

# **MCVICAR RESOURCES INC.**

Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Three and Six Months Ended June 30, 2008 and 2007

(Unaudited)

## **McVICAR RESOURCES INC.**

### Responsibility for financial statements

The accompanying financial statements for McVicar Resources Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2007 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

### Auditor involvement

The auditor of McVicar Resources Inc. has not performed a review of the unaudited financial statements for the six months ended June 30, 2008 and June 30, 2007.

# McVICAR RESOURCES INC.

## Consolidated Balance Sheets

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,848,211	\$ 4,892,181
Short term investments (note 4)	4,593,102	425,906
Restricted cash	2,114,942	1,826,546
Accounts receivable	10,042,236	6,852,242
Inventories	7,367,694	6,650,150
Loans receivable from related parties (note 9)	277,085	265,400
Prepaid expenses and deposits	673,536	702,139
	28,916,805	21,614,564
Investment (note 6)	733,935	850,000
Construction in progress	379,574	336,299
Property, plant and equipment	8,123,297	6,538,769
Intangible assets	794,486	907,366
Goodwill	9,470,257	9,470,257
	\$ 48,418,354	\$ 39,717,255
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Loans payable (note 5)	\$ 700,139	\$ 87,443
Notes payable	4,229,883	3,653,092
Accounts payable and accrued liabilities	6,726,675	7,160,030
Due to related parties (note 9)	648,615	236,078
Income tax payable	314,577	165,800
	\$ 12,619,889	\$ 11,302,443
Long term loans (note 5 (a))	255,597	73,578
Future income taxes	702,069	705,015
	\$ 13,577,555	\$ 12,081,036
Non-controlling interest	11,376,191	9,644,252
<b>Shareholders' equity:</b>		
Capital stock (note 8a)	20,987,066	17,178,952
Warrants	221,329	140,905
Contributed surplus (note 8b)	631,217	512,294
Retained earning (page 2)	1,425,310	784,806
Accumulated other comprehensive income (loss) (page 4)	199,686	(624,990)
	23,464,608	17,991,967
	\$ 48,418,354	\$ 39,717,255

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

Approved on behalf of the Board

"D. James Misener"

Director

"Gang Chai"

Director

## McVICAR RESOURCES INC.

### Interim Consolidated Statements of Earnings

For three and six months ended June 30,2008 and 2007

(Expressed in Canadian dollars)

(Unaudited)

	3 months ended June 30,2008	3 months ended June 30,2007	6 months ended June 30,2008	6 months ended June 30,2007
Sales	\$ 10,274,820	\$ 6,278,971	\$ 19,340,881	\$ 12,441,473
Cost of goods sold	7,514,865	4,455,383	14,136,336	8,689,399
Gross profit	2,759,955	1,823,588	5,204,545	3,752,074
Expenses:				
General and administrative(note 9)	1,512,600	958,405	2,694,443	1,974,049
Loss on disposal of fixed assets	1,281	378	8,584	1,071
Loss on foreign exchange	23,824	99,736	91,325	97,739
Stock-based compensation	104,216	50,848	254,654	216,054
Total operating expenses	1,641,921	1,109,367	3,049,006	2,288,913
Operating income	1,118,034	714,221	2,155,539	1,463,161
Other income	439	8,314	28,265	31,310
Gain on dilution of investment in subsidiary	-	2,357,045	-	2,357,045
Investment loss(note 4, 6)	(54,506)	-	(115,862)	-
Interest expense	(36,613)	(47,528)	(56,217)	(64,546)
Income before income taxes and Non-controlling interest	1,027,354	3,032,052	2,011,725	3,786,970
Income taxes-current	178,532	-	241,287	2,271
Income taxes-future	(28,928)	23,429	(42,456)	58,102
Total income taxes	149,604	23,429	198,831	60,373
Non-controlling interest	565,021	408,626	1,172,390	803,849
<b>Net earnings for the period</b>	<b>\$ 312,729</b>	<b>\$ 2,599,997</b>	<b>\$ 640,504</b>	<b>\$ 2,922,748</b>
<b>Retained earnings (deficit), beginning of period</b>	<b>\$ 1,112,581</b>	<b>\$ (1,136,182)</b>	<b>\$ 784,806</b>	<b>\$ (1,458,933)</b>
<b>Retained earnings, end of period</b>	<b>\$ 1,425,310</b>	<b>\$ 1,463,815</b>	<b>\$ 1,425,310</b>	<b>\$ 1,463,815</b>
Earnings per share:				
Basic	\$ 0.01	\$ 0.11	\$ 0.02	\$ 0.14
Diluted	\$ 0.01	\$ 0.11	\$ 0.02	\$ 0.14
Weighted average number of shares outstanding:				
Basic	27,661,768	22,845,317	27,269,793	21,331,045
Diluted	27,924,486	23,083,291	27,737,851	21,565,559

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

## McVICAR RESOURCES INC.

### Interim Consolidated Statements of Cash Flows

For three and six months ended June 30,2008 and 2007

(Expressed in Canadian dollars)

(Unaudited)

	3 months ended June 30,2008	3 months ended June 30,2007	6 months ended June 30,2008	6 months ended June 30,2007
<b>Operating activities:</b>				
Net income	\$ 312,729	\$ 2,599,997	\$ 640,504	\$ 2,922,748
Items not affecting cash:				
Amortisation	341,148	167,794	654,297	327,310
Loss on disposal of fixed assets	26,227	378	33,530	1,071
Gain on dilution of investment in subsidiary	-	(2,357,045)	-	(2,357,045)
Future income taxes	(28,928)	23,429	(42,456)	58,102
Non-controlling interest	565,021	408,626	1,172,390	803,849
Stock-based compensation	104,216	50,848	254,654	216,054
Share of loss of equity investment(note 6)	54,709	-	116,065	-
Change in non-cash operating working capital (note 10)	(1,887,919)	(803,617)	(3,197,873)	(2,141,538)
Net cash provided by (used in) operating activities	(512,797)	90,410	(368,889)	(169,449)
<b>Financing activities:</b>				
Proceeds (repayment) from loans	182,215	(705,098)	977,091	(1,196,424)
Reduction (deposit) in restricted cash	201,333	-	(288,396)	-
Issuance of capital stock for cash	2,934,789	11,326,232	3,888,539	11,326,232
Net cash provided by (used in) financing activities	3,318,337	10,621,134	4,577,235	10,129,808
<b>Investing activities:</b>				
Business acquisitions (net of cash and cash equivalents acquired)	73,300	(2,518,200)	(487,395)	(269,073)
Short term investment	(3,232,124)	-	(4,280,859)	-
Loans to related parties	-	-	-	35,255
Purchase of property, plant and equipment	(391,379)	(601,642)	(908,761)	(997,518)
Net cash provided by (used in) investing activities	(3,550,203)	(3,119,842)	(5,677,015)	(1,231,336)
Effect of exchange rate changes on cash and cash equivalents	10,778	(203,840)	424,699	(145,241)
<b>Net change in cash and cash equivalents</b>	<b>(733,886)</b>	<b>7,387,862</b>	<b>(1,043,971)</b>	<b>8,583,782</b>
Cash and cash equivalents, beginning of period	4,582,096	2,711,128	4,892,181	1,515,208
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,848,211</b>	<b>\$ 10,098,990</b>	<b>\$ 3,848,211</b>	<b>\$ 10,098,990</b>

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

# McVICAR RESOURCES INC.

## Interim Consolidated Statements of Other Comprehensive Income

For three and six months ended June 30, 2008 and 2007

(Expressed in Canadian dollars)

(Unaudited)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Net income	\$ 312,729	\$ 2,599,997	\$ 640,504	\$ 2,922,748
Other Comprehensive Income (loss)				
unrealized income (loss) on translating financial statements of self-sustaining subsidiaries	71,936	(345,135)	824,676	(317,489)
Total Comprehensive Income	\$ 384,665	\$ 2,254,862	\$ 1,465,180	\$ 2,605,259

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
(Expressed in Canadian dollars, unless otherwise indicated)  
Three and six months ended June 30, 2008 and 2007

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McVicar Resources Inc. (the "Company" or "McVicar") was incorporated under the Business Corporations Act (Ontario) on February 19, 2003. Its initial business involved the acquisition and exploration of mineral resources in both Canada and China. In 2007, the Company had transformed itself from a purely exploration oriented entity to a provider of chemical and technical products through its subsidiaries in both Canada and China.

## **1. Basis of presentation**

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and follow the same accounting policies as set out in Note 2 to the financial statements for the year ended December 31, 2007 except as noted below. These financial statements do not contain all disclosures required by Canadian GAAP and should be read in conjunction with the most recently audited annual financial statements for the year ended December 31, 2007. All amounts in these financial statements are in Canadian dollars unless indicated with a "RMB" to represent the Chinese Renminbi. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

### **(a) Short term investments**

Short term investments consist primarily of investment in public companies, in accordance with Section 3855 of the Canadian Institute of Chartered Accountants, short term investments are classified as held for trading. Transactions are recorded on settlement date and investments recognized at fair value. Unrealized gains and losses are recorded in net earnings for held for trading investments.

## **2. Change in accounting policies:**

Effective January 1, 2008, the Company adopted new accounting standards issued by CICA Handbook Section 3031 - Inventories, Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments – Presentation.

### **(a) Inventories:**

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, it also provides guidance on the determination of cost and its subsequent recognition as an expense, costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula.

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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## **2. Change in accounting policies (continued):**

The new standard also requires disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses. The adoption had no material impact on the consolidated financial statements.

For the six months period ended June 30, 2008, the Company recorded an inventory provision of \$112,594 to write down the value of the inventory to estimated net realizable value. The inventory provision is included in cost of goods sold.

### **(b) Capital Disclosures:**

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. The new disclosure has been provided in note 10 of the interim consolidated financial statements.

### **(c) Financial Instruments:**

Section 3862 and Section 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation, placing increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The new disclosure has been provided in note 13 of the interim consolidated financial statements.

## **3. New accounting pronouncements**

### **(a) Goodwill and intangible assets**

In February 2008, the CICA issued Section 3064 "Goodwill and intangible assets", replacing Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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### 3. New accounting pronouncements (continued)

#### (b) International Financial Reporting Standards (“IFRS”)

The accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to IFRS by January 1, 2011. Generally accepted accounting principles (“GAAP”) in Canada will cease to apply and will be replaced by IFRS. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The Company is evaluating accounting policy differences between Canadian GAAP and IFRS based on management’s current understanding of these standards. Management is currently assessing the impact of the transition to IFRS on its consolidated financial statements.

### 4. Short term investments:

The Company has two types of short term investments with a total value of \$4,593,102 (December 31, 2007-\$425,906).

- (a) \$ 4,025,926 was invested in Guaranteed Investment Certificate funds with variable interest rate ranging from prime rate minus 1.9%~2.25% and being at maturity within one year.
- (b) \$567,196 was invested in shares of publicly traded companies in China held by JITE. The principal amount of the investment was guaranteed by a company which was controlled by a director of the Company, and JITE will compensate 20% of any net gains in the portfolio when realized. As at June 30, 2008, the market value based on quoted prices for the short term investment is \$567,196 (December 31, 2007 – nil), and the unrealized loss of \$146,084, the difference between the principal and its market value, was recognized in Accumulated Other Comprehensive Loss account. There is no agreed time period within which the related company has to pay any shortfall of the principal amount invested, therefore the amount of the guarantee is subject to measurement uncertainty and will be recorded when received.
- (c) At March 31, 2008, the Company had \$ 29,320 (200,000 RMB) short term investment in mutual funds in China stock market held by Hongbo. This investment was disposed in the second quarter of 2008 and \$203 (1,397 RMB) of investment income was recognized in consolidated financial statements.

### 5. Loans payable:

The Company has various sources of loans owed by Chinese subsidiaries.

- (a) The loans of \$416,401(3,153,387 RMB) is owed by JITE for its equipment financing that bears an effective interest rate of 10.7% per annum with a blended monthly principal and interest payments of \$14,704 (104,882 RMB), and are secured by equipments of \$474,970 (3,239,900 RMB), of which \$160,804(1,225,307 RMB) will be matured within one year.

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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Three and six months ended June 30, 2008 and 2007

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## 5. Loans payable (continued):

- (b) The loan of \$ 167,917(1.13 million RMB) (December 31, 2007- \$ nil) is owed by Changlong for its working capital needs. This loan was borrowed from individuals, unsecured, bears interest rate of 9% per annum and will be repaid at maturity at the end of twelve month term on February 9, 2009.
- (c) The bank loan of \$234,488 (1,577,984 RMB) (December 31, 2007- \$ nil) is owed by Hongbo for it working capital needs. This loan was secured by account receivables at a discount rate of 80% to their face value, bears interest rate of 8.88% per annum and will be repaid at maturity at the end of three month term on September 23, 2008.
- (d) The bank loan of \$118,880 (800,000 RMB) is owed by Luyuan for it working capital needs. This loan was secured by its real estate as collateral, bears interest rate of 7.4% per annum and will be repaid at maturity at the end of twelve months term on July 30, 2008.

Total interest payable for the six months period ended June 30, 2008 was \$37,397 (June 30, 2007 – \$61,044).

## 6. Investment

McVicar holds a 27% equity interest in Sino Lion Nanjing Ltd. (" Sino Lion" ) , based in Nanjing, Jiangsu province, China. In the second quarter of 2008, the Company has recognized its share of loss of RMB 376,874 (\$54,709) under the equity method.

## 7. Acquisition

Acquisitions of businesses were accounted for using the purchase method. This involves allocating the purchase price paid for a business to the fair value of assets acquired, including identifiable intangible assets and the liabilities assumed, based on their fair values at the date of acquisition. Any excess is then recorded as goodwill.

### (a) Luyuan Chemical Co., Ltd.

On April 21, 2008, Zhejiang Hongbo Chemical Co. Ltd. ("Hongbo"),a subsidiary of McVicar, complete a acquisition of an 80% interest in Luyuan Chemical Co. Ltd. ("Luyuan") in Xiangshui city with the formal approval of the purchase agreement by the Chinese government. Pursuant to the agreement, Hongbo paid cash of 4 million RMB (approximately CDN \$ 0.6 million) for the equity interest. Hongbo will also fund approximately 5 million RMB (approximately CDN \$0.75million) to upgrade facilities and working capital.

Luyuan is a manufacturer and supplier of specialized chemical products for industrial markets. One of Luyuan's main products is a key raw material in the intermediate chemicals that Hongbo manufactures. The acquisition of Luyuan would secure the supply lines required for a major customer of Hongbo.

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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## 7. Acquisition (continued)

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition mentioned above. The purchase price allocation is preliminary and based on the Company's best estimates.

Fair value of assets acquired:		
Current assets		646,601
Property, plant and equipment		551,883
		\$ 1,198,484
Less fair value of liabilities assumed and non-controlling interest:		
Current liabilities		538,186
Non-controlling interest		146,600
Fair value of net assets acquired excluding cash position at acquisition		513,698
Cash position at acquisition		73,300
<b>Fair value of net assets acquired</b>		<b>\$ 586,998</b>
<b>Total purchase consideration:</b>		
Cash payments		\$ 586,998

## 8. Share capital:

### (a) Authorized:

The Company's authorized capital stock consists of an unlimited number of common shares.  
**Capital stock consists of the following:**

Common shares	Number of shares	Amount
Balance, December 31, 2006	16,348,559	7,456,828
Private placement	2,500,000	2,250,000
Less: Share issue costs,		(112,500)
Issuance of shares	6,729,904	7,253,435
Options exercised	410,000	307,500
Warrants exercised	18,000	22,500
Allocation from warrants	-	1,189
Balance, December 31, 2007	26,006,463	17,178,952
Private placement (i)	2,314,057	3,119,172
Less: Share issue costs,		(304,892)
Option exercised	260,000	195,000
Warrants exercised	607,000	758,750
Allocation from warrants	-	40,084
Balance, June 30, 2008	29,187,520	\$ 20,987,066

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
(Expressed in Canadian dollars, unless otherwise indicated)  
Three and six months ended June 30, 2008 and 2007

## 8. Share capital (continued):

The Company has issued warrants as follows:

	Number of warrants	Amount
Balance, December 31, 2006	2,340,000	142,094
Exercised	(18,000)	(1,189)
Balance, December 31, 2007	2,322,000	140,905
Private placement (i)	1,288,014	120,508
Option exercised	(607,000)	(40,084)
Expired/ surrendered	(325,000)	-
Balance, June 30, 2008	2,678,014	\$ 221,329

(i) May 30, 2008, the Company completed a private placement of 2,183,073 common shares for gross proceeds of \$3,056,302 at a price of \$ 1.40 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years from closing at an exercise price of \$1.85 per share. These shares are subject to a holding period of 4 months from the date of closing. Proceeds from the Offering will be used to fund the acquisition and upgrade of the newly purchased Luyuan Chemical Co. Ltd. and for general working capital purposes.

In compensation, the Company issued to the Agent a commission of 130,984 units (units valued as above) and 130,984 non-transferable compensation warrants, each non-transferable compensation warrant entitling it to purchase one common share at an exercise at a price of \$1.40 per share until May 30, 2010.

The warrants from this private placement have been valued at \$120,508 and are reflected in Capital Stock under warrants. The values for the warrants was determined using the Black Scholes model with the following assumptions; dividend yield 0%, risk-free rate of interest 2.97%, expected volatility of 28.5% and expected life of 24 months.

## (b) Contributed surplus:

Balance, December 31, 2007	\$ 512,294
Share of stock-based compensation expense in subsidiary	118,923
Balance, June 30, 2008	\$ 631,217

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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## 8. Share capital (continued):

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

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

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

	Options Outstanding	Weighted average exercise price
Options outstanding, December 31, 2007	1,085,000	\$ 0.81
Exercised	(260,000)	\$ 0.75
Expired	(150,000)	\$ 0.75
Options outstanding, June 30, 2008	675,000	\$ 0.85

### (d) Warrants:

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

	Warrants	Weighted-Average Exercise price
Warrants outstanding, December 31, 2007	2,322,000	\$ 1.40
Exercised	(607,000)	\$ 1.25
Expired	(325,000)	\$ 1.25
Issued	1,288,014	\$1.80
Warrants outstanding, June 30, 2008	2,678,014	\$ 1.63

The following table summarizes information about the warrants outstanding at June 30, 2008:

	Warrants Outstanding and exercisable	Remaining contractual life
\$ 1.50	1,390,000	0.27 years
\$ 1.85	1,157,030	1.92 years
\$ 1.40	130,984	1.92 years
Warrants outstanding, June 30, 2008	2,678,014	1.09 years

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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## 9. Related parties transactions:

In addition to the matter disclosed in Note 4(b), the Company has related parties' transactions as follows:

Included in Prepaid expenses and deposits is \$18,424 (2007 – \$18,424) in cash advances to two consultants who is part of management and a director of the Company for travel and accommodation expenses for trips to China.

Included in General and administrative expenses are management fees of \$81,000 (2007 - \$48,000) paid to an individual who is an officer and director of the Company. Included in General and administrative expenses are directors fees of \$4,900 (2007 - \$1,500).

Included in General and administrative is a salary of \$ Nil (2007 - \$9,526) paid to an employee who was also a director of the Company.

The transactions with related parties are measured at the exchange amounts agreed with each party.

\$630,783 (4.2 million RMB) was loans to Hongbo by individuals related to a key management official and director of the Company and its subsidiaries. The loan bears interest at 6% per annum, unsecured and repayable on demand. Total interest paid and payable for the period ended June 30, 2008 was \$ 17,420 (June 30, 2007 – nil).

\$265,400 (RMB 2 million) was the loan to a key management of the Company's subsidiary. The loan is unsecured, have a fixed interest rate of 5% per annum with six months of maturity on April 30, 2008. This loan was extended for another six months with the same terms. Total interest received and receivable for the period ended June 30, 2007 was \$11,785(June 30, 2007 – nil).

# McVICAR RESOURCES INC.

**Notes to Interim Consolidated Financial Statements**  
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 Three and six months ended June 30, 2008 and 2007

## 10. Supplementary cash flow information:

Change in non-cash items from operations

	Three months ended June 30,	
	2008	2007
Increase in accounts receivable	\$ (754,269)	\$ (399,374)
Increase in prepaid expenses, deposits and other receivables	(39,695)	(543,435)
Increase (decrease) in inventories	123,001	(1,197,486)
Decrease (increase) in accounts payable and accrued liabilities	(1,216,956)	1,336,678
	<u>\$ (1,887,919)</u>	<u>\$ (803,617)</u>

	Six months ended June 30,	
	2008	2007
Increase in accounts receivable	\$ (1,753,637)	\$ (1,615,431)
Increase (decrease) in prepaid expenses, deposits and other receivables	4,983	(674,781)
Increase (decrease) in inventories	(67,135)	(790,268)
Decrease (increase) in accounts payable and accrued liabilities	(1,382,084)	938,942
	<u>\$ (3,197,873)</u>	<u>\$ (2,141,538)</u>

## 11. Commitment:

### Leases:

The Company leases its premises. Annual lease payments under its operating leases in future fiscal years are as follows:

	McVicar	JITE	Total
2008	\$ 42,711	\$ 331,838	\$ 374,549
2009	85,422	671,308	756,730
2010	64,067	590,912	654,979
2011	-	590,912	590,912
2012 and after	-	2,954,561	2,954,561
	<u>\$ 192,200</u>	<u>\$ 5,139,531</u>	<u>\$ 5,331,731</u>

# McVICAR RESOURCES INC.

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## 12. Capital management

McVicar manages its capital based on the acquisition and investment opportunities in the course of its business to make sure that the Company could grow steadily in a fast growing economy in China and maximize long-term shareholder value. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth.

Over the past two years, the Company has been transformed to a provider of chemical and technical products through its focused acquisitions, and the capital for these acquisitions was primarily from proceeds in previous equity financing.

The Company's primary sources of capital were funds generated from issuance of common shares, cash from operations, local bank credit facility and individual loans.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

## 13. Financial instruments

### (a) Fair value

Fair values of financial instruments are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. As these calculations are subjective in nature, involving uncertainties and matters of significant judgment, changes in assumptions can significantly affect calculated fair value.

The carrying values of cash and cash equivalents, short term investment, loans receivable from related parties, accounts receivable, short-term loans, accounts payable and accrued liabilities, notes payable and due to related party, approximate their fair values due to the relatively short periods to maturity of these financial instruments and normal trade credit terms.

The carrying value of long-term loans approximate its fair value due to the fact that there have been minimal changes in prevailing interest rates and the long-term risk profile of the Company has not significantly changed.

### (b) Market risk and foreign currency risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments.

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## 13. Financial instruments (continued)

The Company and its subsidiaries are exposed to foreign exchange rate risk, as the Company's business is carried out in US dollars ("USD"), Hong Kong dollars ("HKD") and Chinese Renminbi ("RMB") and the Company and its subsidiaries maintain USD, HKD and RMB denominated bank accounts but uses CDN as its reporting currency. Unfavourable changes in the applicable exchange rate between USD, HKD, RMB and CDN may result in a material effect on the foreign exchange gain or loss and the accumulated other comprehensive loss recorded as a part of in shareholder's equity. The Company and its subsidiaries do not use derivative instruments to reduce its exposure to foreign currency risk. JITE's, Changlong's and Hongbo's operating assets, primary sources of income and cash flows are from interest in the PRC.

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. As of June 30, 2008, approximately 72% [2007 -80%] of sales and approximately 85% [2007 – 86%] of expenses were incurred in foreign currencies.

### c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The Company's exposure to credit risk is limited, due to the large number of customers. The carrying amount of financial assets represents the maximum credit exposure.

The Company has adopted a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. Substantially all of the Company's customers are located in China and the United States and represent various industries. When available, the Company reviews credit bureau ratings, bank accounts and financial information for each new customer. Customers that fail to meet the Company's established credit policy are required to submit an appropriate security deposit.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. As at June 30, 2008 and December 31, 2007, the Company had an allowance for JITE's doubtful accounts of \$289,480 and \$199,653, respectively.

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## **13. Financial instruments (continued)**

### **d) 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 is to ensure, as far as possible, that it will always have sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages its liquidity risk by continuously monitoring forecast of cash flows for a period of twelve months to identify financing requirements. These requirements are then addressed through a combination of issuance of common share issuance, debt financing and revolving credit facilities

As at June 30, 2008 and December 31, 2007, the Company had the cash outflows related to financial liabilities were \$13.6 million and \$12 million, respectively. All of the Company's financial liabilities, except for term loan facility and future income taxes, have contracted maturities of less than one year.

### **e) Commodity price risk**

The Company's subsidiaries use various commodity raw materials in the manufacture of their products. 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's subsidiaries are exposed to market risk from fluctuating market prices of certain raw materials. In addition, the Company's subsidiaries are also exposed to market price risk on other inputs such as electricity and natural gas. The Company and its subsidiaries do not use derivative instruments to reduce its exposure to commodity price risk.

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## 14. Segmented information (continued):

### (a) Segmented information:

#### **For three months ended June 30, 2008 (in thousand of dollars):**

	Chemical products	Technical products	Mineral exploration	Corporate	Total
Revenue	\$ 5,629	\$4,646	\$ -	\$ -	\$ 10,275
Gross profit:	1,789	971	-	-	2,760
Operating expenses	(539)	(949)	-	(154)	(1,642)
Operating profit (loss)	1,250	22	-	(154)	1,118
Other income	-	-	-	-	-
Share of loss of equity investment	-	-	-	-	(54)
Interest expense	-	-	-	-	(37)
Income tax expenses	-	-	-	-	(150)
Non-controlling interest	-	-	-	-	(565)
Net income:	-	-	-	-	313
Tangible assets	17,605	16,076	-	4,473	38,154
Intangible assets	440	354	-	-	794
Goodwill	4,692	4,778	-	-	9,470
<b>Total assets:</b>	<b>\$ 22,737</b>	<b>\$ 21,208</b>	<b>\$ -</b>	<b>\$ 4,473</b>	<b>\$48,418</b>

#### **For three months ended June 30, 2007 (in thousand of dollars):**

	Chemical products	Technical products	Mineral exploration	Corporate	Total
Revenue	\$1,412	\$4,867	\$ -	\$ -	\$ 6,279
Gross profit:	503	1,320	-	-	1,823
Operating expenses	(46)	(856)	-	(207)	(1,109)
Operating profit (loss)	458	464	-	(207)	714
Other income	-	-	-	-	8
Gain on dilution of investment in subsidiary	-	-	-	-	2,357
Share of loss of equity investment	-	-	-	-	-
Interest expense	-	-	-	-	(48)
Income tax expenses	-	-	-	-	(23)
Non-controlling interest	-	-	-	-	(409)
Net income:	-	-	-	-	2,600
<b>Total assets:</b>	<b>\$6,909</b>	<b>\$19,226</b>	<b>\$9,099</b>	<b>\$ -</b>	<b>\$ 35,234</b>

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## 14. Segmented information (continued):

### For six months ended June 30, 2008 (in thousand of dollars):

	Chemical products	Technical products	Mineral exploration	Corporate	Total
Revenue	\$ 10,458	\$8,883	\$ -	\$ -	\$ 19,341
Gross profit:	3,347	1,857	-	-	5,204
Operating expenses	(843)	(1,872)	-	(334)	(3,049)
Operating profit (loss)	2,504	(15)	-	(334)	2,155
Other income	-	-	-	-	28
Share of loss of equity investment	-	-	-	-	(116)
Interest expense	-	-	-	-	(56)
Income tax expenses	-	-	-	-	(199)
Non-controlling interest	-	-	-	-	(1,172)
Net income:	-	-	-	-	640
<b>Total assets:</b>	<b>\$ 22,737</b>	<b>\$ 21,208</b>	<b>\$ -</b>	<b>\$ 4,473</b>	<b>\$48,418</b>

### For six months ended June 30, 2007 (in thousand of dollars):

	Chemical products	Technical products	Mineral exploration	Corporate	Total
Revenue	\$2,976	\$9,466	\$ -	\$ -	\$ 12,442
Gross profit:	1,067	2,685	-	-	3,752
Operating expenses	(112)	(1,862)	-	(315)	(2,289)
Operating profit (loss)	955	823	-	(315)	1,463
Other income	-	-	-	-	31
Gain on dilution of investment in subsidiary	-	-	-	-	2,357
Share of loss of equity investment	-	-	-	-	-
Interest expense	-	-	-	-	(64)
Income tax expenses	-	-	-	-	(60)
Non-controlling interest	-	-	-	-	(804)
Net income:	-	-	-	-	2,923
<b>Total assets:</b>	<b>\$6,909</b>	<b>\$19,226</b>	<b>\$9,099</b>	<b>\$ -</b>	<b>\$ 35,234</b>

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## 14. Segmented information (continued):

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

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

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 606	\$638	\$ 8,918	\$113	\$ 10,275
Total assets:	\$10,390	\$ -	\$38,028	\$ -	\$48,418
Property, plant and equipment:	\$ 36	\$ -	\$8,087	\$ -	\$ 8,123

### For the three months ended June 30, 2007 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$980	\$1,264	\$3,712	\$323	\$6,279
Total assets:	\$17,360	\$ -	\$17,874	\$ -	\$35,234
Property, plant and equipment:	\$ 46	\$ -	\$ 4,967	\$ -	\$ 5,013

### For the six months ended June 30, 2008 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$ 1,235	\$ 1,420	\$16,291	\$ 395	\$19,341
Total assets:	\$10,390	\$ -	\$38,028	\$ -	\$48,418
Property, plant and equipment:	\$ 36	\$ -	\$8,087	\$ -	\$ 8,123

### For the six months ended June 30, 2007 (in thousand of dollars):

	Canada	U.S.	China & Hong Kong	Other	Total
Revenues:	\$2,060	\$2,113	\$7,763	\$506	\$12,442
Total assets:	\$17,360	\$ -	\$17,874	\$ -	\$35,234
Property, plant and equipment:	\$ 46	\$ -	\$ 4,967	\$ -	\$ 5,013

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## **15. Subsequent events:**

On July 30, 2008, the Company closed the acquisition of an additional 39.5% equity interest in McVicar (Hong Kong) Advanced Materials Co. Ltd., ("MAM"), which represents the whole existing interest in MAM held by Shining Palace Holding Co. Limited ("Shining Palace"), a British Virgin Islands company. Pursuant to the agreement, the total consideration of RMB 51,350,000 (\$7,735,720 based on an exchange rate of 7RMB to \$1) was satisfied by the issue of 5,329,800 units of the Company at an agreed issue price of \$1.40 per unit. Each unit consisted of one common share of McVicar and one-half of one common share purchase warrant, each whole warrant will entitle the holder to acquire one additional McVicar share at \$ 1.85 per share for a period of 24 months from the date of closing. These shares are subject to a four-month hold period from the date of closing.

As a result of the transaction, McVicar's ownership interest in MAM increased from 51% to 90.5%.

## **16. Comparative figures:**

Certain 2007 comparative figures have been reclassified to conform to the presentation of financial statements adopted for 2008.