets*", and Section 3450, "*Research and Development Costs*", which applies to the company's interim and annual financial statements for the fiscal year beginning on April 26, 2009. This section

establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

In January 2009, the CICA issued Sections 1582, "*Business Combinations*", 1601, "*Consolidated Financial Statements*", and 1602, "*Non-controlling Interests*".

Section 1582 will be converged with IFRS 3, "*Business Combinations*". Section 1602 will be converged with the requirements of IAS 27, "*Consolidated and Separate Financial Statements*", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "*Consolidated Financial Statements*", other than those relating to non-controlling interests.

Section 1582 applies to transactions where the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable", will be measured at fair value. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011.

The company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

## 3 Summary of significant accounting policies

### Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the accounts of the company and all of its wholly-owned subsidiaries. Intercompany transactions and related balances have been eliminated. As at April 25, 2009, the company's subsidiaries are as follows:

- Sigma US Industries Inc. and its subsidiary Sigma OH Industries (previously Pickens Plastics Inc.)
- René Composites Materials Ltd.
- Transcam Composites Inc.
- Faroex Ltd.
- PNS-Tech Inc.

On April 25, 2009, Groupe Synergy Composites Inc. was wound up into its parent company René Composites Materials Ltd.

**Accounting estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the fair value of property, plant and equipment, intangible assets and goodwill, the allowance for doubtful accounts, the provision for obsolete inventory, the valuation allowance against future income tax assets, the useful lives of property, plant and equipment and intangible assets and certain accrued liabilities. Management believes its estimates to be appropriate; however, actual results could differ from those estimates.

**Foreign currency translation**

*Foreign currency transactions*

Transactions denominated in currencies other than the reporting currency, being the Canadian dollar, are translated into the reporting currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the monthly average exchange rate. Non-monetary assets and liabilities are translated at historical rates. Foreign exchange gains and losses arising from such translation are reflected in the statements of earnings.

*Foreign currency forward contracts*

The company's foreign currency forward contracts, which are used to hedge anticipated US-denominated sales and purchases as well as euro-denominated purchases, do not qualify for hedge accounting and are recorded at fair value. Any change in the fair value is reflected in the statement of earnings.

*Self-sustaining subsidiary*

The accounts of the self-sustaining subsidiary, whose functional currency is other than the Canadian dollar, are translated into Canadian dollars using the current rate method, whereby assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Foreign exchange gains and losses arising from such translation are deferred and recorded as a translation adjustment in the statement of comprehensive income (loss).

**Cash**

Cash consists of cash on hand and balances with banks.

**Short-term investment**

As at April 26, 2008, short-term investment is recorded at fair value using the bid price and is made up of shares of a business listed on the TSX Venture Exchange.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in first out method for raw materials and using the absorption costing method for work in progress and finished goods.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost less related government grants and research and development tax credits. Property, plant and equipment are depreciated over their estimated useful lives using the following methods, period and annual rates:

| | Methods | Period and rates |
|---|---|---|
| Buildings | Declining balance | 5% |
| Machinery and equipment | Declining balance | 10 and 15% |
| Office furniture | Declining balance | 10% |
| Computer equipment | Declining balance | 30% |
| Automotive equipment | Declining balance | 30% |
| Leasehold improvements | Straight-line | 5 and 6 years |
| Construction work in progress | - | - |

**Deferred charges**

As at April 26, 2008, deferred charges, which consist of incorporation expenses, are recorded at cost and are amortized using the straight-line method over a five-year period since May 1, 2004.

**Intangible assets**

Intangible assets with finite useful lives consist of patents, customer relationships, technologies and software. Patents represent costs, including professional fees, incurred for the registration of these patents. Intangible assets with finite useful lives are amortized using the following methods, periods and annual rate:

| | Methods | Periods and rate |
|---|---|---|
| Patents | Straight-line | 7 and 10 years |
| Customer relationships | Sum-of-the-years-digits | 12 and 15 years |
| Technologies | Sum-of-the-years-digits | 6 and 10 years |
| Software | Declining balance | 30% |

The trademark is an intangible asset with an indefinite useful life and is not amortized.

**Recognition of financial assets and liabilities**

Held-for-trading financial assets and liabilities are recognized at fair value, and any change in the fair value is reflected in net earnings. Held-to-maturity financial assets and liabilities, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value or at cost if there are no published price quotations in an active market and changes are recognized in comprehensive income (loss).

The company has elected to capitalize transaction costs upon initial recognition and to present them with the related financial instruments. They are then amortized using the effective interest method.

Following is a summary of the accounting model the company has elected to apply to each of its significant categories of financial instruments:

| | |
|---|---|
| Cash | Held for trading |
| Short-term investment | Available-for-sale asset |
| Accounts receivable | Loans and receivables |
| Derivative foreign currency forward contracts | Held for trading |
| Other financial liabilities | Other than held for trading |

**Impairment of long-lived assets**

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of an asset or group of assets is greater than the undiscounted future cash flows expected to be provided by the asset or group of assets. The amount of impairment loss, if any, is the excess of the carrying value over the fair value. The fair value of long-lived assets is determined based on discounted future cash flows. During fiscal year 2009, impairment losses amounting to $2,619,213 (note 13c) have been recorded (none in 2008).

Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Impairment exists when the carrying amount of the intangible asset exceeds its fair value. During fiscal years 2009 and 2008, no impairment loss has been recorded.

**Goodwill**

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized but must be tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired. Recoverability of goodwill is determined at the reporting unit level using a two-step approach. First, the net carrying value of a reporting unit is compared to its fair value. If the carrying value of a reporting unit exceeds its fair value, the second step is performed. In this step, the amount of impairment loss, if any, represents the excess of the carrying value of goodwill over its fair value and the loss is charged to earnings in the period in which it is incurred. For the purposes of this impairment test, the fair value of goodwill is estimated in the same way as goodwill is determined in business combinations; that is, the excess of the fair value of a reporting unit over the estimated fair value of its net identifiable assets. The company elected to perform its annual impairment test in April of

each fiscal year and an impairment loss amounting to $836,133 (note 13c) has been recorded for fiscal year 2009 (none in 2008).

**Revenue recognition**

Revenue from sales of products is recognized, net of estimated sales allowances and rebates, when title passes to customers, which is generally at the time goods are shipped, when collection is reasonably assured and consideration is fixed or determinable. Amounts received for moulds in process are recorded as deferred revenues in the balance sheet.

**Stock-based compensation costs**

Since the adoption of the stock option plan as at October 7, 2005, the company accounts for all forms of stock-based compensation granted to officers, directors, consultants and employees, using the fair value-based method. Stock-based compensation costs are amortized to expense over the vesting periods using the graded vesting method.

**Research and development expenses**

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research, are expensed as incurred, net of related government assistance. Development expenses which would meet generally accepted criteria for deferral would be capitalized, net of related government assistance, and would be amortized against earnings over the estimated period of benefit.

**Tax credits and government assistance**

Tax credits and government assistance are recognized in the year in which the related expenses are incurred, provided the company has reasonable assurance the amounts will be recovered. Tax credits and government assistance related to property, plant and equipment are applied against the cost of these assets. Tax credits and government assistance pertaining to current expenses are recognized as the related expenses are incurred.

**Income taxes**

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities, using enacted or substantively enacted tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

**Basic and diluted earnings per share**

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential participating shares have been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average quoted market value of the participating shares during the year.

### Equity issue expenses

Equity issue expenses are applied against the proceeds from the related issuance.

### Comparative figures

Certain comparative figures included in earnings have been reclassified to conform with the current year presentation.

## 4 Business acquisitions

On February 29, 2008, the company acquired, through its wholly-owned subsidiary, Sigma US Industries Inc., all of the outstanding shares of Pickens Plastics Inc. ("Pickens"), and the buildings owned by the shareholder of Pickens which are based in the State of Ohio (United States), for a total consideration of $5,111,108 (US$5,192,105) settled as follows: a cash amount of $4,127,874 (US$4,193,289), acquisition-related costs payable totalling $786,354 (US$798,816) and a balance of purchase price payable amounting to $196,880 (US$200,000). Pickens specializes in the manufacture of composite parts for the road transportation and public transit industries, namely bus and truck parts, farm machinery parts such as farm tractor hoods, and in the design of the state-of-the-art composite products for the industrial product market.

This acquisition has been accounted for using the purchase method, and the results of operations have been included in the financial statements of the company from the date of acquisition. The purchase price allocation has been completed with the assistance of an independent valuation firm.

The fair values allocated to the net assets acquired are as follows:

| | $ |
|---|---|
| Assets acquired | |
| Cash | 62,522 |
| Other current assets | 1,366,195 |
| Income taxes receivable | 169,044 |
| Property, plant and equipment | 5,255,853 |
| Future income tax assets | 11,055 |
| Intangible assets | |
| Customer relationships | 17,174 |
| Software | 96,373 |
| | 6,978,216 |
| | $ |
| Liabilities assumed | |
| Bank loan | 196,880 |
| Other current liabilities | 371,987 |
| Long-term liabilities | 344,263 |
| Future income tax liabilities | 953,978 |
| | 1,867,108 |
| Net identifiable assets acquired and purchase price | 5,111,108 |
| Settled as follows : | |
| Cash used for the acquisition | 4,127,874 |
| Acquisition-related costs unpaid | 786,354 |
| Balance of purchase price unpaid (note 9) | 196,880 |
| | 5,111,108 |

## 5 Inventories

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Raw materials | 4,529,293 | 4,035,614 |
| Work in progress | 1,370,173 | 1,301,501 |
| Finished goods | 2,203,788 | 2,841,041 |
| | 8,103,254 | 8,178,156 |

## 6 Property, plant and equipment

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Cost $ | Accumulated depreciation $ | Cost $ | Accumulated depreciation $ |
| Land | 651,426 | - | 619,128 | - |
| Buildings | 8,973,699 | 907,405 | 8,563,117 | 446,610 |
| Machinery and equipment | 16,275,969 | 3,221,728 | 14,734,034 | 1,613,403 |
| Office furniture | 383,436 | 125,564 | 375,411 | 96,753 |
| Computer equipment | 546,671 | 287,605 | 448,626 | 197,002 |
| Automotive equipment | 335,527 | 129,269 | 287,099 | 42,020 |
| Leasehold improvements | 257,915 | 257,915 | 257,915 | 53,267 |
| Construction work in progress | - | - | 338,685 | - |
| | 27,424,643 | 4,929,486 | 25,624,015 | 2,449,055 |
| Less: | | | | |
| Accumulated depreciation | 4,929,486 | | 2,449,055 | |
| Net amount | 22,495,157 | | 23,174,960 | |

## 7 Intangible assets

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Cost $ | Accumulated amortization $ | Cost $ | Accumulated amortization $ |
| Trademark * | 268,158 | - | 268,158 | - |
| Patents | 106,059 | 36,147 | 98,561 | 22,514 |
| Customer relationships | 5,513,024 | 1,823,018 | 6,209,650 | 1,352,801 |
| Technologies | 2,277,137 | 1,554,231 | 3,477,137 | 1,369,695 |
| Software | 465,084 | 201,369 | 386,822 | 97,840 |
| | 8,629,462 | 3,614,765 | 10,440,328 | 2,842,850 |
| Less: | | | | |
| Accumulated amortization | 3,614,765 | | 2,842,850 | |
| Net amount | 5,014,697 | | 7,597,478 | |

* Intangible asset with an indefinite useful life.

During the year, the company acquired intangible assets which are subject to amortization in the amount of $65,772 ($281,325 in 2008).

## 8 Credit facilities

The company has an available line of credit of an authorized amount of $10,000,000 in Canadian dollars, bearing interest at prime rate plus 3.5% (plus 0.5% before April 25, 2009). It also has an available line of credit of $1,000,000 in US dollars, bearing interest at US prime rate plus 4.0% (plus 0.5% before April 25, 2009) and an available real estate line of credit of $1,000,000 in Canadian dollars, bearing interest at prime rate plus 4.0% (plus 0.6% before April 25, 2009). Furthermore, it has an available credit facility of $2,000,000 to hedge against foreign exchange risks and a credit of $250,000 for the risks related to the settlement of electronic funds transfers. A moveable hypothec over accounts receivable, inventories and all present and future tangible and intangible assets has been given as security. These credit facilities are renewable annually. Under these agreements, the company has agreed to respect certain conditions and financial ratios, which have been met as at April 25, 2009.

## 9 Long-term debt

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Decreasing revolving bank loan, bearing interest at prime rate plus 4% (plus 0.6% before April 25, 2009), payable in monthly principal instalments of $191,935, from May 2008 to June 2013. A moveable hypothec over the universality of the company's present and future tangible and intangible assets has been given as security for this loan | 9,788,710 | 11,900,000 |
| Bond loans of $1,826,647 (US$1,510,000) and $2,310,527 (US$1,910,000), bearing interest at 5.75% and 6.5% respectively, payable in monthly average principal instalments including interest for the two bond loans of $43,317 (US$35,659) since November 2008 until May 2018 and $17,720 (US$14,648) thereafter until May 2023. A hypothec on tangible and intangible moveables owned by a self-sustaining foreign subsidiary has been given as security for these loans as well as an additional guarantee from the company | 4,018,221 | - |
| Term loan of $1,814,550 (US$1,500,000), bearing interest at 3% respectively, payable in monthly principal instalments including interest of $18,250 (US$15,086) since November 2008, maturing in June 2018. A hypothec on tangible and intangible moveables owned by a self-sustaining foreign subsidiary has been given as security for this loan as well as an additional guarantee from the company | 1,814,550 | - |
| (forward) | 15,621,481 | 11,900,000 |

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| (brought forward) | 15,621,481 | 11,900,000 |
| Bank loan, bearing interest at prime rate plus 4% (plus 0.6% before April 25, 2009), payable in monthly principal instalments of $11,905, maturing in February 2012. A moveable hypothec over the universality of the company's present and future tangible and intangible assets has been given as security for this loan | 690,476 | 833,333 |
| Term loans, bearing interest at prime rate plus 1.5% and 8%, payable in monthly principal instalments of $3,540 and monthly instalments of $1,617, including principal and interest, beginning in June 2011, maturing in June 2016 and October 2016. Moveable and immoveable hypothecs have been given as security for these loans | 398,600 | 441,080 |
| Bank loan, 3%, payable in monthly principal instalments of $11,988 (US$9,910), maturing in March 2011. A moveable hypothec over the universality of the present and future tangible and intangible assets of one company's subsidiary has been given as security for this loan | 278,914 | 346,324 |
| Balance of purchase price payable, 6 %, payable in annual principal instalments of $120,970 (US$100,000), maturing in March 2010 | 241,940 | 203,260 |
| Loan granted by Canada Economic Development under the Innovation, Development of Entrepreneurship and Access Program for SME, non-interest bearing, payable in five annual instalments of $30,800, maturing in January 2011* | 54,612 | 78,017 |
| Bank loans for which moveable hypothecs over automotive equipment have been given as security, 6.98% and nil, payable in monthly instalments of $488, including principal and interest, maturing in February 2010 | 4,732 | 10,060 |
| Bank loan (note 8) payable through the issuance of new long-term debts** | 5,000,000 | 3,945,029 |
| Deferred financing expenses | (454,200) | (232,204) |
| Decreasing bank loan, bearing interest at prime rate plus 4%, payable in monthly principal instalments of $138,889 plus interest, matured in December 2008 | - | 1,627,776 |
| Balance of purchase price payable of a total amount of $1,200,000, discounted at 6.5%, payable in monthly principal instalments of $50,000, matured in February 2009 | - | 485,202 |
| Term loan, non-interest bearing, matured in July 2008, payable in half-yearly instalments of $5,450 | - | 5,450 |
| | 21,386,555 | 19,643,507 |
| Less: Current portion | 1,048,928 | 4,968,430 |
| | 20,787,627 | 14,675,077 |

* As a result of the application of the new accounting standard on financial instruments, the balance of that debt has been decreased by $23,978 so as to consider an effective interest rate of 10.25%.

** In April 2009, the company negotiated a term loan of $5,000,000 from Investissement Québec as part of the Renfort program launched in December 2008 by the (*Ministère du Développement économique, de l'Innovation et de l'Exportation du Québec*), bearing interest at prime rate plus 5.5%, payable in monthly principal instalments of $104,167 beginning in May 2010, maturing in March 2014. A junior moveable hypothec over the universality of the company's present and future tangible and intangible assets have been given as security for this loan. The financing was closed in April 28, 2009, and the proceeds of the financing has been used to repay a part of the bank loans. This amount has been reclassified as a long-term debt in accordance with EIC-122 guidance "Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced". The current portion reflects the refinancing terms.

The annual principal instalments due on long-term debt net of deferred financing expenses over the next five years are as follows:

| | $ |
|---|---|
| 2010 | 1,048,928 |
| 2011 | 4,073,640 |
| 2012 | 9,768,209 |
| 2013 | 1,768,651 |
| 2014 | 1,813,409 |

The company has agreed to respect specific financial ratios relating to certain loans, which have been met as at April 25, 2009.

## 10 Shareholders' equity

### Share capital

Authorized
Unlimited number of common shares, without par value, voting and participating
Unlimited number of preferred shares with rights and restrictions fixed by the Board of Directors upon issuance

The following table presents the share capital activity since May 1, 2007:

Issued

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Number** | **Amount $** | **Number** | **Amount $** |
| Balance – Beginning of year | 42,899,095 | 13,125,309 | 42,899,095 | 13,126,424 |
| Share issue expenses, net of related income taxes of $525 | - | - | - | (1,115) |
| Balance – End of year | 42,899,095 | 13,125,309 | 42,899,095 | 13,125,309 |

### Contributed surplus

The following table presents the contributed surplus activity since May 1, 2007:

| | 2009 $ | 2008 $ |
|---|---|---|
| Balance – Beginning of year | 374,188 | 8,103 |
| Stock options forfeited | 84,496 | 73,978 |
| Warrants matured | 1,274,242 | 292,107 |
| Balance – End of year | 1,732,926 | 374,188 |

**Warrants**

The following tables present information about warrants outstanding since May 1, 2007 and summarize certain information about warrants outstanding and exercisable:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Number | Carrying value $ | Weighted average exercise price $ | Number | Carrying value $ | Weighted average exercise price $ |
| Outstanding and exercisable – Beginning of year | 8,430,106 | 2,236,328 | 0.94 | 9,227,438 | 2,486,728 | 0.91 |
| Forfeited | (5,551,947) | (1,274,242) | 0.86 | (797,332) | (292,107) | 0.60 |
| Deferment of the expiry date * | - | - | - | - | 41,707 | - |
| Outstanding and exercisable – End of year | 2,878,159 | 962,086 | 1,12 | 8,430,106 | 2,236,328 | 0.94 |

| | Warrants outstanding and exercisable as at April 25, 2009 | |
|---|---|---|
| **Exercise price** | **Number** | **Weighted average remaining contractual life (years)** |
| $0.40 | 100,000 | 1.45 |
| $1.15 | 2,778,159 | 2.89 |
| | 2,878,159 | |

* On September 11, 2007, the company received conditional approval by the TSX Venture Exchange to defer the expiry date of warrants granted as part of its private placement completed in May 2006. The 4,991,991 warrants, as well as 416,667 additional warrants granted to a former holder of a convertible debenture as part of this private placement, entitled the holder to purchase one common share at a price of $0.85 per share at all times during the 18-month period following the closing date. Expiry dates of these warrants had originally been set at November 3 and November 14, 2007. The conditional approval aims to defer and standardize the expiry date of these warrants to January 31, 2009. With the exception of this extended exercise period, all exercise terms and conditions of these warrants are unchanged. No warrant has been exercised up to the deferment date.

For the year ended April 26, 2008, the fair value of warrants following the deferment of the expiry date of warrants granted in May 2006 was estimated using the Black-Scholes model with the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 4.08% |
| Expected volatility | 60% |
| Dividend yield | 0% |
| Expected weighted average life of each warrant following the deferment of the expiry date of warrants granted in May 2006 | 15 months |
| Weighted average fair value of each warrant following the deferment of the expiry date of warrants granted in May 2006 | $0.0077 |

**Stock option plan**

The company has a stock option plan for its officers, directors, employees and consultants providing ongoing services to the company. Under the plan, which is managed by the Board of Directors, stock options, except for those granted to the agent, which are fully exercisable on the date of grant, vest over a three-year period and expire after a period of 18 months to 60 months. The maximum number of common shares issuable under the plan is limited to 10% of the issued and outstanding common shares.

The following tables present information about stock options outstanding since May 1, 2007 and summarize certain information about stock options outstanding and exercisable:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Number | Carrying value $ | Weighted average exercise price $ | Number | Carrying value $ | Weighted average exercise price $ |
| Outstanding and exercisable – | | | | | | |
| Beginning of year | 1,685,000 | 415,508 | 0.53 | 1,835,000 | 398,382 | 0.53 |
| Forfeited | (330,000) | (84,496) | 0.56 | (150,000) | (73,978) | 0.60 |
| Compensation costs for the year | - | 16,819 | - | - | 91,104 | - |
| Outstanding and exercisable – End of year | 1,355,000 | 347,831 | 0.52 | 1,685,000 | 415,508 | 0.53 |

| | Options outstanding and exercisable as at April 25, 2009 | |
|---|---|---|
| **Exercise price** | **Number** | **Weighted average remaining contractual life (years)** |
| $0.40 | 1,035,000 | 1,45 |
| $0.80 | 20,000 | 2.60 |
| $0.92 | 300,000 | 2.44 |
| | 1,355,000 | |

## 11 Capital disclosures

The company's objectives when managing capital are to:

1. have sufficient funds that allow pursuing its growth strategy;
2. deploy capital to provide an appropriate return on investment to its shareholders: and
3. maintain financial flexibility in order to preserve its ability to meet financial obligations and seize potential acquisition opportunities.

The company defines its capital as follows:

a) cash and short-term investment;

b) bank loans;

c) long-term debt, including the current portion; and

d) shareholders' equity

The company manages its capital structure according to its growth strategy and economic conditions. In order to maintain or adjust its capital structure, the company may be required to issue new shares, proceed to share redemptions on the market, raise debt and refinance existing debt or sell assets to reduce its debt level.

The principal use of the company's capital is to finance current operations, make purchases of property, plant and equipment required to ensure the company's growth, and fund business acquisitions. The company's capital management objectives, policies and procedures have remained unchanged since last year.

Any decision to pay dividends on the company shares is periodically assessed by the company's board of directors and is based on the company's profits and financial position as well as on covenants in its credit facility agreements and other relevant factors such as its growth strategy and strategic positioning compared

with its competitors. There can be no assurance as to the amounts or payment dates of such dividends in the future.

The company is not subject to any obligation under external rules, except for credit facility covenants, which provide for the attainment of certain financial ratios. As at April 25, 2009, the only ratio in effect has been met.

In order to follow up its financial leverage as at April 25, 2009, the company uses the working capital ratio (current assets divided by current liabilities) that it aims to maintain at a level below or equal to 0.90:1, excluding all company's U.S. subsidiaries. This ratio was 1.39:1 as at April 25, 2009.

## 12 Restructuring costs

For the fiscal year ended April 25, 2009, the company recorded and fully paid restructuring charges totalling $554,356 representing professional fees ($303,013), severance pay and layoff benefits ($251,343) related to company's subsidiaries.

## 13 Other non-cash charges

a) CICA Handbook Section 3062 "*Goodwill and Other Intangible Assets*" establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by enterprises. They must be tested for impairment on an annual basis or more frequently if events or circumstances occurred, indicating that it is more likely than not that they might be impaired.

b) For the fiscal year ended April 25, 2009, the company performed a comprehensive review of the current performance and strategic direction of its subsidiaries. This strategic review revealed that several economic factors such as the current global financial crisis, the decline in demand for some manufactured goods and the term credit crisis in the United States could have an impact on the company. Therefore, the company conducted an in-depth analysis to determine whether it was appropriate to retain the manufacture of some products and keep certain markets. Moreover, due the presence of these factors, changes have been made to the estimated realizable value for one of the company's subsidiaries. The strategic review focused on the carrying amount of certain assets including inventories, accounts receivable, intangible assets and goodwill in the subsidiary.

c) Based on the review described in point b), the company recorded other non-cash charges of $3,455,346, which are mostly related to one of the company's subsidiaries. These charges are detailed as follows :

| | **2009** **$** | **2008** **$** |
|---|---|---|
| Property, plant and equipment | 1,266,404 | - |
| Intangible assets | 1,352,809 | - |
| Goodwill | 836,133 | - |
| Total | 3,455,346 | - |

d) Furthermore, as part of the review of each subsidiary, for the fiscal year ended April 25, 2009, the company recorded a valuation allowance of $855,853 against the future income tax assets of its self-sustaining foreign subsidiary as a result of losses accumulated since the acquisition of this subsidiary.

e) For the fiscal year ended April 25, 2008, the company also recorded a write-down of inventories amounting to $963,665 and a bad debt expense of $325,350, which are reflected in the cost of sales and operating expenses.

## 14 Gain on settlement of an insurance claim

On February 11, 2008, the company received the final settlement of the insurance claim resulting from a fire that damaged the René Composites Materials facilities in St-Ephrem-de-Beauce on October 19, 2005. A gain on settlement of an insurance claim amounting to $1,436,135 has been accounted for in the statement of earnings for the fiscal year ended April 26, 2008. During fiscal 2008, the company had cashed an amount of $7,100,000 for a total compensation of $13,100,000 related to this claim.

## 15 Additional disclosures

(a) Consolidated statements of earnings

The loss before income taxes has been established considering the following items:

| | 2009 $ | 2008 $ |
|---|---|---|
| Cost of sales including depreciation of property, plant and equipment | 57,107,282 | 61,555,045 |
| Depreciation of property, plant and equipment | 2,050,115 | 1,640,474 |
| Amortization of intangible assets | 1,315,266 | 1,599,706 |
| Amortization of deferred charges | 48,197 | 46,995 |
| Gross research and development expenses | 379,892 | 361,346 |
| Tax credits | (209,864) | (205,114) |
| Grants | (96,879) | (47,189) |
| Stock-based compensation costs | 16,819 | 91,104 |
| Interest on long-term debt | 885,594 | 1,051,291 |
| Interest on bank loans and bank charges | 726,444 | 648,651 |
| Amortization of deferred financing expenses | 128,711 | 143,005 |

(b) Consolidated statements of cash flows

Net change in non-cash working capital items

| | 2009 $ | 2008 $ |
|---|---|---|
| Accounts receivable | 4,497,537 | 5,751,405 |
| Income taxes | (532,572) | (928,134) |
| Inventories | 198,055 | 4,114,717 |
| Derivative foreign currency forward contracts | 106,988 | - |
| Prepaid expenses | 688,231 | (499,881) |
| Accounts payable and accrued liabilities | (2,801,759) | (780,722) |
| Deferred revenues | 486,192 | (293,025) |
| | 2,642,672 | 7,364,360 |

Items not affecting cash related to operating, financing and investing activities

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Warrants matured and reflected in the contributed surplus | 1,274,242 | 292,107 |
| Stock options forfeited and reflected in the contributed surplus | 84,496 | 73,978 |
| Additions to property, plant and equipment included in accounts payable and accrued liabilities | 375 587 | - |
| Acquisition-related costs included in accounts payable and accrued liabilities | - | 517,608 |
| Balance of purchase price in partial settlement of the acquisition of Pickens and included in long-term debt | - | 196,880 |
| Deferment of the expiry date of warrants | - | 41,707 |

(c) Additional information

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Interest paid | 1,347,763 | 1,252,182 |
| Income taxes paid | 279,289 | 2,048,160 |

## 16 Income taxes and future income taxes

The reconciliation of the income tax recovery, calculated using the statutory income tax rates of the federal government and the Province of Quebec, to the income tax recovery per the financial statements is as follows:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Income taxes at the combined statutory tax rate of the Canadian federal government and provincial government (30.90% in 2009 and 31.65% in 2008) | (4,023,389) | (443,293) |
| Stock-based compensation costs | 5,197 | 28,803 |
| Other non-deductible expenses | 358,274 | 87,673 |
| Non-taxable income | (163,798) | (24,703) |
| Change in statutory and future tax rates and review of estimates | 168,320 | (327,384) |
| Difference in subsidiaries statutory tax rates | (189,921) | 934 |
| Settlement further to a review by tax authorities | - | (120,000) |
| Change in valuation allowance | 960,489 | - |
| Other | (68,502) | (52,204) |
| Income tax recovery | (2,953,330) | (850,174) |

The income tax recovery consists of the following:

| | 2009 $ | 2008 $ |
|---|---|---|
| Current (recovered) | | |
| Canada | (104,904) | 1,202,588 |
| United States | (54,274) | - |
| | (159,178) | 1,202,588 |
| Future | | |
| Canada | (1 715,460) | (1 984 642) |
| United States | (1,078,692) | (68,120) |
| | (2,794,152) | (2,052,762) |

Significant components of future income tax assets and liabilities are as follows:

| | 2009 $ | 2008 $ |
|---|---|---|
| Future income tax assets | | |
| Financing expenses | 167,471 | 247,526 |
| Non-capital losses carried forward | 4,751,844 | 1,938,357 |
| Other assets | 471,697 | 205,961 |
| | 5,391,012 | 2,391,844 |
| Valuation allowance | (1,178,427) | - |
| | 4,212,585 | 2,391,844 |
| Future income tax liabilities | | |
| Property, plant and equipment | (2,735,732) | (2,103,222) |
| Intangible assets | (1,296,703) | (2,753,187) |
| Other liabilities | (63,044) | (15,476) |
| | (4,095,479) | (4,871,885) |
| Future income taxes, net | 117,106 | (2,480,041) |

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Classified as follows : | | |
| Current future income tax assets | 602,776 | 151,848 |
| Long-term future income tax assets | 423,441 | 1,423,223 |
| Long-term future income tax liabilities | (909,111) | (4,055,112) |
| | 117,106 | (2,480,041) |

As at April 25, 2009, the company had available non-capital losses in several tax jurisdictions. The following table summarizes the year of expiry of these losses by tax jurisdiction:

| | Canada | | United States |
|---|---|---|---|
| **Year of expiry** | **Federal** | **Provincial** | |
| 2015 | 146,529 | - | - |
| 2026 | 75,027 | 110,111 | - |
| 2027 | 1,879,974 | 1,846,988 | - |
| 2028 | 3,138,591 | 3,082,095 | 61,188 |
| 2029 | 8,959,735 | 3,974,182 | 5,016,094 |
| | 14,199,856 | 9,013,376 | 5,077,282 |

## 17 Earnings per share

The following table summarizes the basic and potentially dilutive weighted average number of common shares outstanding used in the basic and diluted net earnings per share calculations:

| | 2009 | 2008 |
|---|---|---|
| Basic weighted average number of shares outstanding | 42,899,095 | 42,899,095 |
| Dilutive effect of stock options and warrants | - | 328,964 |
| Diluted weighted average number of shares outstanding | 42,899,095 | 43,228,059 |

Furthermore, the following table presents the items excluded from the calculation of diluted earnings per share for the years ended April 25, 2009 and April 26, 2008 because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect:

| | 2009 | 2008 |
|---|---|---|
| Weighted average number of stock options at exercise prices varying from $0.40 to $0.92 | 1,484,877 | 1,136,082 |
| Weighted average number of warrants at exercise prices varying from $0.40 to $1.15 | 6,978,347 | 6,990,728 |

## 18 Related party transactions

During the year, the company did not conclude any related party transactions. In 2008, the company paid a director management fees amounting to $13,200. These related party transactions are in the normal course of business and are measured at the exchange amount. Services rendered consisted of a study on management compensation.

## 19 Segment information

The company is organized under one single operating segment, being the manufacturing of composite and metal products. All of the long-lived assets, which consist of property, plant and equipment, intangible assets and goodwill, are as follows:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Canada | 22,018,542 | 27,714,173 |
| United States | 7,141,568 | 5,544,654 |
| | 29,160,110 | 33,258,827 |

The following sales have been allocated to geographic regions based on the country of residence of the related customers:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Sales by geographic region** | | |
| United States | 36,027,101 | 47,636,726 |
| Canada | 19,989,235 | 21,222,447 |
| Asia | 720,596 | 356,330 |
| Europe | 391,539 | 213,839 |
| Australia | 216,185 | 58,322 |
| South America | 138,485 | 281,359 |
| | 57,483,141 | 69,769,023 |

Sales from the five largest customers represent 63.9% in 2009 and 74.8% in 2008 of the company's total sales. Two of these customers represent more than 10% of the company's total sales for 2009 and 2008. In 2009, the most important customer represents more than 1.4 time (1.4 time in 2008) as much as that of the second most important customer of the company.

Supplementary information:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Sales by family of products** | | |
| Heavy duty trucks – Class 8 | 28,119,102 | 42,487,054 |
| Snow removal | 6,557,722 | 7,622,470 |
| Bus | 6,094,595 | 3,323,775 |
| Agriculture | 5,758,190 | 6,014,132 |
| Industrial | 5,074,079 | 4,707,671 |
| Wind energy | 3,192,292 | 3,522,699 |
| Other | 2,687,161 | 2,091,222 |
| | 57,483,141 | 69,769,023 |

## 20 Financial instruments

### Fair value

Cash, short-term investment, derivative foreign currency forward contracts and bank loans are recorded at fair value while accounts receivable, accounts payable and accrued liabilities and long-term debt are financial instruments whose carrying value approximates their fair value due to their short-term maturity or current market rates for most of the long-term debt items.

### Credit risk

Financial instruments which potentially subject the company to concentrations of credit risk consist principally of cash and accounts receivable. Cash is held with Canadian and U.S. banks. Therefore, the company considers the risk of non-performance on these instruments to be remote.

Generally, the company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the company performs on-going credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible. Though approximately 63.9% of the company's sales are coming

from five customers for the fiscal year ended April 25, 2009, the company believes that the credit risk associated with these customers and its accounts receivable in general is limited for the following reasons:

- During the year, the company recorded a bad debt expense of $325,350, representing 0.6% of the company's total sales. The allowance for doubtful accounts amounted to $450,769 as at April 25, 2009 and $132,262 as at April 26, 2008 respectively.

- $4,298,151 or 57.6% of the company's trade receivables is outstanding for less than 30 days, and $1,999,834 or 26.8% is outstanding for a period from 31 to 60 days.

- The company has purchased insurance provided by Export Development Canada for its major trade accounts receivable in the United States.

**Interest rate risk**

As at April 25, 2009 and April 26, 2008, the company's exposure to interest risk is as follows:

| | |
|---|---|
| Cash | Variable interest rate |
| Short-term investment | Non-interest bearing |
| Accounts receivable | Non-interest bearing |
| Derivative foreign currency forward contracts | Non-interest bearing |
| Bank loans | Variable interest rate |
| Accounts payable and accrued liabilities | Non-interest bearing |
| Long-term debt | As described in note 9 |

The company is exposed to any upward interest rate fluctuations since the bank loans and a part of long-term debts feature interest rates varying according to the prime rate. The company is not currently using any financial instrument to hedge against these risks. As at April 25, 2009, approximately 70.9% of the long-term debt, representing $15.8 million out of a total long-term debt of $22.3 million (including the current portion, but excluding deferred financing expenses), bears interest at a floating rate.

For the year ended April 25, 2009, a ±1% variation in interest rates on the debt would have had an impact of $126,358 on the company's loss before income taxes.

**Currency risks and foreign currency forward contracts**

Sales denominated in US dollars accounted for 52.8% respectively of the company's total sales for the fiscal year ended April 25, 2009. Consequently, the Canadian dollar movements versus the US dollar constitute an element of uncertainty and risk for the company. These risks are partially offset by the following elements: the U.S. subsidiary's operating expenses are denominated in US dollars, raw material purchases are denominated in US dollars and finally, foreign currency forward contracts are entered into by the company. The company's policy is not to utilize those derivative financial instruments for trading or speculative purposes.

As at April 26, 2008, the Company held contracts to sell US dollars and purchase US dollars and euros at various forward rates, while as at April 25, 2009 the company held contracts to sell US dollars, which are summarized as follows:

| Description | Expiration Date | Contractual amount $ | Weighted average contractual forward rate $ | Fair value $ |
|---|---|---|---|---|
| **As at April 25, 2009** | | | | |
| Sale of US dollars | May 2009 to April 2010 | 3,800,000 | 1.1750 | (116,586) |
| **As at April 26, 2008** | | | | |
| Sale of US dollars | May 2008 to May 2009 | 2,550,000 | 1.0234 | 54,801 |
| Purchase of US dollars | August 2008 to March 2009 | 1,700,000 | 0.9839 | 16,738 |
| Purchase of euros | May 2008 to October 2008 | 267,301 | 1.4456 | 35,449 |

The following table shows the effect on the company's loss before income taxes resulting from the 1% Canadian dollar's variation against the US dollar during the current fiscal year. This sensitivity analysis is based on the net exposure of sales denominated in US dollars less purchases denominated in US dollars related to the company's Canadian operations. Such analysis does not include the effect of this change on working capital items denominated in US dollars.

| | Effect of the CAN$ variation against the US$ |
|---|---|
| Loss before income taxes | 91,350 |

### Liquidity risk

Liquidity risk is the risk that the company will encounter in raising funds to meet its commitments at maturity. The following are the contractual maturities of financial liabilities as at April 25, 2009:

| | Carrying amount $ | Contractual cash flows $ | 0 to 12 months $ | 12 to 24 months $ | After 24 months $ |
|---|---|---|---|---|---|
| Bank loans | 3,451,883 | 3,451,883 | 3,451,883 | - | - |
| Accounts payable and accrued liabilities | 8,363,034 | 8,363,034 | 8,363,034 | - | - |
| Liabilities on derivative foreign currency forward contracts | 189,589 | 189,589 | 189,589 | - | - |
| Long-term debt including the current portion | 21,836,555 | 22,297,743 | 1,158,812 | 12,199,018 | 8,939,913 |

The company believes that future cash flows from operations and availability under existing credit facilities will be adequate to support its financial liabilities.

## 21 Commitments

The company is committed to various operating leases for certain of its premises and equipment, which expire at various dates through July 2012. As at April 25, 2009, minimum rentals payable under these operating leases in each of the next five years will amount to $207,534 in 2010, $99,496 in 2011, $27,403 in 2012, $3,377 in 2013 and $632 in 2014 for total commitments of $338,442. Some of these lease agreements include a renewal option.

Furthermore, the company issued an irrevocable letter of credit in the amount of $351,371 concerning a long-term debt contracted by one of its U.S. subsidiaries.

## 22 Contingencies

The company and its subsidiaries are party to an ongoing litigation, which is related to a claim regarding the common cost sharing for the rental of warehouse space and the use of technology linked to the metallurgy sector. The ultimate settlement of these claims cannot be determined at this time. Management believes that these claims are unfounded.