

Sigma Industries Inc.

Interim Consolidated Financial Statements
(Unaudited)
October 25, 2008

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 25, 2008 \$	As at April 26, 2008 \$
Assets		
Current assets		
Cash	351,493	652,993
Short-term investments	13,905	55,620
Accounts receivable	14,326,594	11,813,479
Income taxes receivable	465,183	473,056
Inventories	10,429,146	8,178,156
Derivative foreign currency forward contracts	-	106,988
Prepaid expenses	548,835	872,865
Future income tax assets	164,738	151,848
	<u>26,299,894</u>	<u>22,305,005</u>
Property, plant and equipment (note 10e)	23,645,996	23,174,960
Deferred charges	24,083	48,197
Intangible assets (note 10e)	5,563,871	7,597,478
Future income tax assets (note 10f)	2,455,796	1,423,223
Goodwill (note 10e)	<u>1,650,256</u>	<u>2,486,389</u>
	<u>59,639,896</u>	<u>57,035,252</u>
Liabilities		
Current liabilities		
Bank loans (note 5)	6,545,029	-
Accounts payable and accrued liabilities	14,496,542	10,849,413
Deferred revenues	775,805	127,582
Derivative foreign currency forward contracts	669,575	-
Income taxes	2,134,204	2,046,245
Current portion of long-term debt (note 6)	<u>19,125,721</u>	<u>4,968,430</u>
	43,746,876	17,991,670
Long-term debt (note 6)	564,051	14,675,077
Future income tax liabilities	<u>3,649,708</u>	<u>4,055,112</u>
	<u>47,960,635</u>	<u>36,721,589</u>
Shareholders' Equity		
Share capital (note 7)	13,125,309	13,125,309
Stock options (note 7)	403,528	415,508
Warrants (note 7)	2,208,288	2,236,328
Contributed surplus (note 7)	430,119	374,188
Retained earnings (deficit)	(3,531,388)	4,168,312
Accumulated other comprehensive loss	<u>(956,595)</u>	<u>(6,252)</u>
	<u>11,679,261</u>	<u>20,313,393</u>
	<u>59,639,896</u>	<u>57,035,252</u>
Subsequent events (note 15)		

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 Retained Earnings (Deficit), Comprehensive Loss and Accumulated Other Comprehensive Income (Loss) (unaudited)

Retained Earnings (Deficit)	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Retained earnings – Beginning of period	3,569,862	3,825,928	4,168,312	4,744,152
Adjustment related to the implementation of a new accounting standard	-	-	-	16,305
Deferment of the expiry date of warrants issued as part of the private placement completed in May 2006	-	(41,707)	-	(41,707)
Net loss for the period	(7,101,250)	(583,192)	(7,699,700)	(1,517,721)
Retained earnings (deficit) – End of period	(3,531,388)	3,201,029	(3,531,388)	3,201,029
Comprehensive Loss	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Net loss for the period	(7,101,250)	(583,192)	(7,699,700)	(1,517,721)
Unrealized losses on available-for-sale financial assets arising during the period, net of related future income taxes of \$7,479	(16,726)	(20,312)	(28,825)	(42,725)
Translation adjustment of a self-sustaining foreign operation's financial statements	(914,009)	-	(921,518)	-
Comprehensive loss – End of period	(8,031,985)	(603,504)	(8,650,043)	(1,560,446)
Accumulated Other Comprehensive Income (Loss)	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Balance – Beginning of period	(25,860)	21,712	(6,252)	-
Adjustment related to the implementation of a new accounting standard	-	-	-	44,125
Unrealized losses on available-for-sale financial assets arising during the period, net of future income tax benefits of \$7,479	(16,726)	(20,312)	(28,825)	(42,725)
Translation adjustment of a self-sustaining foreign operation's financial statements	(914,009)	-	(921,518)	-
Balance – End of period	(956,595)	1,400	(956,595)	1,400

Total retained earnings (deficit) and accumulated other comprehensive income (loss) amount to (\$4,487,983) and \$3,202,429 as at October 25, 2008 and October 27, 2007, respectively.

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 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Sales	16,760,586	19,034,272	31,969,663	37,814,738
Cost of sales and operating expenses before the following items (note 10g,11a)	19,849,120	18,464,287	34,716,994	37,261,624
	(3,088,534)	569,985	(2,747,331)	553,114
Financial expenses (note 11a)	464,060	412,583	819,762	826,786
Depreciation and amortization (note 11a)	960,066	842,769	1,881,331	1,642,749
Restructuring costs (note 9)	436,431	-	436,431	-
Other non-cash charges (note 10e)	3,495,389	-	3,495,389	-
Foreign exchange loss (gain)	(356,434)	133,256	(397,255)	234,249
	4,999,512	1,388,608	6,235,568	2,703,784
Loss before income taxes (note 11a)	(8,088,046)	(818,623)	(8,982,899)	(2,150,670)
Income tax recovery				
Current	82,601	80,745	380,598	484,500
Future (note 10f)	(1,069,397)	(316,176)	(1,663,797)	(1,117,449)
	(986,796)	(235,431)	(1,283,199)	(632,949)
Net loss for the period	(7,101,250)	(583,192)	(7,699,700)	(1,517,721)
Basic and diluted net loss per share (note 13)	(0.166)	(0.014)	(0.180)	(0.035)
Weighted average number of shares outstanding (note 13)				
Basic	42,899,095	42,899,095	42,899,095	42,899,095
Diluted	42,899,095	43,013,792	42,899,095	43,228,059

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

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Sigma Industries Inc.

Interim Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Cash flows from operating activities				
Net loss for the period	(7,101,250)	(583,192)	(7,699,700)	(1,517,721)
Items not affecting cash				
Depreciation of property, plant and equipment	589,362	447,607	1,113,171	826,104
Amortization of intangible assets	358,647	383,413	744,048	793,148
Amortization of financing expenses	25,989	38,084	51,979	66,692
Amortization of deferred charges	12,057	11,749	24,112	23,497
Stock-based compensation	6,908	31,894	15,911	71,287
Loss on disposal of property, plant and equipment	-	4,211	-	10,706
Other non-cash charges (note 10e)	3,495,389	-	3,495,389	-
Unrealized exchange loss on derivative foreign currency forward contracts	749,138	32,946	776,562	66,975
Interest capitalized on long-term debt	8,497	21,681	15,721	46,043
Future income taxes	(1,069,397)	(316,176)	(1,663,797)	(1,117,449)
	<u>(2,924,660)</u>	<u>72,217</u>	<u>(3,126,604)</u>	<u>(730,718)</u>
Net change in non-cash working capital items (note 11b)	371,754	1,418,511	(87,846)	2,696,007
	<u>(2,552,906)</u>	<u>1,490,728</u>	<u>(3,214,450)</u>	<u>1,965,289</u>
Cash flows from financing activities				
Variation in bank loans	5,216,432	(300,000)	6,545,029	1,058,727
Long-term debt contracted	27,296	-	1,072,973	-
Payments on long-term debt	(1,118,762)	(620,292)	(2,149,818)	(1,260,190)
Increase in deferred financing expenses	(179,715)	-	(255,411)	-
Equity component issue expenses	-	-	-	(1,640)
	<u>3,945,251</u>	<u>(920,292)</u>	<u>5,212,773</u>	<u>(203,103)</u>
Cash flows from investing activities				
Decrease in short-term investments	-	15,434	-	15,434
Additions to property, plant and equipment	(914,893)	(1,327,677)	(1,501,696)	(2,118,838)
Increase in intangible assets	(15,822)	(12,519)	(39,342)	(15,154)
Proceeds from disposal of property, plant and equipment	-	7,806	-	16,806
	<u>(930,715)</u>	<u>(1,316,956)</u>	<u>(1,541,038)</u>	<u>(2,101,752)</u>
Effect of foreign exchange rate changes on cash	<u>(760,176)</u>	<u>-</u>	<u>(758,785)</u>	<u>-</u>
Decrease in cash	<u>(298,546)</u>	<u>(746,520)</u>	<u>(301,500)</u>	<u>(339,566)</u>
Cash – Beginning of period	<u>650,039</u>	<u>1,043,403</u>	<u>652,993</u>	<u>636,449</u>
Cash – End of period	<u>351,493</u>	<u>296,883</u>	<u>351,493</u>	<u>296,883</u>
Additional information (note 11c)				

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

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Notes to Interim Consolidated Financial Statements (unaudited)

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1 Statutes, nature of activities and going concern

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, light forestry and alternative energy market segments.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the company will be able to realize its assets and discharge its liabilities in the normal course of business. Management continues to review the company's revenue generating activities and its expenditure levels to increase net cash flows. Due to losses incurred in the three-month period ended October 25, 2008, the key financial ratios have not been met. The company is presently discussing with its long-term lenders in order to change the current credit terms. If the company fails to renegotiate these credit terms, it will have to seek additional sources of financing in the form of subordinated debts, convertible debentures or equity. Management believes that these actions make the use of the going concern basis appropriate. If the going concern basis is not appropriate, adjustments might be necessary in the carrying amounts and/or classification of assets, liabilities and expenses in these financial statements.

2 Interim financial information

The financial information as at October 25, 2008 and for the three-month and six-month periods ended October 25, 2008 and October 27, 2007 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 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 25, 2008, the company's subsidiaries are as follows:

- Sigma US Industries Inc. and its subsidiary Sigma OH Industries Inc.
- René Composites Materials Ltd. and its subsidiary GSC Inc.

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- Transcam Composites Inc.
- Faroex Ltd.
- PNS-Tech Inc.

4 New accounting standards

Accounting changes adopted

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. The company has not yet completed its assessment of the impact of the adoption of this new standard on its consolidated financial statements.

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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 0.5%. It also has an available credit facility of \$2,500,000 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. Under these agreements, the company has agreed to respect certain conditions and financial ratios, which have not been met as at October 25, 2008 (note 1).

6 Long-term debt

	As at October 25, 2008 \$	As at April 26, 2008 \$
Decreasing revolving bank loan, bearing interest at prime rate plus 0.60%, payable in monthly principal instalments of \$191,935, from May 2008 to June 2011. 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	* 10,940,323	11,900,000
Bond loans of \$1,922,079 (US\$1,510,000) and \$2,431,239 (US\$1,910,000), bearing interest at 5.75%, and 6.5% respectively, payable in monthly principal instalments including interest for the two bond loans of \$44,331 (US\$34,827) beginning in November 2008, maturing in December 2014 and June 2023. A hypothec on tangible and intangible moveables owned by a self-sustaining subsidiary has been given as security for these loans as well as an additional guarantee from the company	* 4,353,318	-
Term loan of \$1,909,350 (US\$1,500,000), bearing interest at 3% respectively, payable in monthly principal instalments including interest \$19,203 (US\$15,086), beginning in November 2008, maturing in June 2018. A hypothec on tangible and intangible moveables owned by a self-sustaining subsidiary has been given as security for this loan as well as an additional guarantee from the company	* 1,909,350	-
Bank loan, bearing interest at prime rate plus 0.60%, 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	* 761,904	833,333
Decreasing bank loan, bearing interest at prime rate plus 4%, payable in monthly principal instalments of \$138,889 plus interest, maturing in December 2009. 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	* 794,442	1,627,776
	<hr/>	<hr/>
(forward)	18,759,337	14,361,109

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	As at October 25, 2008 \$	As at April 26, 2008 \$
(brought forward)	18,759,337	14,361,109
Bank loan, 3%, payable in monthly principal instalments of \$10,104 (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	*	346,324
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, maturing in February 2009	297,281	485,202
Balance of purchase price payable, 6 %, payable in annual principal instalments of \$101,960 (US\$100,000), maturing in March 2010	254,580	203,260
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	419,840	441,080
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	7,443	10,060
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	82,109	78,017
Bank loan (note 5) payable through the issuance of a new long-term debt	-	3,945,029
Deferred financing expenses	(494,969)	(232,204)
Term loan, non-interest bearing, reimbursed during the period	-	5,450
	<u>19,689,772</u>	<u>19,643,507</u>
Less: Current portion (*)	<u>19,125,721</u>	<u>4,968,430</u>
	<u>564,051</u>	<u>14,675,077</u>

* Due to non-compliance with the financial ratios required by the creditors, all these debts have been reclassified in the current portion (notes 1 and 8).

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

	\$
2009	19,125,721
2010	202,496
2011	79,748
2012	55,416
2013	55,416

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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 May 1, 2007:

Issued

	Six Months Ended October 25, 2008		Twelve Months Ended April 26, 2008	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of period	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 period	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:

	Six Months Ended October 25, 2008 \$	Twelve Months Ended April 26, 2008 \$
Balance – Beginning of period	374,188	8,103
Stock options forfeited	27,891	73,978
Matured warrants	28,040	292,107
Balance – End of period	430,119	374,188

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Warrants

The following tables present information about warrants outstanding since May 1, 2007 and summarize certain information about warrants outstanding and exercisable as at October 25, 2008:

	Six Months Ended October 25, 2008			Twelve Months Ended April 26, 2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of period	8,430,106	2,236,328	0.94	9,227,438	2,486,728	0.91
Forfeited	(135,289)	(28,040)	0.90	(797,332)	(292,107)	0.60
Deferment of the expiry date	-	-	-	-	41,707	-
Outstanding and exercisable – End of period	8,294,817	2,208,288	0.95	8,430,106	2,236,328	0.94

Warrants outstanding and exercisable as at October 25, 2008

Exercise price	Number	Weighted average remaining contractual life (years)
\$0.40	100,000	1.95
\$0.85	5,416,658	0.27
\$1.15	2,778,159	3.39
	<u>8,294,817</u>	

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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 as at October 25, 2008:

	Six Months Ended October 25, 2008			Twelve Months Ended April 26, 2008		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding - Beginning of period	1,685,000	415,508	0.53	1,835,000	398,382	0.53
Forfeited	(200,000)	(27,891)	0.40	(150,000)	(73,978)	0.60
Compensation costs for the period	-	15,911	-	-	91,104	-
Outstanding – End of period	1,485,000	403,528	0.55	1,685,000	415,508	0.53

Exercise price	Options outstanding as at October 25, 2008		Options exercisable as at October 25, 2008	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$0.40	1,035,000	1.95	1,035,000	1.95
\$0.80	150,000	3.10	100,000	3.10
\$0.92	300,000	2.94	300,000	2.94
	1,485,000		1,435,000	

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8 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:

1. cash and short-term investments;
2. bank loans;
3. long-term debt, including the current portion; and
4. 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 October 25, 2008, the ratios have not been met due to losses incurred in the three-month period ended October 25, 2008. Accordingly, the company recorded all debts related to non-compliance with these ratios in the current portion of the long-term debt. Unmet key ratios are the total debt to tangible net worth and the working capital. The company is presently discussing with its long-term lenders in order to change the current credit terms. If the company fails to renegotiate these credit terms, it will have to seek additional sources of financing in the form of subordinated debts, convertible debentures or equity.

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In order to follow up its financial leverage, the company uses mainly the total debt to tangible net worth ratio that it aims to maintain at a level below or equal to 3.00:1 since August 31, 2008. The total debt to tangible net worth ratio is measured on the latest quarterly closing date. As at October 25, 2008 and April 26, 2008, the total debt to tangible net worth ratio is detailed as follows:

	As at October 25, 2008 \$	As at April 26, 2008 \$
Total debt		
Total liabilities	47,960,635	36,721,859
Less :		
Future income tax liabilities	(3,649,708)	(4,055,112)
Cash	(351,493)	(652,993)
Total debt	<u>43,959,434</u>	<u>32,013,754</u>
Tangible net worth		
Shareholders' Equity	11,679,261	20,313,393
Plus :		
Long-term future income tax liabilities	3,649,708	4,055,112
Less :		
Intangible assets	(5,563,871)	(7,597,478)
Goodwill	(1,650,256)	(2,486,389)
Long-term future income tax assets	(2,455,796)	(1,423,223)
Deferred financing expenses	(494,969)	(232,204)
Deferred charges	(24,083)	(48,197)
Tangible net worth	<u>5,139,994</u>	<u>12,581,194</u>
Total debt/tangible net worth ratio	<u>8.55</u>	<u>2.54</u>

9 Restructuring costs

For the three-month period ended October 25, 2008, the company recorded restructuring charges totalling \$436,431 representing mostly severance pay and layoff benefits related to the company's subsidiaries.

10 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 indicate that they might be impaired. The company performed an impairment test for one of its subsidiaries in the three-month period ended October 25, 2008.
- b) 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 net carrying value of a reporting unit exceeds its fair value, the second step must be performed. In this step, the amount of the impairment loss, if

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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 has elected to perform its impairment test for the three-month period ended October 25, 2008 and has recognized an impairment loss for one of its subsidiaries.

- c) Concerning long-lived assets, 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. For the three-month period ended October 25, 2008, an impairment loss has been recorded.
- d) 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 good 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.
- e) Based on the review described in point d), the company recorded other non-cash charges of \$3,495,389, which are mostly related to one of the company's subsidiaries. These charges are detailed as follows :

	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Property, plant and equipment	1,306,447	-	1,306,447	-
Intangible assets	1,352,809	-	1,352,809	-
Goodwill	836,133	-	836,133	-
Total	3,495,389	-	3,495,389	-

- f) Furthermore, as part of the review of each subsidiary, the company wrote off future income tax assets of \$1,291,256 from its self-sustaining subsidiary as a result of losses accumulated since the acquisition of this subsidiary.
- g) The company also recorded a write-down of inventories amounting to \$179,562 and an amount receivable of \$82,100, which are reflected in the cost of sales and operating expenses.

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11 Additional disclosures

(a) 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 25, 2008</u>	<u>October 27, 2007</u>	<u>October 25, 2008</u>	<u>October 27, 2007</u>
	\$	\$	\$	\$
Cost of sales	17,869,035	16,438,856	31,210,561	33,244,948
Depreciation of property, plant and equipment	589,362	447,607	1,113,171	826,104
Amortization of intangible assets	358,647	383,413	744,048	793,148
Amortization of deferred charges	12,057	11,749	24,112	23,497
Research and development costs	126,616	27,357	259,711	156,582
Tax credits	-	-	(84,779)	-
Grants	-	(3,878)	-	(3,878)
Stock-based compensation costs	6,908	31,894	15,911	71,287
Interest on long-term debt	263,455	251,986	479,529	516,596
Interest on bank loans and bank charges	174,616	122,513	288,164	243,498
Amortization of financing expenses	25,989	38,084	51,979	66,692

(b) Statements of cash flows

Net change in non-cash working capital items

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>October 25, 2008</u>	<u>October 27, 2007</u>	<u>October 25, 2008</u>	<u>October 27, 2007</u>
	\$	\$	\$	\$
Accounts receivable	(2,895,081)	(492,125)	(2,019,698)	129,008
Inventories	(929,520)	1,629,293	(1,973,519)	3,313,408
Prepaid expenses	201,021	167,042	330,438	44,045
Accounts payable and accrued liabilities	3,773,924	112,015	2,889,975	(1,116,294)
Deferred revenues	218,033	(37,138)	545,062	(184,074)
Income taxes	3,377	39,424	139,896	509,914
	<u>371,754</u>	<u>1,418,511</u>	<u>(87,846)</u>	<u>2,696,007</u>

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(c) Additional information

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>October 25, 2008</u>	<u>October 27, 2007</u>	<u>October 25, 2008</u>	<u>October 27, 2007</u>
	\$	\$	\$	\$
Interest paid	293,774	291,421	595,633	663,446
Income taxes paid (recovered)	123,041	41,321	284,519	(25,415)

12 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 of October 25, 2008.

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. chartered 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 67.1% of the company's sales are coming from five customers for the six-month period ended October 25, 2008, the company believes that the credit risk associated with these customers and its accounts receivable in general is limited for the following reasons:

- In the past two years, the company has not recorded bad expenses in excess of its provision for bad debts. Allowance for doubtful accounts amounted to \$132,586 as at October 25, 2008 and \$132,262 as at April 26, 2008 respectively.
- Just above 63.6% of the company's trade receivables is outstanding for less than 30 days, and approximately 28.1% are outstanding for a period from 31 to 60 days.

Interest rate risk

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

Cash	Variable interest rate
Short-term investments	Non-interest bearing
Accounts receivable	Non-interest bearing
Bank loans	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 6

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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 25, 2008, approximately 63.6% of the long-term debt, representing \$12.8 million out of a total long-term debt of \$20.2 million (including the current portion, but excluding deferred financing expenses), bears interest at a floating rate.

For the six-month period ended October 25, 2008, a 1% hypothetical increase in interest rates on the debt would have had a negative impact of \$69,074 on the company's loss before income taxes and a 1% hypothetical decrease in interest rates on the debt would have had a reverse effect on the company's loss before income taxes.

Foreign exchange risk

Sales denominated in US dollars accounted for 57.9% and 58.2% respectively of the company's total sales for the three-month and six-month periods ended October 25, 2008. 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 25, 2008 and as at April 26, 2008, the Company held contracts to sell US dollars and purchase US dollars and euros at various forward rates which are summarized as follows:

Description	Expiration Date	Contractual amount \$	Weighted average contractual forward rate \$	Fair Value \$
As at October 25, 2008				
Sale of US dollars	October 2008 to December 2009	5,650,000	1.0895	(992,854)
Purchase of US dollars	November 2008 to March 2009	1,140,000	0.9848	323,279
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

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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 average rise against the US dollar and euro during the second quarter of 2008. This sensitivity analysis is based on the net exposure of sales denominated in US dollars less purchases denominated in US dollars and euros 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 and euros:

	Effect of the CAN\$ rise against the US\$	Effect of the CAN\$ rise against the euro
Earnings before income taxes	28,500	713

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 25, 2008:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	After 24 months \$
Bank loans	6,545,029	6,545,029	6,545,029	-	-
Accounts payable and accrued liabilities	14,059,446	14,059,446	14,059,446	-	-
Long-term debt	19,689,772	20,197,751	19,629,575	202,496	365,680

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

13 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>	
	<u>October 25, 2008</u>	<u>October 27, 2007</u>	<u>October 25, 2008</u>	<u>October 27, 2007</u>
Basic weighted average number of shares outstanding	42,899,095	42,899,095	42,899,095	42,899,095
Dilutive effect of stock options and warrants	-	114,697	-	328,964
Diluted weighted average number of shares outstanding	<u>42,899,095</u>	<u>43,013,792</u>	<u>42,899,095</u>	<u>43,228,059</u>

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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 25, 2008 and October 27, 2007 because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect:

	Three Months Ended		Six Months Ended	
	October 25, 2008	October 27, 2007	October 25, 2008	October 27, 2007
Weighted average number of stock options at exercise prices varying from \$0.40 to \$0.92	370,233	149,589	790,329	295,891
Weighted average number of warrants at exercise prices varying from \$0.40 to \$1.15	2,068,023	2,076,821	4,169,775	2,787,223

14 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:

	As at October 25, 2008 \$	As at April 26, 2008 \$
Canada	23,830,699	27,714,173
United States	7,029,424	5,544,654
	<u>30,860,123</u>	<u>33,258,827</u>

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

	Three Months Ended		Six Months Ended	
	October 25, 2008 \$	October 27, 2007 \$	October 25, 2008 \$	October 27, 2007 \$
Sales by geographic region				
United States	10,137,819	13,030,541	20,823,789	27,371,222
Canada	6,216,811	5,754,973	10,427,916	9,713,980
Asia	241,795	42,846	357,709	218,296
Europe	114,379	123,579	228,758	181,652
South America	49,782	38,971	103,249	272,420
Australia	-	43,362	28,242	57,168
	<u>16,760,586</u>	<u>19,034,272</u>	<u>31,969,663</u>	<u>37,814,738</u>

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For the three-month and six-month periods ended October 25, 2008, sales from the five largest customers represent 64% and 67.1% respectively of the company's total sales compared to 70.3% and 75.5% respectively for the three-month and six-month periods ended October 27, 2007. Two of these customers represent more than 10% of the company's total sales for the three-month and six-month periods ended October 25, 2008 and October 27, 2007. For the three-month and six-month periods ended October 25, 2008 and October 27, 2007, the most important customer represents more than 1.5 time (1.5 time in 2007) 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>	
	<u>October 25, 2008</u>	<u>October 27, 2007</u>	<u>October 25, 2008</u>	<u>October 27, 2007</u>
	\$	\$	\$	\$
Sales by family of product				
Heavy duty trucks – Class 8	8,096,181	11,157,055	16,783,413	24,251,108
Agriculture	1,682,561	1,416,081	3,570,439	3,329,025
Industrial	1,383,305	1,007,363	3,116,277	1,705,910
Bus	1,552,166	810,567	2,439,395	1,663,419
Snow removal	2,557,661	2,852,436	3,259,085	3,767,337
Wind energy	918,746	1,110,056	1,581,436	1,847,230
Other	569,966	680,714	1,219,618	1,250,709
	<u>16,760,586</u>	<u>19,034,272</u>	<u>31,969,663</u>	<u>37,814,738</u>

15 Subsequent events

On December 2, 2008, the company announced its withdrawing from the production of certain components destined to the agricultural equipment and the bus industries as well as the closure of its Chesterville, Quebec plant.

The decision to terminate certain contracts is attributable to cost overruns related to problems encountered during the implementation of new technological processes at the Sigma OH Industries Inc. facilities in Ohio, which caused an increased amount of work to be outsourced. Some of these excess costs will also impact third-quarter results. Affected components mainly pertain to contracts announced last September. Based on mutual agreements with its clients, the company redirected the production of certain components to third parties, while remaining ones will be transferred in the next few weeks. Annual sales could therefore be reduced by approximately \$13 million.

The Chesterville plant will close at the end of December 2008, resulting in the elimination of nearly 15 positions. Production, consisting mainly of composite products for various service vehicles, will be transferred to the company's other facilities.

16 Comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.