

# **Sigma Industries Inc.**

Interim Consolidated Financial Statements

(Unaudited)

**October 24, 2009**

**Notice from management:**

*The interim consolidated financial statements which are included in this report have not been subject to a review by the company's external auditors.*

# Sigma Industries Inc.

## Interim Consolidated Balance Sheet (unaudited)

	As at October 24, 2009 \$	As at April 25, 2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 10e)	964,790	3,411
Accounts receivable	7,746,478	7,462,068
Income taxes receivable	464,617	544,775
Inventories	7,772,557	8,103,254
Derivative foreign currency forward contracts	556,490	73,003
Prepaid expenses	585,141	185,165
Future income tax assets	516,574	602,776
	<u>18,606,647</u>	<u>16,974,452</u>
<b>Property, plant and equipment</b>	20,274,893	22,495,157
<b>Intangible assets</b>	4,458,381	5,014,697
<b>Future income tax assets</b>	1,166,112	423,441
<b>Goodwill</b>	<u>1,650,256</u>	<u>1,650,256</u>
	<u>46,156,289</u>	<u>46,558,003</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans (note 5)	5,323,081	3,451,883
Accounts payable and accrued liabilities	8,385,755	8,363,034
Deferred revenues	2,174,640	629,907
Derivative foreign currency forward contracts	-	189,589
Income taxes	1,199,052	1,546,464
Current portion of long-term debt	2,120,306	1,048,928
	<u>19,202,834</u>	<u>15,229,805</u>
<b>Long-term debt (note 6)</b>	18,553,931	20,787,627
<b>Future income tax liabilities</b>	<u>766,351</u>	<u>909,111</u>
	<u>38,523,116</u>	<u>36,926,543</u>
<b>Shareholders' Equity</b>		
<b>Share capital (note 7)</b>	13,125,309	13,125,309
<b>Stock options (note 7)</b>	347,831	347,831
<b>Warrants (note 7)</b>	962,086	962,086
<b>Contributed surplus (note 7)</b>	1,732,926	1,732,926
<b>Deficit</b>	(8,727,851)	(5,899,035)
<b>Accumulated other comprehensive income (loss)</b>	<u>192,872</u>	<u>(637,657)</u>
	<u>7,633,173</u>	<u>9,631,460</u>
	<u>46,156,289</u>	<u>46,558,003</u>
<b>Subsequent event (note 14)</b>		

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

Approved by the Board of Directors

(S) Denis Bertrand Director

(S) Bruno Doyon Director (1)

# Sigma Industries Inc.

## Interim Consolidated Statements of Deficit, Comprehensive Loss and Accumulated Other Comprehensive Income (Loss) (unaudited)

Deficit	Three Months Ended		Six Months Ended	
	October 24, 2009 \$	October 25, 2008 \$	October 24, 2009 \$	October 25, 2008 \$
<b>Retained earnings (deficit) – Beginning of period</b>	(7,376,515)	3,569,862	(5,899,035)	4,168,312
Net loss for the period	(1,351,336)	(7,101,250)	(2,828,816)	(7,699,700)
<b>Deficit – End of period</b>	<b>(8,727,851)</b>	<b>(3,531,388)</b>	<b>(8,727,851)</b>	<b>(3,531,388)</b>

Comprehensive Loss	Three Months Ended		Six Months Ended	
	October 24, 2009 \$	October 25, 2008 \$	October 24, 2009 \$	October 25, 2008 \$
<b>Net loss for the period</b>	(1,351,336)	(7,101,250)	(2,828,816)	(7,699,700)
Unrealized losses on available-for-sale financial assets, net of related future income taxes of \$7,479	-	(16,726)	-	(28,825)
Translation adjustment of a self-sustaining foreign operation's financial statements	177,462	(914,009)	830,529	(921,518)
<b>Comprehensive loss for the period</b>	<b>(1,173,874)</b>	<b>(8,031,985)</b>	<b>(1,998,287)</b>	<b>(8,650,043)</b>

Accumulated Other Comprehensive Income (Loss)	Three Months Ended		Six Months Ended	
	October 24, 2009 \$	October 25, 2008 \$	October 24, 2009 \$	October 25, 2008 \$
<b>Balance – Beginning of period</b>	15,410	(25,860)	(637,657)	(6,252)
Unrealized losses on available-for-sale financial assets, net of future income tax benefits of \$7,479	-	(16,726)	-	(28,825)
Translation adjustment of a self-sustaining foreign operation's financial statements	177,462	(914,009)	830,529	(921,518)
<b>Balance – End of period</b>	<b>192,872</b>	<b>(956,595)</b>	<b>192,872</b>	<b>(956,595)</b>

Total deficit and accumulated other comprehensive income amount to \$8,534,979 as at October 24, 2009 and total deficit and accumulated other comprehensive loss amounted to \$4,487,983 as at October 25, 2008.

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

# Sigma Industries Inc.

## Interim Consolidated Statements of Earnings (unaudited)

	Three Months Ended		Six Months Ended	
	October 24, 2009 \$	October 25, 2008 \$	October 24, 2009 \$	October 25, 2008 \$
<b>Sales</b>	10,712,088	16,760,586	21,942,348	31,969,663
<b>Cost of sales and operating expenses before the following items</b> (note 10a)	10,850,491	19,849,120	22,186,041	34,716,904
	(138,403)	(3,088,534)	(243,693)	(2,747,241)
Financial expenses (note 10a)	565,072	464,060	1,108,096	819,762
Depreciation and amortization (note 10a)	737,991	960,066	1,491,585	1,881,331
Restructuring costs (note 9)	225,918	436,431	315,013	436,431
Other non-cash charges (note 10d)	-	3,495,389	-	3,495,389
Loss on disposal of property, plant and equipment	50,699	-	51,177	-
Foreign exchange loss (gain)	102,621	(356,434)	488,480	(397,255)
	1,682,301	4,999,512	3,454,351	6,235,658
<b>Loss before income taxes</b> (note 10a)	(1,820,704)	(8,088,046)	(3,698,044)	(8,982,899)
<b>Income tax recovery</b>				
Current	-	82,601	-	380,598
Future	(469,368)	(1,069,397)	(869,228)	(1,663,797)
	(469,368)	(986,796)	(869,228)	(1,283,199)
<b>Net loss for the period</b>	(1,351,336)	(7,101,250)	(2,828,816)	(7,699,700)
<b>Basic and diluted net loss per share</b> (note 11)	(0.032)	(0.166)	(0.066)	(0.179)
<b>Basic and diluted weighted average number of shares outstanding</b> (note 11)	42,899,095	42,899,095	42,899,095	42,899,095

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

# Sigma Industries Inc.

## Interim Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended		Six Months Ended	
	October 24, 2009 \$	October 25, 2008 \$	October 24, 2009 \$	October 25, 2008 \$
<b>Cash flows from operating activities</b>				
Net loss for the period	(1,351,336)	(7,101,250)	(2,828,816)	(7,699,700)
Items not affecting cash and cash equivalents				
Depreciation of property, plant and equipment	456,951	589,362	929,302	1,113,171
Amortization of intangible assets	281,040	358,647	562,283	744,048
Amortization of deferred financing expenses	36,464	25,989	73,875	51,979
Amortization of deferred charges	-	12,057	-	24,112
Stock-based compensation	-	6,908	-	15,911
Loss on disposal of property, plant and equipment	50,699	-	51,177	-
Other non-cash charges (note 10d)	-	3,495,389	-	3,495,389
Unrealized exchange loss (gain) on derivative foreign currency forward contracts	144,967	723,530	(515,034)	723,075
Interest capitalized on long-term debt	1,450	8,497	2,863	15,721
Future income taxes	(469,368)	(1,069,397)	(869,228)	(1,663,797)
	(849,133)	(2,950,268)	(2,593,578)	(3,180,091)
Net change in non-cash working capital items (note 10b)	56,689	397,362	1,113,537	(34,359)
	(792,444)	(2,552,906)	(1,480,041)	(3,214,450)
<b>Cash flows from financing activities</b>				
Increase in bank loans	500,000	5,216,432	1,871,198	6,545,029
Long-term debt contracted	545,950	27,296	545,950	1,072,973
Payments on long-term debt	(545,021)	(1,118,762)	(959,125)	(2,149,818)
Increase in deferred financing expenses	(269)	(179,715)	(40,679)	(255,411)
	500,660	3,945,251	1,417,344	5,212,773
<b>Cash flows from investing activities</b>				
Investment financial assistance	40,343	-	40,343	-
Additions to property, plant and equipment	(17,835)	(914,893)	(35,976)	(1,501,696)
Increase in intangible assets	(12,279)	(15,822)	(19,337)	(39,342)
Proceeds from disposal of property, plant and equipment	339,539	-	343,789	-
	349,768	(930,715)	328,819	(1,541,038)
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	130,615	(760,176)	695,257	(758,785)
<b>Net change in cash and cash equivalents</b>	188,599	(298,546)	961,379	(301,500)
<b>Cash and cash equivalents – Beginning of period</b>	776,191	650,039	3,411	652,993
<b>Cash and cash equivalents – End of period</b> (note 10e)	964,790	351,493	964,790	351,493

**Additional information** (note 10c, d and e)

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

# **Sigma Industries Inc.**

Notes to Interim Consolidated Financial Statements (unaudited)

**October 24, 2009**

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## **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 Interim financial information**

The financial information as at October 24, 2009 and for the three-month and six-month periods ended October 24, 2009 and October 25, 2008 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the company's most recent audited annual consolidated financial statements, except for the new accounting standards as disclosed in note 4. However, all disclosures required for annual financial statements have not been included in these financial statements. These unaudited interim consolidated financial statements should therefore be read in conjunction with the company's most recent audited annual consolidated financial statements.

## **3 Basis of presentation and consolidation**

These interim 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 October 24, 2009, the company's subsidiaries are as follows:

- Sigma US Industries Inc. and its subsidiary Sigma OH Industries Inc.
- René Composites Materials Ltd.
- Transcam Composites Inc.
- Faroex Ltd.
- PNS-Tech Inc.

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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## 4 New accounting standards

### *Accounting changes adopted*

On April 26, 2009, the company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Section 3064, "*Goodwill and Intangible Assets*". This Section establishes standards for the recognition, measurement, presentation and disclosure applicable to intangible assets. It replaces Section 3062, "*Goodwill and Other Intangible Assets*", and Section 3450, "*Research and Development Costs*".

EIC-173, "*Credit Risk and the Fair Value of Financial Assets and Liabilities*". This standard clarifies the application of Section 3855, "*Financial Instrument-Recognition and Measurement*".

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

### *Future accounting changes*

In January 2009, the CICA issued Sections 1582, "*Business Combination*", 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.

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)  
October 24, 2009

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## 5 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%. It also has an available line of credit of \$1,000,000 in US dollars, bearing interest at US prime rate plus 4% and an available real estate line of credit of \$1,000,000 in Canadian dollars, bearing interest at prime rate plus 4%. 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 October 24, 2009.

## 6 Long-term debt

	As at October 24, 2009 \$	As at April 25, 2009 \$
Decreasing revolving bank loan, bearing interest at prime rate plus 4%, 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	9,596,774	9,788,710
Term loan of \$5,000,000, 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 has been given as security	5,000,000	5,000,000
Bond loans of \$1,588,369 (US\$1,510,000) and \$2,009,129 (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 \$37,509 (US\$35,659) until May 2018 and \$15,408 (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 as well as an additional guarantee from the company	3,388,869	4,018,221
(forward)	17,985,643	18,806,931

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)  
**October 24, 2009**

	As at October 24, 2009 \$	As at April 25, 2009 \$
(brought forward)	17,985,643	18,806,931
Term loan of \$1,577,850 (US\$1,500,000), bearing interest at 3%, payable in monthly principal instalments including interest of \$15,869 (US\$15,086), maturing in June 2018. A hypothec on tangible and intangible moveables owned by a self-sustaining foreign subsidiary has been given as security as well as an additional guarantee from the company	1,460,473	1,814,550
Bank loan, bearing interest at prime rate plus 4%, 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	678,571	690,476
Term loan of de \$525,950 (US\$500,000), bearing interest at 5.5 %, payable in monthly principal instalments including interest of \$4,297 (US\$4,085), maturing in September 2025. A hypothec on tangible and intangible moveables owned by a self-sustaining foreign subsidiary has been given as security as well as an additional guarantee from the company	525,950	-
Bank loan, 3%, payable in monthly principal instalments of \$10,424 (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	183,254	278,914
Balance of purchase price payable, 6%, payable in annual principal instalments of \$105,190 (US\$100,000), maturing in March 2010	167,188	241,940
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 *	57,475	54,612
Reimbursed during the period	-	403,332
Deferred financing expenses	(384,317)	(454,200)
	<u>20,674,237</u>	<u>21,836,555</u>
Less: Current portion	<u>2,120,306</u>	<u>1,048,928</u>
	<u>18,553,931</u>	<u>20,787,627</u>

\* 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%.

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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The annual principal instalments due on long-term debt over the next five twelve-month periods are as follows:

	\$
2010	2,120,306
2011	4,146,949
2012	4,436,610
2013	5,710,239
2014	1,101,410

## 7 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 April 26, 2008:

Issued

	As at October 24, 2009		As at April 25, 2009	
	Number	Amount \$	Number	Amount \$
Balance – Beginning and End of period	42,899,095	13,125,309	42,899,095	13,125,309

### Contributed surplus

The following table presents the contributed surplus activity since April 26, 2008:

	Six Months Ended October 24, 2009 \$	Twelve Months Ended April 25, 2009 \$
Balance – Beginning of period	1,732,926	374,188
Stock options forfeited	-	84,496
Matured warrants	-	1,274,242
Balance – End of period	1,732,926	1,732,926

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

## Warrants

The following tables present information about warrants outstanding since April 26, 2008 and summarize certain information about warrants outstanding and exercisable as at October 24, 2009:

	Six Months Ended October 24, 2009			Twelve Months Ended April 25, 2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable – Beginning of period	2,878,159	962,086	1.12	8,430,106	2,236,328	0.94
Matured	-	-	-	(5,551,947)	(1,274,242)	0.86
Outstanding and exercisable – End of period	2,878,159	962,086	1.12	2,878,159	962,086	1.12

Exercise price	Warrants outstanding and exercisable as at October 24, 2009	
	Number	Weighted average remaining contractual life (years)
\$0.40	100,000	0.95
\$1.15	2,778,159	2.39
	<u>2,878,159</u>	

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

## 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 April 26, 2008 and summarize certain information about stock options outstanding and exercisable as at October 24, 2009:

	Six Months Ended October 24, 2009			Twelve Months Ended April 25, 2009		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable – Beginning of period	1,355,000	347,831	0.52	1,685,000	415,508	0.53
Forfeited	-	-	-	(330,000)	(84,496)	0.56
Compensation costs for the period	-	-	-	-	16,819	-
Outstanding and exercisable – End of period	1,355,000	347,831	0.52	1,355,000	347,831	0.52

Exercise price	Options outstanding and exercisable as at October 24, 2009	
	Number	Weighted average remaining contractual life (years)
\$0.40	1,035,000	0,95
\$0.80	20,000	2,10
\$0.92	300,000	1,94
	<u>1,355,000</u>	

# **Sigma Industries Inc.**

Notes to Interim Consolidated Financial Statements (unaudited)

**October 24, 2009**

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## **8 Capital disclosures**

The company's objectives when managing capital are to:

- have sufficient funds that allow pursuing its growth strategy;
- deploy capital to provide an appropriate return on investment to its shareholders; and
- 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:

- cash and cash equivalents;
- bank loans;
- long-term debt, including the current portion; and
- 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 October 24, 2009, the Company was in breach of a ratio requesting a minimum shareholders' equity balance to be maintained within Canadian operations. Subsequent to the end of the quarter, the Company obtained a waiver with respect to that ratio.

In order to follow up its financial leverage as at October 24, 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 the company's U.S. subsidiaries. This ratio was 1.06:1 as at October 24, 2009.

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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## 9 Restructuring costs

For the three-month and six-month periods ended October 24, 2009, the company recorded and fully paid restructuring charges totalling \$225,918 and \$315,013 respectively representing professional fees and severance pay.

## 10 Additional disclosures

(a) Consolidated statements of earnings

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>October 24, 2009</u>	<u>October 25, 2008</u>	<u>October 24, 2009</u>	<u>October 25, 2008</u>
	\$	\$	\$	\$
Cost of sales including depreciation of property, plant and equipment	10,105,666	18,458,397	20,602,695	32,323,732
Depreciation of property, plant and equipment	456,951	589,362	929,302	1,113,171
Amortization of intangible assets	281,040	358,647	562,283	744,048
Amortization of deferred charges	-	12,057	-	24,112
Research and development expenses	36,984	126,616	93,968	259,711
Tax credits	-	-	-	(84,779)
Stock-based compensation costs	-	6,908	-	15,911
Interest on long-term debt	340,920	263,455	650,672	479,529
Interest on bank loans and bank charges	187,688	174,616	383,549	288,164
Amortization of deferred financing expenses	36,464	25,989	73,875	51,979

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

(b) Consolidated statements of cash flows

Net change in non-cash working capital items

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
	\$	\$	\$	\$
Accounts receivable	(530,445)	(2,895,081)	(393,208)	(2,019,698)
Inventories	229,587	(929,520)	252,706	(1,973,519)
Derivative foreign currency forward contracts	(221,979)	25,608	(158,042)	53,487
Prepaid expenses	96,974	201,021	(403,063)	330,438
Accounts payable and accrued liabilities	149,680	3,773,924	472,157	2,889,975
Deferred revenues	437,122	218,033	1,570,441	545,062
Income taxes	(104,250)	3,377	(227,454)	139,896
	<u>56,689</u>	<u>397,362</u>	<u>1,113,537</u>	<u>(34,359)</u>

(c) Additional information

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
	\$	\$	\$	\$
Interest paid	389,226	293,774	749,750	595,633
Income taxes paid	102,942	123,041	277,413	284,519

(d) Other non-cash charges

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
	\$	\$	\$	\$
Property, plant and equipment	-	1,306,447	-	1,306,447
Intangible assets	-	1,352,809	-	1,352,809
Goodwill	-	836,133	-	836,133
Total	<u>-</u>	<u>3,495,389</u>	<u>-</u>	<u>3,495,389</u>

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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For the three-month period ended October 25, 2008, 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, intangible assets and goodwill in the subsidiary. Based on this review, the company recorded other non-cash charges of \$3,495,389, which are mostly related to one of its subsidiaries.

(e) Cash and cash equivalents

	As at October 24, 2009 \$	As at April 25, 2009 \$
Cash	513,036	3,411
Cash equivalents	451,754	-
Total	<u>964,790</u>	<u>3,411</u>

Cash equivalents consist of the balance of an amount deposited by the self-sustaining foreign subsidiary into an escrow bank account in the United States. This amount (US\$500,000) results from the term loan contracted during the current quarter and shall be used only to reimburse the principal and interest of the two bond loans (US\$1,510,000 and US\$1,910,000) over a 12-month period beginning in October 2009 and to pay the interest of the said loan over a 12-month period ending in September 2010.

## 11 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:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	October 24, 2009	October 25, 2008	October 24, 2009	October 25, 2008
Basic and diluted weighted average number of shares outstanding	42,899,095	42,899,095	42,899,095	42,899,095

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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Furthermore, the following table presents the items excluded from the calculation of diluted earnings per share for the three-month and six-month periods ended October 24, 2009 and October 25, 2008 because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
Weighted average number of stock options at exercise prices varying from \$0.40 to \$0.92	337,822	370,233	337,822	790,329
Weighted average number of warrants at exercise prices varying from \$0.40 to \$1.15	717,568	2,068,023	717,568	4,169,775

## 12 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:

	<b>As at October 24, 2009 \$</b>	<b>As at April 25, 2009 \$</b>
Canada	20,572,146	22,018,542
United States	5,811,384	7,141,568
	<u>26,383,530</u>	<u>29,160,110</u>

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
	\$	\$	\$	\$
<b>Sales by geographic region</b>				
United States	6,334,770	10,137,819	13,106,066	20,823,789
Canada	3,523,609	6,216,811	7,622,260	10,427,916
South America	361,830	49,782	486,105	103,249
Asia	230,721	241,795	402,168	357,709
Europe	114,379	114,379	173,273	228,758
Australia	146,779	-	152,476	28,242
	<u>10,712,088</u>	<u>16,760,586</u>	<u>21,942,348</u>	<u>31,969,663</u>

For the three-month and six-month periods ended October 24, 2009, sales from the five largest customers represent 65.7% and 66.6% of the company's total sales compared to 64% and 67.1% respectively for the three-month and six-month periods ended October 25, 2008. Two of these customers represent more than 10% of the company's total sales for the three-month and six-month periods ended October 24, 2009 and October 25, 2008. For the three-month and six-month periods ended October 24, 2009 and October 25, 2008, the most important customer represents more than 1.5 time (1.5 time in 2008) as much as that of the second most important customer of the company.

Supplementary information:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<b>October 24, 2009</b>	<b>October 25, 2008</b>	<b>October 24, 2009</b>	<b>October 25, 2008</b>
	\$	\$	\$	\$
<b>Sales by family of products</b>				
Heavy duty trucks – Class 8	5,496,304	8,096,181	11,468,846	16,783,413
Bus	1,644,958	1,552,166	4,099,111	2,439,395
Snow removal	1,690,688	2,557,661	2,299,698	3,259,085
Agriculture	887,545	1,682,561	1,599,586	3,570,439
Industrial	590,947	1,383,305	1,175,174	3,116,277
Wind energy	182,050	918,746	787,537	1,581,436
Other	219,596	569,966	512,396	1,219,618
	<u>10,712,088</u>	<u>16,760,586</u>	<u>21,942,348</u>	<u>31,969,663</u>

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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## 13 Financial instruments

The company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of October 24, 2009.

### Fair value

Cash and cash equivalents, 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 cash equivalents and accounts receivable. Cash and cash equivalents are 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 70% of the company's sales are coming from five customers for the six-month period ended October 24, 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 six-month period ended October 24, 2009, the company has not recorded any bad debt expense in excess of its provision for bad debts. The allowance for doubtful accounts amounted to \$420,260 as at October 24, 2009 and \$450,769 as at April 25, 2009.
- \$4,494,771 or 58% of the company's trade receivables is outstanding for less than 30 days, and \$2,486,914 or 32.1% is outstanding for a period from 31 to 60 days.
- In February 2009, 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 October 24, 2009 and April 25, 2009, the company's exposure to interest risk is as follows:

Cash and cash equivalents	Variable interest rate
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 6

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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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 October 24, 2009, approximately 72.5% of the long-term debt, representing \$15.3 million out of a total long-term debt of \$21.1 million (including the current portion, but excluding deferred financing expenses), bears interest at a floating rate.

For the six-month period ended October 24, 2009, a  $\pm 1\%$  variation in interest rates on the debt would have had an impact of \$67,357 on the company's loss before income taxes.

## Currency risks and foreign currency forward contracts

Sales denominated in US dollars accounted for 49.3% and 51.6% respectively of the company's total sales for the three-month and six-month periods ended October 24, 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 October 24, 2009 and April 25, 2009, the company held contracts to purchase and sell US dollars at various forward rates, which are summarized as follows:

Description	Expiration Date	Contractual amount \$	Weighted average contractual forward rate \$	Fair value \$
As at October 24, 2009				
Sale of US dollars	November 2009 to January 2011	4,200,000	1.1854	554,772
Purchase of US dollars	November 2009	160,000	1.0415	1,718
As at April 25, 2009				
Sale of US dollars	May 2009 to April 2010	3,800,000	1.1750	(116,586)

# Sigma Industries Inc.

Notes to Interim Consolidated Financial Statements (unaudited)

October 24, 2009

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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 six-month period ended October 24, 2009. 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:

	<b>Effect of the CAN\$ variation against the US\$</b>
Loss before income taxes	45,400

## 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 October 24, 2009:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0 to 12 months</b>	<b>12 to 24 months</b>	<b>After 24 months</b>
	\$	\$	\$	\$	\$
Bank loans	5,323,081	5,323,081	5,323,081	-	-
Accounts payable and accrued liabilities	8,385,755	8,385,755	8,385,755	-	-
Long-term debt including the current portion	20,674,237	20,571,794	2,406,693	4,192,049	13,973,052

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

## 14 Subsequent event

On December 1, 2009, the Company announced that its self-sustaining foreign subsidiary, Sigma OH Industries Inc. ("Sigma OH"), has filed for Chapter 11 protection. Sigma OH will continue to operate as a Debtor-in-Possession under applicable United States Bankruptcy provisions. Sigma OH is planning to conduct a sale of its assets under section 363 of the Bankruptcy Code. As at the date of the filing, Sigma OH has an outstanding secured debt of approximately US\$5.1 million, essentially with state and local authorities, and accounts payable totalling nearly US\$2.2 million.

On December 15 2009, the Company obtained a waiver with respect to maintaining a minimum shareholders' equity balance within Canadian operations.

