

2010

McVicar Industries Inc.
Annual Report





Letter to Our Shareholders

2010 was a significant year of mixed achievements and challenges for McVicar Industries Inc. (“McVicar”). There was a slow recovery with the world economy, lead by countries like China. Demands for most of our products showed increasing trends in the year. Our key subsidiaries, Jite Technologies Inc. and Hongbo Chemical Co. Ltd., both with operations in China, have achieved good sale advances while maintaining earnings growth. Sales in Jite have increased by more than 30% and net earnings have increased by more than 30%. Faced with rapid cost increases in all raw materials and a government led increase in labor costs of over 25%, management wisely introduced a structural reform in Jite by spinning off parts of its manufacturing to partial employee ownership. This measure led to a significant improvement in production efficiency and greatly reduced costs while improving profit for Jite’s Subsidiaries and growing the value of Jite’s investment. The reform has greatly reduced complexity of company management and led to a reduction in management cost. Consequently, Jite has become a leaner and more efficient operation. By the end of the year, Jite also started test production in the newly acquired Kunshan plant, adding new capacity and growth opportunity for Jite in the Eastern China market, the key growth area in China.

In our Chemical sector, we have enjoyed record sales to our key customer. By paying extreme attention to our product quality and customer services, we have built up a strategic relationship with this global chemical giant, resulting in the extension of our supply agreement for another three years. The company has received no complaints for two consecutive years from our top customer and is building a strong reputation in the field.

McVicar has independently developed a new technology in the production of 4HAP, the key raw material for a project with our major customer, and has become the second company to produce 4HAP with new technology. Currently, we have chosen Luyuan as our production base for 4HAP and foresee normal production in the middle of 2011.

With all the progress in our China operations, we did face a great challenge in our other subsidiary, Hangzhou Changlong Chemical Co. Ltd. The operation was forced to shut down due to a government relocation order and to move out of the current city location. Unfortunately, we were then prevented from moving to the previous, government-designated location due to policy changes. As a result, Changlong has had to move to a new location and is under the scrutiny of local government policies.



Looking forward to the year 2011, we see many encouraging signs of corporate development. Orders by our international customers are expected to grow and our new 4HAP production will add revenue and profit to the company. We are developing new projects in new areas for further growth. However, we also see even greater challenges in the coming year. The Chinese currency has appreciated by about 5% since the beginning of the year and this trend is expected to continue. This will negatively impact our export and profit margin. The Chinese government is also raising labor costs again this year. The Shenzhen government has ordered businesses to raise labor costs by another 20% after a similar increase implemented last July. Raw materials in all our sectors have increased to another high level. Management is exploring all means of reducing costs in order to maintain revenue growth and profitability. We are confident that we will have another good year ahead with the continuous efforts of our management team and our workers.

We thank you, our shareholders, for your loyalty and support.

Sincerely,
Gang Chai
President & CEO

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Officers: Dr. Gang Chai, Chief Executive Officer
Mr. Winfield Yongbiao Ding, Chief Financial Officer

Directors: Dr. Gang Chai, Chairman
Dr. D. James Misener
Mr. Anthony Naldrett
Mr. Henry Tse
Mr. Alfred G. Wirth



Zhejiang Hongbo Chemical Co., Ltd

Acquired with a 100% interest by McVicar in 2007, Zhejiang Hongbo Chemical Co., Ltd. (“Hongbo”) is the Company’s main chemical producer. Founded in 2001 with facilities situated on buildings over 11,500 square meters, Hongbo is a high-tech company, specializing in researching, developing, producing and marketing fine chemicals. Hongbo’s markets include pharmaceuticals, personal care and industrial application products both in China and internationally. Hongbo has more than 100 sets of advanced facilities and test machines including six production lines, three standardized multifunctional workshops and one analytical and an R&D centre. The R&D centre has recently developed a new method for production of 4'-Hydroxyacetophenone (“4HAP”). The new method simplifies the production process and uses a new and recycling catalyst for the production, generating minimum waste resulting in substantially reduced production costs. This new process can generate up to 90% of the final product and is expected to improve profitability of the project. With such proven innovation and a key industrial giant for a customer, Hongbo continues to lead McVicar’s Chemical Segment.

Xiangshui Luyuan Chemical Company Ltd.

Hongbo originally acquired an 80% interest in Xiangshui Luyuan Chemical Company Ltd. (“Luyuan”) in 2008 to secure chemical supply lines for the production of the main chemical for Hongbo’s key industrial customer.

Established in 2003 and located in the Chemical Development Park in Xiangshui, Jiangsu, China, Luyuan’s main focus is specialized chemicals for the industrial market. Due to unexpected debt claims, production at Luyuan’s facilities was suspended in July of 2009. The Company has settled the legal disputes in Luyuan and is in the process of resuming operations.

Hangzhou Changlong Chemical Co.

Originally acquired by McVicar in 2007 with a 100% interest and a focus on the pharmaceutical industry, Hangzhou Changlong Chemical Co. (“Changlong”) was established in 1996. In 2010 the local Chinese government required Changlong to cease production activities and prepare for relocation. To date the relocation of Changlong is still pending.

It was a developer and manufacturer of organic and inorganic fine chemicals specializing in chemical intermediates for the pharmaceutical market, cationic surfactant ammonium chloride. Its main products were piperazine derivative, pyridine derivatives, ammonium chloride series, printing paste series and surfactant series. Changlong has technologies of high pressure hydrogenation, ammonification and synthesis.



JITE Technologies Inc.

Headquartered in Toronto, Canada, JITE Technologies Inc., listed on the TSX Venture Exchange since July 2006 as JTI.V, is a global supplier of terminal blocks. JITE established a wide range of logistic channels and warehouses worldwide, including in China, North America and Europe.

JITE Industrial Park with R&D, manufacturing and logistics is located in Shenzhen, China, comprises over 700,000 square feet of operating space, of which 300,000 square feet is used for manufacturing, and over 500 employees.

JITE incorporated another wholly-owned subsidiary called Jite Industrial (Kunshan) Co., Ltd. at Kunshan Economic and Technological Development Zone, in Jiangsu Province, China, on October 9, 2009. The Kunshan plant has a 270,000 square foot building space with additional land to build on.

Recently, JITE launched in this space an assembling facility for trial production of the products currently sold to customers. Management will review the results of the trial productions and the costs of productions to formalize future expansion plan.

Terminal Blocks

JITE follows the international and Chinese standards on connectors, terminal blocks and related application fields such as IEC, L, CSA, VDE, TUV, JIS and GB. JITE has also participated in the compiling and constituting Chinese National Standards. JITE has a WTDP lab in Shenzhen, certified by UL, and can independently carry out more than 20 kinds of product testing and experiments.

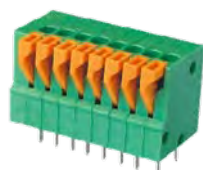
Custom Design

JITE R&D experts custom design connection solutions for world class customers. JITE products are ROHS compliant and listed by UL, CSA and some by VDE, TUV and CQC.

Advanced Manufacturing System

JITE has access to full capacity hardware facilities that include plastic injection, metal stamping, tooling & moulds, screw tapping, assembly and more, with ISO certifications.

Jite restructured its production operations to increase efficiency and reduce labour forces, inventory and capital assets by spinning off certain parts of the screws manufacturing and the tooling, molding, and parts productions to employee ownership. JITE employs various quality assurance methods in the process of product development and manufacturing. JITE uses an advanced ERP system for production and material control. Jite's upgraded capabilities continue to improve techniques, manufacturing process management and capital operations.



Consolidated Financial Statements
(Expressed in Canadian dollars)

McVICAR INDUSTRIES INC.

Years ended December 31, 2010 and 2009



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of McVicar Industries Inc.

We have audited the accompanying consolidated financial statements of McVicar Industries Inc., which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of operations and retained earnings (deficit), comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of McVicar Industries Inc. as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements of McVicar Industries Inc. as at and for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on March 5, 2010.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 29, 2011
Toronto, Canada

McVICAR INDUSTRIES INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,571,900	\$ 6,864,021
Short-term investments (note 4)	2,896,962	2,826,566
Accounts receivable	8,885,840	8,020,280
Inventories (note 5)	7,176,163	7,056,056
Due from related parties (note 14)	363,178	916,776
Future tax assets - current (note 13)	353,500	197,300
Other current assets	1,447,916	867,398
	<u>27,695,459</u>	<u>26,748,397</u>
Restricted cash (note 6)	1,056,300	1,447,143
Due from related parties (note 14)	1,079,081	-
Investments in associates (note 20)	494,847	-
Property, plant and equipment (note 7)	9,132,463	11,601,782
Intangible assets (note 9(b))	24,465	491,080
Future tax assets - non-current (note 13)	377,900	173,800
Goodwill (note 9(a))	7,143,728	7,143,728
	<u>\$ 47,004,243</u>	<u>\$ 47,605,930</u>

	2010	2009
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings (note 6)	\$ 2,112,600	\$ 2,776,871
Accounts payable and accrued liabilities	3,908,535	6,013,615
Government compensation fund (note 10)	310,508	1,053,107
Income taxes payable	250,776	311,285
Future tax liabilities - current (note 13)	649,300	650,039
Due to related parties (note 14)	714,792	-
	<u>7,946,511</u>	<u>10,804,917</u>
Non-controlling interests	8,925,448	9,882,647
Shareholders' equity:		
Capital stock (note 11(a))	27,402,375	26,052,375
Warrants (note 11(d))	-	1,483,048
Contributed surplus (note 11(b))	2,954,663	1,130,284
Accumulated other comprehensive income (loss) (note 19)	(387,121)	36,508
Retained earnings (deficit) (note 12)	162,367	(1,783,849)
	<u>30,132,284</u>	<u>26,918,366</u>
Commitments and contingencies (note 15)		
Subsequent events (notes 10 and 21)		
	<u>\$ 47,004,243</u>	<u>\$ 47,605,930</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Dr. James Misener" _____ Director

"Gang Chai" _____ Director

McVICAR INDUSTRIES INC.

Consolidated Statements of Operations and Retained Earnings (Deficit)
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Sales	\$ 33,461,148	\$ 34,957,964
Cost of goods sold	23,767,741	24,384,165
Gross profit	9,693,407	10,573,799
Operating expenses:		
General and administrative (note 14(a))	5,561,891	5,525,546
Amortization	723,614	962,214
Loss on disposal of property, plant and equipment	66,793	202,696
Impairment of goodwill (note 9(a))	–	2,077,137
Impairment of intangible assets (note 9(b))	238,720	–
Foreign exchange loss	70,517	226,436
	<u>6,661,535</u>	<u>8,994,029</u>
Operating income before the undernoted	3,031,872	1,579,770
Other income	135,138	67,089
Interest expense	–	(10,088)
Investment income on short-term investments	–	55,214
Unrealized gain (loss) on short-term investments	(207,017)	181,097
Gain on purchase of subsidiary shares (notes 8(a) and (b))	301,103	–
Income from investments in associates (note 20)	124,616	–
Gain on disposal of assets held for sale (note 8(c))	–	254,190
	<u>353,840</u>	<u>547,502</u>
Income before income taxes and non-controlling interest	3,385,712	2,127,272
Income taxes (note 13)	91,087	721,179
Income before non-controlling interest	3,294,625	1,406,093
Non-controlling interest	(1,348,409)	(918,110)
Net income	1,946,216	487,983
Deficit, beginning of year	(1,783,849)	(2,271,832)
Retained earnings (deficit), end of year	<u>\$ 162,367</u>	<u>\$ (1,783,849)</u>
Income per share:		
Basic and diluted	\$ 0.05	\$ 0.01
Weighted average number of shares outstanding:		
Basic and diluted (note 11(a))	35,890,334	34,427,320

See accompanying notes to consolidated financial statements.

McVICAR INDUSTRIES INC.

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Net income	\$ 1,946,216	\$ 487,983
Other comprehensive loss (note 19):		
Exchange loss on translation of foreign subsidiaries	(423,629)	(2,507,472)
Comprehensive income (loss)	\$ 1,522,587	\$ (2,019,489)

See accompanying notes to consolidated financial statements.

McVICAR INDUSTRIES INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 1,946,216	\$ 487,983
Items not affecting cash:		
Amortization	1,275,055	1,736,286
Loss on disposal of property, plant and equipment	66,793	202,696
Future income taxes	(353,452)	(75,980)
Non-controlling interest	1,348,409	918,110
Stock-based compensation	421,877	129,639
Gain on disposal of assets held for sale (note 8(c))	–	(254,190)
Unrealized loss (gain) on short-term investments	207,017	(181,097)
Gain on purchase of subsidiary shares (notices 8(a) and (b))	(301,103)	–
Income from investments in associates	(124,616)	–
Impairment of intangible assets (note 9(b))	238,720	–
Impairment of goodwill (note 9(a))	–	2,077,137
Change in non-cash operating working capital	(4,683,722)	224,317
	41,194	5,264,901
Financing activities:		
Decrease in restricted cash	371,115	697,894
Repayment of short-term borrowings (note 6)	(608,400)	(985,913)
Repayment of long-term loans (note 6)	(17,352)	(1,058,245)
Government compensation fund, net of moving costs (note 10)	82,402	1,208,549
Issuance of capital stock (note 11(a))	1,350,000	–
	1,177,765	(137,715)
Investing activities:		
Acquisitions (note 8)	(1,797,079)	(40,000)
Purchase of short-term investments	(307,640)	(205,946)
Proceeds of disposal of asset held for sale (note 8(c))	–	890,284
Purchase of investments in associates (note 20)	(15,090)	–
Loans to related parties	–	(504,166)
Loans from related parties	798,611	–
Proceeds on disposal of property, plant and equipment	850,156	–
Additions of property, plant and equipment	(921,394)	(4,261,056)
	(1,392,436)	(4,120,884)
Effect of exchange rate changes on cash and cash equivalents	(118,644)	(906,351)
Increase (decrease) cash and cash equivalents	(292,121)	99,951
Cash and cash equivalents, beginning of year	6,864,021	6,764,070
Cash and cash equivalents, end of year	\$ 6,571,900	\$ 6,864,021
Supplemental cash flow information:		
Interest paid	\$ 8,215	\$ 18,090
Income taxes paid	663,709	669,761

See accompanying notes to consolidated financial statements.

McVICAR INDUSTRIES INC.

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

Years ended December 31, 2010 and 2009

McVicar Industries Inc. (the "Company" or "McVicar") was incorporated under the Business Corporations Act (Ontario) on February 19, 2003. The Company holds a 100% (2009 - 90.5%) interest in its Hong Kong subsidiary, McVicar (Hong Kong) Advanced Materials Co. Ltd. ("MAM") and a 54.7% (2009 - 48.6%) interest in a Canadian publicly listed company JITE Technologies Inc. ("JITE"). The Company is now operating in two different segments; the chemical industry and the technical industry.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and their basis of application is consistent with prior years except as disclosed in note 2. All amounts in these consolidated financial statements are in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi, "U.S. \$" to represent the U.S. dollar, and "HKD" to represent the Hong Kong dollar.

(b) Principles of consolidation:

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

- (i) JITE is a publicly listed company on the TSX-V (as JTI). JITE has a wholly owned subsidiary, Jite (Hong Kong) Limited, which owns 100% of Jite Industrial (Shenzhen) Co. Ltd. ("Jite Shenzhen") and 100% of Jite Industrial (Kunshan) Co., Ltd. ("Jite Kunshan"). The core business of JITE is the development, manufacture and sales, primarily in North America and China, of terminal blocks used in security, elevator, railway and automation systems.

As a result of a voting agreement with a 9% shareholder, and control of the Board of Directors, the Company, in substance, controls JITE and, accordingly, consolidates its financial position and results of operations with effect from January 19, 2007.

- (ii) MAM, whose major operating subsidiary companies are 100% owned Zhejiang Hongbo Chemical Co. Ltd. ("Hongbo"), 92% (2009 - 100%) owned Hangzhou Changlong Chemical Co. Ltd. ("Changlong"), 100% owned McVicar (Hang Zhou) Management Co. Ltd., ("McVicar (HZ)"), and an indirect 80% interest in Luyuan Chemical Co. Ltd. ("Luyuan") which is held by Hongbo. The principal activities of all these chemical subsidiaries are the development, manufacture and sales of specialized refined chemical products used in pharmaceutical and cosmetic industries both in China and international markets.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(c) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenue and expenses during the reporting period. These estimates are based on management's best knowledge of current events, historical experience and various other assumptions that are believed to be reasonable under the circumstances. The actual results could differ materially from those estimates and assumptions.

The most significant assumptions made by management in the preparation of the Company's consolidated financial statements include, but are not limited to, allowance for doubtful accounts, inventories, future income tax assets and liabilities, the useful lives and recoverability of property, plant and equipment, intangible assets and goodwill, asset retirement obligations and the fair value of stock-based compensation and warrants.

(d) Cash and cash equivalents:

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

(e) Investments:

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

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

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(f) Property, plant, and equipment:

Property, plant and equipment are recorded at cost. Amortization is calculated based on costs less residual value once ready for use and is computed over the expected useful lives using the straight-line method at the following rates:

Building	45 - 50 years
Land use rights	45 - 50 years
Leasehold improvements	5 years
Office equipment	5 years
Manufacturing equipment	10 years
Metal and plastic moulds	5 years
Other equipment	5 years
Transportation equipment	5 years

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

(g) Stock-based compensation:

The Company has a stock-based compensation plan that is described in note 11(c). Options are measured at fair value on the date of grant under the fair value method of accounting using the Black-Scholes model. Compensation expense is amortized on a straight-line basis over the vesting period of the associated stock-based compensation. The consideration paid on the exercise of the stock options together with the related contributed surplus previously recognized as stock-based compensation is transferred to share capital. For any forfeiture of the awards, the accrued compensation cost is adjusted by decreasing compensation cost in the period of forfeiture.

(h) Share issue costs:

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

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(i) Impairment of long-lived assets:

The Company reviews long-lived assets or asset groups including property, plant and equipment and intangible assets subject to amortization for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when an assets' carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition.

(j) Income per share:

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

(k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These future income tax assets and liabilities are measured using enacted and substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

(l) Foreign currency translation:

The presentation currency of the Company is Canadian dollars. The unit of measure of the Company's Hong Kong subsidiaries is the HKD and the unit of measure of the Company's mainland China subsidiaries is the RMB. Since the RMB is not a fully convertible currency, all foreign exchange translations involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

The Company's operations in China represent self-sustaining foreign operations, and the respective accounts have been translated into Canadian dollars in accordance with the current rate method. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at average exchange rates for the year. Gains and losses arising from the translation of the self-sustaining foreign operations are recognized in accumulated other comprehensive income, a component of shareholders' equity, until realized.

Foreign monetary assets and liabilities of the Canadian operation have been translated into Canadian dollars using the rate of exchange in effect at the balance sheet date. Revenue and expenses of the Canadian operation denominated in foreign currencies are translated at the exchange rates at the time of the transactions. Exchange gains and losses arising from foreign currency translations are reflected in income.

(m) Revenue recognition:

Revenue from product sales is recognized upon shipment, when title has passed to the customer, persuasive evidence of an arrangement exists, specified test criteria have been met collectibility reasonably assured, and the earnings process is complete. Interest income is recorded on an accrual basis.

(n) Goodwill and intangible assets:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the fair value of identifiable assets acquired, less liabilities assumed, based on their fair values.

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

Non-contractual customer relationships	5 years
Below market lease agreements (note 9(b))	9 years

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

Goodwill and indefinite life intangible assets recorded on acquisition are not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill or indefinite life intangible assets may be impaired. Impairment for goodwill is tested by comparing the fair value of a particular reporting unit to its carrying value. Any impairment loss will be charged against current period earnings and shown as a separate item in the consolidated statements of operations and retained earnings (deficit).

(o) Environmental liabilities:

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

(p) Financial instruments:

Financial assets are identified and classified as either available for sale, held for trading, held to maturity, or loans and receivables. Financial liabilities are classified as either held for trading or other liabilities. Initially, all financial assets and financial liabilities are recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in net income. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of or becomes impaired. Investments in equity instruments classified as available for sale that do not have quoted market prices in an active market are measured at cost.

Upon initial recognition, the Company may designate financial instruments as held for trading when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on a different basis.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

The Company has designated its financial assets and liabilities as follows:

Cash and cash equivalents	Held for trading
Short-term investments	Held for trading
Accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Restricted cash	Loans and receivables
Short-term borrowings	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

Financial assets purchased or sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement date basis.

Transaction costs on financial assets and liabilities classified as other than held for trading are capitalized and amortized over the expected life of the instrument, based on contractual cash flows, utilizing the effective interest method. The effective interest method calculates the amortized cost of a financial asset or liability and allocates the interest income or expense over the term of the financial asset or liability using an effective interest rate.

(q) Accounting changes:

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

Effective January 1, 2009, the Company adopted Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

Effective January 1, 2009 the Company adopted the amendment to CICA Section 3862, Financial Instruments Disclosures. The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measure of fair value. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

2. Change in accounting policy:

Inventories:

In 2010, the Company changed the method for valuing the cost of inventories. Previously, inventories were stated at the lower of cost and net realizable value where cost was determined on a first-in, first-out basis, and net realizable value was the replacement cost of the materials for raw materials and the anticipated selling price over costs to sell for work in progress and finished goods. As of the fourth quarter of 2010, cost is determined on a weighted average basis and includes material, labour and production overhead, and net realizable value is the anticipated selling price over costs to sell. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories. This change of this accounting policy results in the financial statements providing more reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial position, financial performance or cash flows. The policy was adopted on a retrospective basis without restatement as it did not have a material impact on the Company's previous years' consolidated financial statements.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

3. New accounting pronouncements:

(a) International Financial Reporting Standards ("IFRS"):

In February 2008, the Accounting Standards Board has announced that Canadian GAAP will cease to apply and will be replaced by IFRS, as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial consolidated financial statements under IFRS, including comparative information, for the three-month period ended March 31, 2011. The Company will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

(b) Business combinations:

In January 2009, the CICA issued Handbook Section 1582, Business Combinations. This new section will be applied prospectively to all business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

(c) Consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interest. These new sections will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. These sections establish standards for the preparation of consolidated financial statements. The Company is currently assessing the impact of the adoption of these new sections on the consolidated financial statements.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

4. Short-term investments:

	2010	2009
GICs	\$ –	\$ 1,293,559
Investment in shares of publicly traded companies	2,896,962	1,533,007
	<u>\$ 2,896,962</u>	<u>\$ 2,826,566</u>

Interest rates on the 2009 GICs, held at a major Canadian chartered bank, range from prime rate minus 2.05% to 1.75%. The GICs matured in 2010.

Included in the investment in shares is approximately \$2,815,642 (RMB 18,658,994) (2009 - \$1,383,042; RMB 9,021,825) invested in shares publicly traded on Chinese stock markets and \$81,320 (2009 - \$149,965) invested in Canadian listed shares.

In 2008, Jite Shenzhen engaged a consulting company that is controlled by a director of JITE to manage certain investment in shares of publicly traded companies under Jite Shenzhen's name. Pursuant to the terms of the agreement, the consulting company guarantees the value of the initial portfolio investment of \$724,320 (RMB 4,800,000) (2009 - \$735,840; RMB 4,800,000) and will be compensated 20% of any net gains in the portfolio when realized. The agreement can be cancelled by either party with three months notice.

5. Inventories:

	2010	2009
Raw materials	\$ 1,165,440	\$ 1,667,846
Parts and work in process	2,135,424	1,761,806
Finished goods	3,875,299	3,626,404
	<u>\$ 7,176,163</u>	<u>\$ 7,056,056</u>

The Company recorded a provision of \$796,694 (2009 - \$760,584) for slow moving inventory and reversed an impairment of \$104,812 (2009 - \$352,229) related to the Luyuan legal settlement (note 15(b)) and 2008 finished goods inventory previously written off that were subsequently sold.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

6. Short-term borrowings:

Hongbo, a subsidiary of the Company, maintains a credit facility with the Communication Bank of China for a total amount of \$3,018,000 (RMB 20,000,000) (2009 - \$3,066,000; RMB 20,000,000), of which \$1,735,350 (RMB 11,500,000) is secured by the land use rights and facilities of Hongbo, and the remaining amount of \$1,282,650 (RMB 8,500,000), is guaranteed by Jite Shenzhen. The credit facility is to be used for the issuance of notes payable up to a maximum amount of \$6,036,000 (RMB 40,000,000). Under the terms of the facility, on issuance of notes half of the value must be deposited as cash in the bank by Hongbo and held until maturity of the notes. As at December 31, 2010, Hongbo utilized \$1,056,300 (RMB 7,000,000) (2009 - \$1,379,700; RMB 9,000,000) of the facility by issuing \$2,112,600 (RMB 14,000,000) (2009 - \$2,759,400; RMB 18,000,000) of notes payable due within six months from the dates of issuance. Included in restricted cash as at December 31, 2010 is a deposit of \$1,056,300 (RMB 7,000,000) (2009 - \$1,379,700; RMB 9,000,000) or half the amount of these notes payable, and nil (2009 - \$67,443; RMB 440,000) bank deposit required for the issue of other letters of credit.

Also included is a bank loan entered into by JITE that was fully repaid in the first quarter of 2010 (2009 - \$17,471; RMB 114,086).

7. Property, plant and equipment:

2010	Cost	Accumulated amortization	Net book value
Land use rights	\$ 1,462,105	\$ 13,427	\$ 1,448,678
Buildings	5,030,770	685,677	4,345,093
Leasehold improvements	696,470	564,910	131,560
Office equipment	787,987	557,026	230,961
Manufacturing equipment	2,336,094	985,465	1,350,629
Metal and plastic moulds	2,111,255	1,585,057	526,198
Other equipment	548,421	247,326	301,095
Transportation equipment	427,555	188,471	239,084
	\$ 13,400,657	\$ 4,827,359	\$ 8,573,298
Construction in progress	\$ 559,165	\$ -	\$ 559,165
Total property, plant and equipment	\$ 13,959,822	\$ 4,827,359	\$ 9,132,463

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

7. Property, plant and equipment (continued):

2009	Cost	Accumulated amortization	Net book value
Land use rights	\$ 179,500	\$ –	\$ 179,500
Buildings	2,323,875	127,999	2,195,876
Leasehold improvements	937,187	397,051	540,136
Office equipment	865,840	498,143	367,697
Manufacturing equipment	4,285,257	1,148,724	3,136,533
Metal and plastic moulds	1,435,071	798,224	636,847
Other equipment	417,601	127,909	289,692
Transportation equipment	220,721	96,326	124,395
	<u>\$ 10,665,052</u>	<u>\$ 3,194,376</u>	<u>\$ 7,470,676</u>
Construction in progress (d)	\$ 4,131,106	\$ –	\$ 4,131,106
	<u>\$ 14,796,158</u>	<u>\$ 3,194,376</u>	<u>\$ 11,601,782</u>

The amortization expense for the year 2010 was \$1,025,321 (2009 - \$1,487,833), of which \$538,727 (2009 - \$793,530) was included in costs of goods sold in the consolidated statements of operations and retained earnings (deficit).

- (a) During the year, the Company impaired \$665,343 (RMB 4,409,165) net book value of property, plant and equipment related to the value of the assets adversely impacted by the suspension of production in Changlong (note 10).
- (b) During the year, JITE, a subsidiary of the Company, disposed of equipment at a net book value of \$1,201,595 (RMB 7,853,641) to certain associates (note 20).
- (c) During 2009, the Company impaired \$153,300 (RMB 1,000,000) in property, plant and equipment related to the temporary suspension of production in Luyuan (note 16(b)).
- (d) In 2009, JITE, through its subsidiary Jite Kunshan, acquired buildings with land use rights of land in Kunshan, Jiangsu Province, China for the development of the Kunshan plant. The transaction was completed in 2010 and the assets are classified as land use rights and buildings. In 2010, the Company received government assistance of \$552,294 (RMB 3,660,000) related to the Kunshan plant, which was recorded as a reduction of the building asset.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

8. Acquisition and divestitures:

(a) MAM:

In December 2010, the Company finalized an arm's-length equity sale and share exchange agreement with Sanlong Holdings Co. Ltd. ("Sanlong"), the minority interest holder in MAM. The Company and Sanlong agreed to exchange Sanlong's 9.5% of MAM for 38% of Changlong, and then subsequently the Company purchased a 30% interest in Changlong from Sanlong for cash consideration of \$995,940 (RMB 6,600,000). The acquisition was accounted for under the purchase method of accounting whereby the Company allocated \$1,114,255 to the net identifiable assets acquired. The transaction resulted in negative goodwill and a resulting gain of \$118,315 in the consolidated statements of operations and retained earnings (deficit).

(b) JITE:

In 2009, the Company purchased 237,500 of JITE's shares on the open market for cash consideration of \$40,000, representing 1.1% of its shares outstanding. As a result, the Company's interest in JITE was increased from 47.5% to 48.6%.

In the second quarter of 2010, the Company purchased 705,500 of JITE's shares on the open market for cash consideration of \$243,280, representing 3.35% of JITE's shares outstanding. As a result of the acquisition, the Company's interest in JITE was increased from 48.60% to 51.95%. The acquisition was accounted for under the purchase method of accounting whereby the Company allocated \$617,858 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$374,578, which was used to reduce certain long-term tangible assets by \$213,256 with an excess of \$161,322 recorded as a gain in the consolidated statements of operations and retained earnings (deficit).

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

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

8. Acquisition and divestitures (continued):

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

In the fourth quarter of 2010, the Company purchased 130,500 of JITE's shares on the open market for cash consideration of \$64,868, representing 0.63% of JITE's shares then outstanding. As a result of the acquisition, the Company's interest in JITE was increased from 54.05% to 54.68%. The acquisition was accounted for under the purchase method of accounting whereby the Company allocated \$116,963 to the net identifiable assets acquired. The transaction resulted in negative goodwill of \$52,095, which was used to reduce certain long-term tangible assets by \$30,629 with the excess of \$21,466 recorded as a gain in the consolidated statements of operations and retained earnings (deficit).

(c) Sino Lion Nanjing Ltd. ("Sino Lion"):

On June 9, 2009, the Company sold its 27% equity interest in Sino Lion in Jiangsu province, China for U.S. \$850,000 (\$988,125), to Ascend Technologies Ltd., a holding company controlled by one of the directors of Sino Lion (USA) Ltd. This investment was recorded as assets held for sale as at December 31, 2008 at its carrying value of \$733,935. For the year ended December 31, 2009, the Company recognized a \$254,190 gain on disposal of assets held for sale in the consolidated statements of operations and earnings (deficit) upon close of the transaction.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

9. Goodwill and intangible assets:

The goodwill and intangible assets result mainly from the acquisitions of JITE and MAM.

(a) Goodwill:

	Goodwill in JITE	Goodwill in MAM	Total value
Balance, December 31, 2008	\$ 4,778,550	\$ 4,442,315	\$ 9,220,865
Impairment	(2,077,137)	–	(2,077,137)
Balance, December 31, 2009 and 2010	\$ 2,701,413	\$ 4,442,315	\$ 7,143,728

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

As at December 31, 2009, the Company completed its annual impairment test and determined that as a result of unexpected revenue decline and the evident failure to achieve revenue growth, goodwill related to MAM was impaired by \$2,077,137 and recorded as an impairment in goodwill and intangible assets in the consolidated statements of operations and retained earnings (deficit).

(b) Intangible assets:

2010	Cost	Impairment	Accumulated amortization	Carrying value
Non-contractual customer relationships	\$ 1,214,513	\$ 326,346	\$ 888,167	\$ –
Below market lease agreement	205,909	89,924	91,520	24,465
	\$ 1,420,422	\$ 416,270	\$ 979,687	\$ 24,465

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

9. Goodwill and intangible assets (continued):

2009	Cost	Impairment	Accumulated amortization	Carrying value
Non-contractual customer relationships	\$ 1,214,513	\$ 87,626	\$ 683,152	\$ 443,735
Below market lease agreement	205,909	89,924	68,640	47,345
	\$ 1,420,422	\$ 177,550	\$ 751,792	\$ 491,080

In 2010, the Company recorded amortization expense of \$237,020 (2009 - \$311,308) in the consolidated statements of operations and retained earnings (deficit).

In 2010, the Company completed an impairment analysis and determined that intangible assets related to Changlong's non-contractual customer relations were impaired by \$238,720 due to the pending moving of Changlong (note 10) and recorded as an impairment in goodwill and intangible assets in the consolidated statements of operations and retained earnings (deficit).

10. Pending relocation of Changlong plant:

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

In 2009, Changlong reached an agreement with Longshan on a new factory relocation and lease agreement of the new property. Pursuant to the agreement, the total amount of government compensation fund attributed to Changlong was \$1,283,950 (RMB 8,508,614), of which \$1,091,357 (RMB 7,232,322) was received in 2009 after the signing of the agreement, and the remaining \$192,592 (RMB 1,276,292) was received in December 2010 and January 2011. The compensation was recorded as a government compensation fund liability, which was reduced by qualified expenses as incurred of \$810,869 (RMB 5,331,160) in 2010 (2009 - \$65,128 (RMB 389,521)).

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

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

10. Pending relocation of Changlong plant (continued):

The Company has written-off \$665,343 (RMB 4,409,165) net book value of the plant and equipment of Changlong against the government compensation fund liability. The remaining net book value of the movable plant and equipment of Changlong was \$55,423 as at December 31, 2010. The Company reviewed the associated intangible assets for recoverability and recognized an impairment loss of \$238,720 (note 9(b)).

Management of Changlong is in the process of actively seeking a place for Changlong to relocate to in the future.

11. Shareholders' equity:

(a) Authorized and issued:

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

Issued and outstanding:

Common shares	Number of shares	Amount
Balance, December 31, 2008 and 2009	34,427,320	\$ 26,052,375
Shares issued for cash (i)	3,000,000	1,350,000
Balance, December 31, 2010	37,427,320	\$ 27,402,375

(i) In 2010, the Company completed a non-brokered private placement of 3,000,000 common shares for gross proceeds of \$1,350,000 at a price of \$0.45 per unit resulting in a calculated weighted average number of shares outstanding of 36,890,334 (2009 - 34,427,320).

(b) Contributed surplus:

Balance, December 31, 2008	\$ 1,067,281
Share of stock-based compensation expense of subsidiary	63,003
Balance, December 31, 2009	1,130,284
Warrants expired	1,483,048
Stock-based compensation (note 11(c))	250,834
Share of stock-based compensation expense of subsidiary	90,497
Balance, December 31, 2010	\$ 2,954,663

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

11. Shareholders' equity (continued):

(c) Stock-based compensation plan:

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

On June 9, 2010, the Company granted 1,330,000 options to employees and directors. Each option entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 on or before June 8, 2015. The options vest within a year, with one fourth of the options vesting in each quarter after the grant date. The fair values of the options were valued using the Black-Scholes option valuation model at \$444,316 that will be amortized over the vesting period. The assumptions used in the valuation of the 1,330,000 options include: (i) risk-free interest rate of 2.4%; (ii) expected option life of five years; (iii) expected volatility of 86% and (iv) expected dividend yield of 0%. There were no options granted during 2009.

In the year 2010, the Company recorded stock-based compensation expense of \$421,877 (2009 - \$129,639), of which \$171,043 (2009 - \$129,639) was from JITE. Of the stock-based compensation expense, \$406,017 (2009 - \$53,553) was for employees and \$15,860 (2009 - \$76,086) for non-employees.

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

	Number of options	Weighted average exercise price
Options outstanding, December 31, 2008	1,495,000	\$ 1.10
Expired	(130,000)	0.75
Forfeited	(405,000)	1.10
Options outstanding, December 31, 2009	960,000	1.10
Granted	1,330,000	0.50
Forfeited	(75,000)	0.50
Expired	(150,000)	1.10
Options outstanding, December 31, 2010	2,065,000	0.74

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Notes to Consolidated Financial Statements (continued)
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11. Shareholders' equity (continued):

The following table summarizes information about the options outstanding and exercisable at December 31, 2010:

Exercise price	Options outstanding		Options exercisable		
	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Remaining contractual life
\$1.10	810,000	2.75	\$ 1.10	810,000	2.75 years
\$0.50	1,255,000	4.42	0.50	640,000	4.42 years
	2,065,000	3.76	0.74	1,450,000	3.49 years

(d) Warrants:

The Company has issued warrants convertible into common shares as follows:

	Number of warrants	Amount
Balance, December 31, 2009 and 2008	3,907,914	\$ 1,483,048
Warrants expired	3,907,914	(1,483,048)
Balance, December 31, 2010	—	\$ —

A summary of the Company's warrants outstanding and exercisable is presented below:

	Warrants outstanding and exercisable	Weighted average exercise price
Warrants outstanding, December 31, 2009 and 2008	3,907,914	\$ 1.83
Warrants expired	3,907,914	1.83
Warrants outstanding, December 31, 2010	—	—

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12. Retained earnings (deficit):

Pursuant to Chinese laws all foreign entities are required to set aside a portion of their net income each year as a general reserve fund and an expansion fund until the balance of the fund has reached 50% of the entity's registered capital. This fund is only eligible for distribution to shareholders at the time of winding up a foreign entity. The funds accumulated as at December 31, 2010 were \$1,025,988 (RMB 6,799,126) (2009 - \$1,042,306; RMB 6,799,126) and are included as part of retained earnings (deficit).

13. Income taxes:

The income tax expense differs from the amount expected by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

	2010	2009
Income before income taxes and non-controlling interest	\$ 3,385,712	\$ 2,127,272
Increase (decrease) income taxes resulting from:		
Income taxes at statutory rates (2010 - 31%; 2009 - 33%)	\$ 1,049,571	\$ 702,000
Tax rate differences in foreign subsidiaries	(1,177,923)	(269,582)
Gain on short-term investments	(136,598)	(35,678)
Stock-based compensation	130,782	178,851
Foreign withholding tax	120,306	–
Valuation allowance	63,600	80,723
Other	41,349	64,865
	\$ 91,087	\$ 721,179

The income tax expense for the year ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Income taxes (recovery):		
Current	\$ 444,539	\$ 797,159
Future	(353,452)	(75,980)
	\$ 91,087	\$ 721,179

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Years ended December 31, 2010 and 2009

13. Income taxes (continued):

At December 31, 2010, the Company and its subsidiaries had approximately \$5,325,000 of non-capital losses carried forward to reduce future years' taxable income. The future tax benefit of \$4,270,000 of these losses has not been recognized. The non-capital losses expire as follows:

2013	\$	195,000
2014		765,000
2015		999,000
2026		413,000
2027		451,000
2028		723,000
2029		893,000
2030		886,000
	\$	5,325,000

The significant components of the Company's future tax assets and liabilities are as follows:

	2010	2009
Future tax assets - current:		
Accounts payables and accruals	\$ 87,200	\$ 25,600
Inventories	266,300	171,700
	353,500	197,300
Future tax assets - non-current:		
Property, plant and equipment	120,300	56,700
Loss carryforwards	1,331,500	989,600
Share issuance costs	107,100	196,400
Capital loss	33,600	33,600
Valuation allowance	(1,245,200)	(1,181,600)
Other differences	30,600	79,100
	377,900	173,800
Net future tax assets	\$ 731,400	\$ 371,100

	2010	2009
Future tax liabilities - current:		
Accounts receivables	\$ (558,100)	\$ (650,039)
Government compensation fund	(91,200)	-
Net future tax liabilities	\$ (649,300)	\$ (650,039)

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(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

14. Related party transactions:

- (a) Included in general and administration expenses is \$50,000 (2009 - \$100,000) charged in 2010 to the Company by a director and officer for consulting fees related to certain investments (note 4).
- (b) Included in due from related parties as at December 31, 2010 are employee loans outstanding in the amount of \$11,000 (2009 - \$72,561). These loans were advanced to the officers of the Company, are non-interest bearing and are unsecured. The repayment period is one year.
- (c) Included in due from related parties as at December 31, 2010 was a loan receivable of \$1,324,300 (RMB 8,776,013) (2009 - nil) from Shenzhen Relisen Electronic Co., Ltd. ("Relisen"), an associate of the Company, to Jite Shenzhen of which \$1,021,919 (RMB 6,772,158) was classified as long-term. In addition, Jite Shenzhen has a payable of \$666,632 (RMB 4,417,706) to Relisen for parts purchased (note 20).
- (d) Included in due from related parties as at December 31, 2010 was a loan receivable of \$106,959 (RMB 708,808) (2009 - nil) from Shenzhen Delicheng Technologies Co., Ltd. ("Delicheng"), an associate of the Company, to Jite Shenzhen of which \$57,162 (RMB 348,808) was classified as long-term. In addition, Jite Shenzhen has a payable of \$48,160 (RMB 319,154) to Delicheng for screws purchased (note 20).
- (e) Included in due from related parties as at December 31, 2009 was a term loan receivable of \$77,720 from an officer of the Company's subsidiary in China that was repaid in 2010. Also included was a six-month term loan of \$766,495 (RMB 5,000,000) to a company controlled by a director of the Company's subsidiary in China. This term loan was unsecured, non-interest bearing and was repaid on January 1, 2010.

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

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

15. Commitments and contingencies:

(a) Operating leases:

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

	McVicar	JITE	Total
2011	\$ 32,262	\$ 485,598	\$ 517,860
2012	2,689	487,310	489,999
2013	–	476,870	476,870
2014	–	453,370	453,370
2015	–	453,370	453,370
Thereafter	–	157,017	157,017
	<u>\$ 34,951</u>	<u>\$ 2,513,535</u>	<u>\$ 2,548,486</u>

(b) Legal proceedings settled in Luyuan:

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

In 2008, the Company's subsidiary, Luyuan, was a defendant in seven lawsuits filed by six individuals requesting Luyuan to repay loans and interests that were allegedly borrowed by Luyuan before being acquired by Hongbo in April 2008, and one lawsuit filed by a former employee of Luyuan for wrongful dismissal. In 2009, the local court ruled against Luyuan. The total amounts in connection with these legal proceedings determined by the court rulings was \$368,292 (RMB 2,402,100) of principal and \$113,856 (RMB 742,699) of compounded interest, and some contingent interest to be determined.

Luyuan as a limited liability company was short in cash for the payments of the obligations. Some of Luyuan's equipment with a value of \$38,325 (RMB 250,000) and inventory with a value of \$51,224 (RMB 334,142) were seized by court orders. In July 2009, the operation of Luyuan was suspended.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

15. Commitments and contingencies (continued):

As at December 31, 2009, Luyuan accrued contingent liabilities of \$367,200 (RMB 2,400,000). In addition, Luyuan also wrote off the value of its inventory by \$91,543 (RMB 597,148) and the property, plant and equipment by \$153,300 (RMB 1,000,000).

In the fourth quarter of 2010, the Company reached a settlement agreement and paid in full approximately RMB 1,600,000 (\$246,240) to the plaintiffs. As of December 31, 2010, the Company's interest in Luyuan is free of charges and Luyuan is in the progress of resuming operations. The inventory write-down taken in 2009 has been reversed as this inventory is no longer impaired (note 5).

(c) Guarantee:

During 2010, Jite Shenzhen made a guarantee to a local bank at a maximum amount of \$1,475,048 (RMB 9,775,000) for Hongbo. The guarantee is valid until June 22, 2011. Hongbo provided a counter guarantee to Jite Shenzhen for a maximum amount of \$1,509,000 (RMB 10,000,000) valid until June 22, 2011.

16. Capital management:

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

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

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

17. Financial instruments and risk management:

The fair values of the Company's financial assets and liabilities approximate their carrying values due to the relatively short periods to maturity of these financial instruments and normal trade credit terms (with exception of the short term investments). Short-term investments are stated at fair value, which is based upon quoted market price at December 31, 2010 and 2009. As at December 31, 2010, fair value of the short-term investments was \$644,970 (RMB 4,274,160) (2009 - \$797,134; RMB 5,199,830).

As at December 31, 2010 and 2009, the Company's financial assets and liabilities that are carried at fair value, consisting of cash and cash equivalents, and short-term investments, have been classified as Level 1 within the fair value hierarchy.

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

(a) Foreign exchange risk:

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

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers invoiced in foreign currencies and the purchase of services, raw materials and property and equipment from suppliers invoiced in foreign currencies. For the year ended December 31, 2010, approximately 100% (2009 - 100%) of sales and approximately 95% (2009 - 80%) of expenses were incurred in foreign currencies.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

17. Financial instruments and risk management (continued):

At December 31, 2010, the Company is exposed to translation foreign currency risk through the following financial assets and liabilities denominated in U.S. dollar, HKD and RMB:

	U.S. dollar	HKD	RMB
Cash and cash equivalents	3,150,489	360,669	15,168,631
Restricted cash	–	–	7,000,000
Short-term investments	–	–	18,658,994
Accounts receivable	4,344,495	–	32,751,147
Long-term accounts receivables	–	–	6,563,399
Accounts payable and accrued liabilities	(14,328)	(403,085)	(28,430,528)
Notes payable	–	–	(14,000,000)
Income taxes payable	–	–	(1,673,898)
	7,480,656	(42,416)	36,037,745

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

As at December 31, 2010, with other variables unchanged, a +/-10% change in the U.S. dollar to Cdn. dollar exchange rate would increase/decrease net income for the year by \$744,026 (U.S. \$748,066), a +/-10% change in the exchange rate of HKD to Cdn. dollar would increase/decrease the net income by \$543 (HKD 4,242), and a +/-10% change in the exchange rate of RMB would increase/decrease the net income by \$543,809 (RMB 3,603,775).

(b) Credit risk:

Credit risk is the risk of financial loss due to failure of the Company's customer or counterparties to meet its contractual obligations, and arises primarily in relation to accounts receivable and loan receivable from related parties. Exposure to credit risk is limited, due to the large number of customers. The Company and its subsidiaries perform regular credit assessments of their customers and provide allowances for potentially uncollectible accounts receivable based on the credit risk applicable to particular customers, historical experience and other information. In addition, the Company performs periodic credit reviews of its customers, and the customer credit is extended following an evaluation of creditworthiness. All of the Company's accounts receivable have been reviewed for collectability. Approximately 71% (2009 - 87%) of accounts receivable are outstanding for less than 90 days. During the year ended December 31, 2010, the Company recorded bad debt recovery of \$96,041 (2009 - expense of \$115,743) and the allowance for doubtful accounts at December 31, 2010 was \$322,428.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

17. Financial instruments and risk management (continued):

In 2010, two customers accounted for approximately 26% (2009 - 29%) of sales. As at December 31, 2010, one customer accounted for approximately 22% (2009 - 17%) of total accounts receivable.

(c) Commodity price risk:

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

(d) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of the holdings of financial instruments. The Company's interest rate risk arises from short term investment balances and interest bearing debt at market interest rates. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions and in publicly traded common shares. The Company's interest rates on its debts are based on the prescribed rate of the People's Bank of China which is subject to fluctuation and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk. The Company has settled certain debt obligations in the first quarter of 2010 and, therefore, due to the short-term nature of its investments has limited exposure to interest rate risk.

(e) Liquidity risk:

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

As at December 31, 2010, the Company had cash and cash equivalents, restricted cash and short-term investments of \$10,525,162 to settle current liabilities of \$7,946,511.

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2010 and 2009

18. Segmented information:

The Company currently operates in two operating segments:

- (a) Chemical industry: develops, manufactures and supplies specialized fine chemical products used in pharmaceutical and cosmetic industries; and
- (b) Technical industry: designs, manufactures and supplies electronic and electrical connection devices for security, industrial control, automation and telecommunication and power supply industries.

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

(a) Segmented information:

For the year ended December 31, 2010 (in thousands of dollars):

	Chemical products	Technical products	Total
Sales	\$ 13,292	\$ 20,169	\$ 33,461
Gross profit	\$ 4,464	\$ 5,229	\$ 9,693
Amortization	(245)	(479)	(724)
Impairment of intangibles	(239)	–	(239)
Operating expenses - excluding amortization and impairment of intangibles	(2,788)	(2,911)	(5,699)
Operating income	<u>\$ 1,192</u>	<u>\$ 1,839</u>	3,031
Other income			135
Investment income			219
Income tax expenses			(91)
Non-controlling interest			(1,348)
Net income			<u>\$ 1,946</u>

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

18. Segmented information (continued):

	Chemical products	Technical products	Total
Total assets, excluding goodwill	\$ 18,313	\$ 21,547	\$ 39,860
Goodwill	4,442	2,702	7,144
Total assets	\$ 22,755	\$ 24,249	\$ 47,004
Purchase of property, plant and equipment	\$ 371	\$ 550	\$ 921

For the year ended December 31, 2009 (in thousands of dollars):

	Chemical products	Technical products	Total
Sales	\$ 19,385	\$ 15,573	\$ 34,958
Gross profit	\$ 5,686	\$ 4,888	\$ 10,574
Amortization	(444)	(518)	(962)
Impairment of goodwill	–	(2,077)	(2,077)
Operating expenses - excluding amortization and impairment	(3,352)	(2,603)	(5,955)
Operating income (loss)	<u>\$ 1,890</u>	<u>\$ (310)</u>	1,580
Other income			57
Gain on disposal of assets held for sale			254
Investment income			236
Income tax expenses			(721)
Non-controlling interest			(918)
Net income			\$ 488

	Chemical products	Technical products	Total
Total assets, excluding goodwill	\$ 20,472	\$ 19,990	\$ 40,462
Goodwill	4,442	2,702	7,144
Total assets	\$ 24,914	\$ 22,692	\$ 47,606
Purchase of property, plant and equipment	\$ 213	\$ 4,048	\$ 4,261

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

18. Segmented information (continued):

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

For the year ended December 31, 2010 (in thousands of dollars):

	Canada	U.S.	China and Hong Kong	Other	Total
Sales	\$ 2,875	\$ 2,990	\$ 26,882	\$ 714	\$ 33,461
Total assets	4,126	–	42,878	–	47,004
Property, plant and equipment	17	–	9,115	–	9,132
Goodwill	–	–	7,144	–	7,144

For the year ended December 31, 2009 (in thousands of dollars):

	Canada	U.S.	China and Hong Kong	Other	Total
Sales	\$ 2,898	\$ 2,555	\$ 28,769	\$ 736	\$ 34,958
Total assets	5,270	–	42,336	–	47,606
Property, plant and equipment	24	–	11,578	–	11,602
Goodwill	–	–	7,144	–	7,144

19. Accumulated other comprehensive income (loss):

	2010	2009
Balance, beginning of the year	\$ 36,508	\$ 2,543,980
Change in exchange in translation of foreign subsidiaries	(423,629)	(2,507,472)
Balance, end of the year	\$ (387,121)	\$ 36,508

McVICAR INDUSTRIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

20. Investments in associates:

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

During 2010, Jite Shenzhen, a subsidiary of the Company, executed a restructuring initiative to spin off certain parts of the manufacturing process to former employees of the Company.

Significant elements of the plan were as follows:

Relisen was incorporated to take over the tooling, moulding and parts production of Jite Shenzhen. Jite Shenzhen acquired a 40% interest through the investment of equipment into Relisen with a net book value of approximately \$301,800 (RMB 2,000,000). The remaining 60% interest in Relisen is owned by unrelated third parties. Jite Shenzhen subsequently sold equipment to Relisen with a net book value of \$786,131 (RMB 5,108,066) in consideration of cash. Jite Shenzhen further sold materials inventory to Relisen with a net book value of \$1,324,300 (RMB 8,776,013) in consideration for a loan receivable of the same amount with monthly payment terms of RMB 204,750 commencing January 1, 2011, bearing interest of 5.76% maturing on December 31, 2014 (note 14(c)).

Delicheng was incorporated to take over the screws manufacturing of Jite Shenzhen. Jite Shenzhen acquired a 30% interest through the investment of equipment into Delicheng with a net book value of approximately \$54,324 (RMB 360,000). The remaining 70% interest in Delicheng is owned by unrelated third parties. Jite Shenzhen subsequently sold equipment to Delicheng with a net book value of \$59,340 (RMB 385,575) in consideration of cash. Jite Shenzhen further sold materials inventory to Delicheng with a net book value of \$106,959 (RMB 708,808) in consideration of a loan receivable of the same amount with monthly payment terms of RMB 30,000 commencing January 1, 2011, bearing interest of 5.76% maturing on December 31, 2012 (note 14(d)).

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2010 and 2009

20. Investments in associates (continued):

Jietexing was incorporated as a sales agent to serve some small customers of Jite Shenzhen. Jite Shenzhen acquired a 20% interest through the investment of cash into Jietexing of \$15,090 (RMB 100,000). The remaining 80% interest is owned by unrelated third parties.

21. Subsequent event:

Subsequent to year end, the Company announced that it will conduct a normal course issuer bid pursuant to which it will purchase up to a maximum of 1,800,000 common shares in its capital, representing approximately 4.8% of its 37,427,320 issued and outstanding common shares as at January 4, 2011.

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