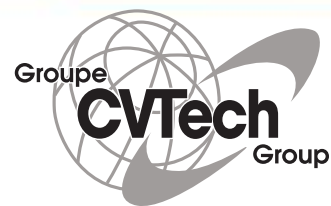


Quest

for Growth



2008 Annual Report

- 14.2% revenue growth
- Earnings before interest, taxes, depreciation and amortization rose to 14.8% of revenues
- Record net earnings of \$9.9M
- Increased revenues and net earnings in each sector of activity
- Solid balance sheet with more than \$11.7M in cash and long-term debt of only \$22.8M

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Financial highlights

	2008	2007	2006	2005	2004
(thousands of dollars, except per share data and ratios)	\$	\$	\$	\$	\$
Operating results					
Revenues	148,247	129,838	93,068	23,432	29,657
EBITDA ¹	21,877	16,457	7,735	620	4,452
EBITDA Margin (%)	14.8%	12.7%	8.3%	2.6%	15.0%
Net earnings (Net loss)	9,878	5,963	941	(1,116)	1,762
Cash flows from operations ²	14,721	10,601	5,673	974	2,961
Financial position					
Working capital	26,524	23,115	10,910	12,555	2,653
Total assets	89,707	76,664	72,049	50,245	19,424
Long-term debt ³	22,802	23,502	20,699	15,536	9,999
Shareholders' equity	44,538	31,894	23,081	20,708	6,196
Per share data					
Net earnings (Net loss) per common share – basic	0.18	0.11	0.02	(0.03)	0.06
– diluted	0.17	0.11	0.02	(0.03)	0.06
Cash flows from operations ² – basic	0.27	0.20	0.11	0.03	0.10
Book value	0.80	0.58	0.45	0.43	0.21
Paid dividend per share	0.02	–	–	–	–
Average number of shares outstanding (000's)					
Basic	55,258	52,500	49,833	36,774	29,000
Diluted	57,639	54,421	52,004	36,774	29,000
Shares outstanding at year end (000's)	55,772⁴	54,872	50,682	48,725	29,000
Financial ratios					
Return on average equity	25.8%	21.8%	4.3%	(8.3)%	29.3%
Long-term debt to equity	0.51	0.74	0.90	0.75	1.61
Working capital	2.13	2.20	1.42	1.90	1.40

¹ Earnings before interest, taxes, depreciation and amortization

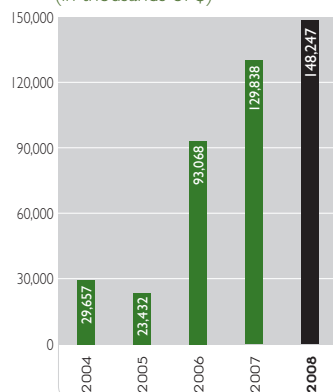
² Before net change in non-cash working capital items

³ Including current portion of long-term debt

⁴ Excluding treasury shares

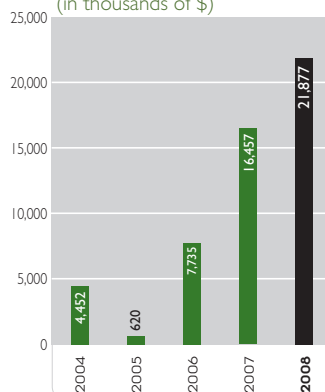
Revenues

(in thousands of \$)



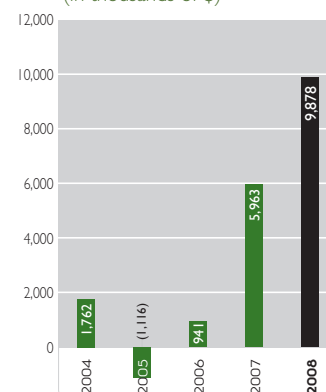
EBITDA

(in thousands of \$)



Net Earnings (Net loss)

(in thousands of \$)



Quest for Growth



Mission

CVTech Group inc.'s ("CVTech" or the "company") mission is to manage the assets that have been entrusted to its custody. The company wishes to take advantage of its expertise in the management of companies that have developed a specific, recognized and exportable expertise. CVTech's subsidiaries stand out by offering products that are perfectly customized to the needs of each client and by acting as a true partner to both their clients and primary suppliers. As regards the continuously variable power transmission ("CVT") systems and related products segment, its mission is to design, manufacture and distribute CVTs. The company wishes to make its client partners benefit from its knowledge and its know-how in order to provide them with quality products at the right time and at the best possible price. The mission of Thiro ltée and its subsidiaries is to develop the market specialized in the construction and maintenance of electrical transmission and distribution lines (in Canada and in the United States) as well as the electrical substations and power houses market.

Chairman of the Board's Message

For a majority of companies around the world, the last fiscal year was a unique period that tested both their business model and the abilities of their management team.

The first part of fiscal 2008 was characterized by the high value of the Canadian dollar and the soaring price of raw materials generally, and oil in particular. Then, the fiscal year ended in a context of severe financial crisis affecting the entire world. We are pleased to note that, despite an environment rife in challenges, CVTech managed to deliver an excellent performance.

Throughout the last fiscal year, the Board of directors continued to deliver on its foremost responsibility, namely to ensure diligently and with determination that the company operates smoothly while serving the best interests of all stakeholders. We ensured that the company remained aligned with its long term objectives, while being loyal on a day-to-day basis to the strategy it had designed.

As Board members, we are guided in our functions by the thorough governance practices which the company has developed over time.

New horizons

Following a stimulating fiscal year, our outlook remains very promising, even more since we have recently announced our intention to make a significant acquisition, which will complement our well established capabilities in the electricity sector.

It goes without saying that we now have the organizational and financial resources required to remain a key player in our chosen areas of activity.

Thanking our people

On behalf of my Board colleagues, I wish to express my warmest appreciation to our management team and employees for their unwavering efforts and the vital role they play in improving the company's results and increasing the value of your investment.

(signed by)
Jacques Joly, CA
Chairman of the Board of directors



President and CEO's message

During fiscal 2008, CVTech continued to post solid revenue and net earnings growth. In an environment characterized by the volatility of the Canadian dollar and despite a climate of economic uncertainty in many of its markets, the company posted revenues of \$148.2 million, a 14.2% increase compared with \$129.8 million in 2007. Net earnings were \$9.9 million, (\$0.18 per share), a 65.7% increase compared with \$6.0 million (\$0.11 per share) in the previous year.

This financial performance clearly demonstrates the validity of our strategy, which is based on knowledge and aimed at transforming the latter into products and services that our clients wish to acquire.

Given our liquidities, which totalled \$11.7 million as at December 31, 2008, we benefit from a solid financial position that is largely sufficient to support our operating activities, while financing our numerous growth projects for 2009 and beyond.

In this regard, on February 9, we signed a letter of intent pertaining to the acquisition of a North American company providing electrical services to the utility and industrial markets. The closing of this transaction, valued at approximately \$60 million, is expected by July 1st, 2009, subject to customary conditions. If completed as planned, this acquisition should add contract revenues of more than \$100 million on an annual basis.

Sector results

CVTech owns and manages various subsidiaries grouped within two areas of activity, namely the manufacturing and sale of CVTs for small vehicles and activities related to the construction and maintenance of electrical transmission and distribution lines, power houses and substations.

During the past year, our team in the CVT sector devoted significant efforts towards modernizing its production lines, which resulted in a more streamlined manufacturing process, thus reducing cycle time and allowing greater efficiency. This sector progressed in its turnaround, breaking even financially after two more difficult years.

In the world market for CVTs, current trends support the emergence of external parts providers such as CVTech, as large manufacturers of small vehicles focus on their role as systems and components integrators and on the sale of finished products.

For its part, our team in the electricity sector continued to post strong revenue growth during the fiscal year, while protecting its profit margins. In the markets that we serve in Canada and the US, utility companies have begun making significant investments in order to modernize their electricity distribution and transportation infrastructure. This environment provides excellent growth opportunities, especially for companies such as ours which clients recognize for the quality of their services.



Growth strategy

In order to deliver on our strategy, we have provided ourselves with a vision and objectives that are well defined and communicated. We put great emphasis on protecting knowledge and innovations and rely on meeting the needs of our clientele. We are also constantly seeking ways to do things more efficiently.

In order to support the realization of its strategy, CVTech has instituted an environment that fosters creativity and ensures the training of its personnel and management. We have adopted a product development process and ensure thorough follow-up and control of activities aimed at innovation. We also maintain strategic and business intelligence activities and seek to retain our key personnel.

Acquisitions represent a core component of our growth strategy. We favour taking a control position in companies that have proprietary products or recognized expertise and which are lead by a management team with a solid track record and, more importantly, that is willing to remain with the company. We also favour targets that have a presence in international markets, or capable of such presence. Finally, we seek companies that are clearly profitable, with a strong growth potential.

Outlook

Throughout fiscal 2009, we will maintain our proven strategies in order to continue growing the company in its two leading areas of activity. We will continue to further our project aimed at providing CVTs to the Tata Motors Ltd Indian automobile manufacturer and will continue to diversify our clientele base in the electricity sector, while integrating the activities of the company we are planning to acquire.

In order to provide our shareholders with an optimal return on their investment, we will continue to rely on our distinctive strengths which include our flexibility and capacity to innovate and, most importantly, our personnel's devotion. Indeed, I would like to thank all our employees for their unfailing efforts in all of the company's projects. Their loyalty breeds our strength.

(signed by)
André Laramée, MBA
President and CEO

IN ORDER TO DELIVER ON OUR STRATEGY, WE HAVE PROVIDED OURSELVES WITH A VISION AND OBJECTIVES THAT ARE WELL DEFINED AND COMMUNICATED.

CVT and related products sector

During fiscal 2008, the CVT and related products sector continued to make progress in its turnaround by modernizing its production lines and recruiting new clients for its products. The division thus reached financial breakeven and now has some thirty clients spread across three continents. Revenues reached \$25.1 million compared with \$24.7 million in fiscal 2007, while the net loss was reduced to \$152,000, compared with a loss of \$929,000 in the previous year.

The division continued to operate an office in France in order to provide after-sale service to its numerous European clients. Our various CVT models are integrated into a vast majority of vehicles without permit which are sold in Europe by approximately twelve manufacturers.

In Asia, our CVTs are currently purchased by a manufacturer which integrates them into its all-terrain vehicles. We maintain our efforts aimed at providing CVTs for the small car project of Indian automobile manufacturer Tata Motors Ltd. In the US, which represents a priority market, we continue to provide our transmission systems to various utility vehicle manufacturers.

Our distinctive strengths

We adapt our various models of CVTs to the specific needs of our clients, a practice that is unique amongst our peers. For the engine, this usually translates into greater performance, while also allowing manufacturers with whom we collaborate to set themselves apart from their own competition.

Over the past several years, CVTech has invested significant resources in research and development, in order to design innovative CVTs which consume less energy and generate less heat than traditional products. We invest approximately 6% of the CVT and related products sector's annual revenues in research and development activities, which involve approximately 20 of this business segment's 165 employees.

Over the coming years, regulatory authorities in many countries will apply new environmental rules to small vehicles, as a means of reducing their energy consumption. The emergence of such norms will facilitate adoption of new technologies, such as the electronic CVT, a model of which has been developed by the company.

Highly promising potential

During fiscal 2009, we plan to formally conclude our commercial agreement with Tata Motors Ltd. We will take advantage of the next 18 months to adapt our electronic CVT to the needs of our world clients. We will also continue to broaden our client base, in order to compensate for a possible decline in orders from certain of our clients who may be adversely impacted by the current economic environment.

We strongly believe that the CVT market holds highly promising potential for the company and we will spare no effort in becoming the reference in this area.



Electricity sector

In 2008, our electricity sector increased its revenues to \$123.1 million, representing growth of 17.1% compared with the previous year, thus confirming its stunning progress since CVTech's acquisition of Thiro Itée in December 2005. Indeed, between 2005 and 2008 the revenues of this division grew by a compound annual growth rate of 27.6%. More importantly, net earnings also increased to \$10.0 million, compared with \$6.9 million in the previous fiscal year.

Highlights of fiscal 2008 include the announcement in March of a contract extension worth more than \$30 million with National Grid USA Companies, pertaining to maintenance and repair of electricity distribution lines in New England. The US market represents approximately 70% of the electricity division's revenues.

Our results also reflect the fact that in the summer, our teams were involved in repairing the networks of several electric utilities in Texas, Louisiana, as well as North and South Carolina, following damage caused by hurricanes. Since 2005, an increase in the occurrence of hurricanes has resulted in growing demand for our services in these states.

Over the coming years, several North American utility companies will invest massively in their infrastructure. For instance, our clients, whether in Canada or the United States, expect to invest between \$8 and \$8.5 billion per year in maintaining and improving their electricity transmission and distribution networks.

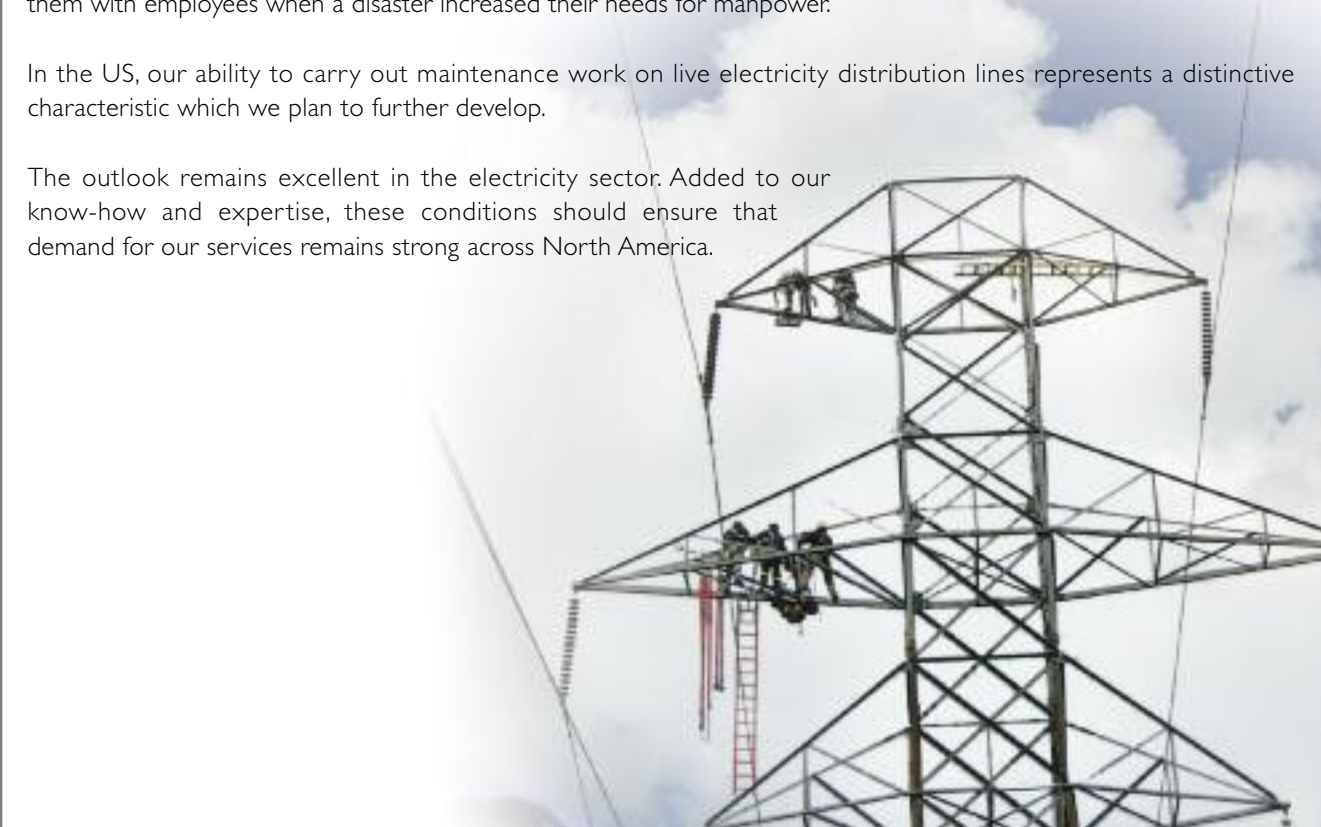
Our division provides construction and maintenance services related to electrical transmission and distribution lines. The transmission lines carry electrical current from the power house to the substation, while distribution lines carry it through utility poles to the end user. In Quebec, we also provide vegetation control services around distribution and transmission lines.

Competitive advantages

Our electricity division enjoys a solid reputation with its clientele, which recognizes its ability to provide services that respect timelines and estimates. Our clients also value highly our exemplary track record in terms of our employees' health and safety. Over the years, we have established a certain proximity with our clients, for example by providing them with employees when a disaster increased their needs for manpower.

In the US, our ability to carry out maintenance work on live electricity distribution lines represents a distinctive characteristic which we plan to further develop.

The outlook remains excellent in the electricity sector. Added to our know-how and expertise, these conditions should ensure that demand for our services remains strong across North America.



A track record of successful acquisitions

CVTech has a clear and well established acquisition strategy and acquisitions represent an important part of our growth strategy.

We favour taking a control position in companies with proprietary products or recognized expertise.

We target primarily companies with a management team that has demonstrated its capabilities and is willing to remain with the company in order to continue its development.

We favour targets that are present on the international market, or capable of such presence, as well as companies that are clearly profitable and with a strong growth potential.

A promising opportunity

Signing of a letter of intent for the acquisition of a North American company which provides electrical services to the utility and industrial markets.

In order to ensure the seamless operation of the target company, its key personnel is expected to enter into employment agreements of at least three years.

The proposed acquisition price is \$60 million, the company having generated annual revenues of more than \$100 million in 2008.

Offer is subject to customary conditions, including detailed due diligence and regulatory approval.

Transaction is expected to close by July 1st, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") focuses on the results of operations of CVTech Group inc. ("CVTech" or the "company") for the year ended December 31, 2008. These comments aim at helping the reader to better understand CVTech's operations as well as the main components of its financial results.

This MD&A should be read in conjunction with the company's audited consolidated financial statements and notes thereto, and with the audited annual financial statements and notes thereto. These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Furthermore, the following information takes into account any significant event that occurred up to March 26, 2009, the date on which the Board of Directors approved this MD&A.

Non-GAAP measure

Earnings before interest, taxes, depreciation and amortization (EBITDA) represent a measure that has no standardized meaning prescribed by Canadian generally accepted accounting principles; it is then considered to be a non-GAAP measure. Therefore, such measure may not be comparable to similar measures presented by other issuers. This measure is described and presented in this MD&A in order to provide additional information regarding the company's liquidity and ability to generate funds to finance its operations.

OVERVIEW

CVTech is a management company that has wholly-owned subsidiaries: CVTech-IBC inc., CVTech R&D inc., CVTech-AAB inc. and Thiro ltée. CVTech is the owner of the buildings and the land where it exercises its activities.

CVTech-IBC inc. manufactures continuously variable power transmission systems ("CVT") serving major manufacturers of recreational and utility vehicles as well as minicars. In addition, CVTech-IBC inc. operates a branch in France in order to serve the aftermarket parts segment and to maintain a proper customer service for the European market. CVTech R&D inc. is responsible for the design of CVT systems for the clients of CVTech-IBC inc. Its main source of income is derived from royalties paid by CVTech IBC inc. on the sales of products developed by CVTech R&D inc.

CVTech-AAB specializes in the rebuilding of industrial crankshafts, cylinders and engines, the plating of cylinders and the sale of engine-related parts. CVTech-AAB inc. is part of the CVT segment and is therefore presented in the transmission systems and related products segment in the segment information note to the company's consolidated financial statements.

CVTech is the owner of the trademarks and CVTech R&D inc. holds the intellectual property on products which are part of its technological solutions.

Thiro ltée is a general contracting firm specializing in the construction and maintenance of electrical power houses and substations as well as transmission and distribution lines. Thiro ltée has two wholly-owned subsidiaries: J.J.L. Déboisement inc. and Thiro USA inc. J.J.L. Déboisement inc. specializes in the vegetation control on rights-of-way for transmission and distribution lines. Thiro USA inc. mainly carries out the above-listed Thiro ltée activities.

CVTech currently has a staff of approximately 615 employees who are shared out as follows: 165 employees assigned to the CVT systems and related products segment and 450 employees in the electricity segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

CORPORATE STRATEGY

CVTech's mission is to manage the assets that have been entrusted to its custody. The company wishes to take advantage of its expertise in the management of companies that have developed a specific, recognized and exportable expertise.

CVT systems and related products segment

As regards the CVT systems and related products segment, its mission is to design, manufacture and distribute CVTs. The company wishes to make its client partners benefit from its knowledge and its know-how in order to provide them with quality products at the right time and at the best possible price.

CVTech's subsidiaries stand out by offering products that are perfectly customized to the needs of each client and by acting as a true partner to both their clients and primary suppliers.

Electricity segment

The mission of Thiro Itée and its subsidiaries is to develop the market specialized in the construction and maintenance of electrical transmission and distribution lines (in Canada and in the United States) as well as the electrical substations and power houses market.

Strategic objectives for fiscal 2008

During fiscal 2008, our three main objectives were as follows:

- I. Improving our competitiveness in the vehicle division by hedging against the Canadian dollar fluctuations versus the US dollar and this, by transferring in the United States a part of our procurement of raw materials and supplies.
- II. Being on the look-out for potential acquisitions, thus allowing us to expand the range of products and services and consequently strengthen our relationship with our clientele.
- III. Positioning ourselves so as to provide our clients in the electricity segment a turnkey service including engineering and execution of work.

The vehicle division has significantly reduced its foreign exchange risk by transferring a part of its procurement in the United States. With this strategy, the division has been able to minimize foreign exchange losses and also position itself so as to face the economic conditions that have prevailed since the third quarter of 2008.

Throughout the year 2008, we have been on the look-out for potential acquisitions that would meet our criteria. In fact, the steps initiated last year have allowed us to conclude a conditional agreement with a target business, as announced on February 11, 2008.

Finally, last year, as part of a request for tender from a customer who wanted a turnkey service including work engineering for transmission lines, we submitted a joint bid with SNC-Lavalin. Even though our bid was not accepted, we have been able to qualify regarding the work to be performed, as required by the customer.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Strategic efforts for fiscal 2009

In 2009, we intend to benefit from the various investment programs in the clean and renewable energy sector to create organic growth within our electrical division. In fact, the integration of the target business will allow us to reach that goal due to the complementarity of our services, which should be worthwhile both for the target business clientele and our own customers.

Furthermore, we will continue to be open to other acquisitions for the electric and vehicle divisions once the target business, announced in February, has been integrated into the company.

Despite the current economic conditions, we hope that the corrective action implemented in 2008 will be fully effective in 2009 and that the company will be able to maintain its revenue growth and profitability during fiscal year 2009.

Capability to deliver results

CVTech's management believes that it has the capabilities to deliver expected results thanks to its recognized expertise in the marketplace, high quality products, a sound financial position as well as competent employees and an experienced management team.

HIGHLIGHTS OF FISCAL 2008

In spite of a difficult economic situation in 2008, the company's results for the year ended December 31, 2008 have reached an all-time high since the creation of the company. In fact, revenues, net earnings and net earnings per share increased significantly as compared with the previous fiscal year which, until then, had shown the best results in the company's history.

The main highlights for the year ended December 31, 2008 are as follows:

- Increase in revenues by 14% compared to the prior year.
- Highest net earnings in the company's history, being \$9.9M compared to \$6.0M for the year ended December 31, 2007.
- Highest net earnings per share in the company's history, being \$0.18 compared to \$0.11 last year.
- Increase in EBITDA by 33% compared to the prior year.

Acquisition

On February 9, 2009, the company signed a letter of intent to purchase all of the issued and outstanding shares of a North American company (the "Business"), which provides electrical services to the industrial and utility markets. Due to the nature of the proposed transaction, the name of the Business will only be disclosed upon closing.

The undertaking is conditional upon:

- a legal, accounting, financial, technological and environmental due diligence audit;
- the approval of the competent regulatory authorities as well as the Toronto Stock Exchange and the company's Board of Directors; and
- various other steps customary to merger and acquisition activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

The key personnel of the Business will eventually enter into employment agreements with initial terms of three years in order to provide continuity in the daily operations of the Business.

The price offered is approximately \$60M, which will be payable as follows: \$48M in cash, and the balance, \$12M payable in common shares of the company.

For the year ended December 31, 2008, the Business has generated contract revenues of more than \$100M. Similar contract revenues are forecasted for the current year.

Normal course issuer bid

On October 27, 2008, the company announced its intention to make a normal course issuer bid. The company may now repurchase, for cancellation purposes, up to 2,771,678 common shares over a 12-month period beginning October 29, 2008 and ending October 28, 2009, which represents 5% of the company's issued and outstanding common shares calculated on a non-fully diluted basis. The purchases will be done only through the intermediary of the Toronto Stock Exchange and at the market price at the time of purchase.

Between April 1, 2008 and September 30, 2008, the average trading volume for the common shares of the company was 225,927 common shares. Therefore, under the rules and policies of the Toronto Stock Exchange, the company has the right to repurchase, for any one trading day, a maximum of 56,481 common shares, which represents 25% of the average daily trading volume. However, under the Toronto Stock Exchange notice dated November 3, 2008 (#2008-0005), the company may increase this daily trading volume to 112,963 common shares until March 31, 2009.

Also, the company may purchase, once per calendar week and in addition to the daily limit of 56,481 common shares, one block of shares (as defined by the Toronto Stock Exchange Manual) no directly or indirectly owned by insiders of the company, in accordance with the rules and policies of the Toronto Stock Exchange.

Development in India

The development work initiated jointly with the Indian car manufacturer, Tata Motors Ltd., in order to provide them CVTs for their small cars project is still underway. In the last few months, many tests have been made, and the results have been, up to now, to the satisfaction of Tata Motors Ltd.'s engineering department. Since the car industry is a very demanding market, other tests will be made in the following weeks to validate the positive results obtained. Thereafter, prior to getting more involved in that project, the company wishes to enter into a trade agreement with the Indian company. If no agreement is concluded, the company will cease to make investments in the development of CVTs for Tata Motors Ltd. and by this very fact, will withdraw from the project until the conclusion of a trade agreement between the parties.

GLR-Thiro, G.P. Consortium

On August 31, 2006, Thiro entered into a partnership with GLR inc. ("GLR") to build a 161-kV double circuit, on freestanding guyed steel transmission poles, between the Péribonka and Simard substations, and to incorporate the new line into the Saguenay network. The revenue and expense recognition related to this contract was completed during the fourth quarter of 2007. GLR is a general contractor involved in various sectors, including the construction of power transmission lines. This partnership with GLR was an important factor in securing the contract awarded by Hydro-Québec.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

RESULTS OF OPERATIONS

The following tables summarize certain financial data relating to the company and should be read in conjunction with the financial statements and related notes.

Selected annual financial information

Statements of Earnings

(in thousands of dollars, except per share amounts)	Years Ended December 31,		
	2008	2007	2006
	\$	\$	\$
Revenues	148,247	129,838	93,068
Earnings before income taxes	14,868	9,575	2,120
Net earnings	9,878	5,963	941
Income tax expense	4,990	3,612	1,179
Net interest expense	1,931	2,183	1,449
Depreciation and amortization	5,078	4,699	4,166
EBITDA	21,877	16,457	7,735
Basic net earnings per share	0.18	0.11	0.02
Diluted net earnings per share	0.17	0.11	0.02
Declared dividends per share	0.04	—	—
Basic weighted average number of shares outstanding ('000)	55,258	52,500	49,833
Diluted weighted average number of shares outstanding ('000)	57,639	54,421	52,004
Shares outstanding as at December 31 ('000)	* 55,772	54,872	50,682

(*) Net of treasury shares

EBITDA

For the year ended December 31, 2008, EBITDA amounted to \$21.9M (14.8% of revenues) compared to \$16.5 M (12.7% of revenues) for the year ended December 31, 2007. The elements described in the following sections explain the increase in EBITDA in 2008.

Balance sheet data

(in thousands of dollars)	As at December 31,		
	2008	2007	2006
	\$	\$	\$
Cash and cash equivalents	11,746	10,887	2,291
Total assets	89,707	76,664	72,049
Bank loans	—	—	7,122
Convertible debentures	514	2,257	2,599
Long-term debt (including current portion)	22,802	23,502	20,699
Shareholders' Equity	44,538	31,894	23,081

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Year ended December 31, 2008 compared with year ended December 31, 2007

Revenues

The company's revenues for the year ended December 31, 2008 stood at \$148.2M, representing an increase of \$18.4M compared with the prior year.

Revenues by business segment are detailed as follows:

(in thousands of dollars)	2008		Years Ended December 31 2007		Variation	
	\$	%	\$	%	\$	%
CVT and related products	25,106	16.9%	24,691	19.0%	415	1.7%
Electricity	123,141	83.1%	105,147	81.0%	17,994	17.1%
Total	148,247	100.0%	129,838	100.0%	18,409	14.2%

The rise in revenues in the CVTs and related products segment for the year ended December 31, 2008 is mainly attributable to the Canadian dollar's depreciation versus the euro. In fact, the average conversion rate of the Canadian dollar increased by approximately 7% during the year ended December 31, 2008 in comparison with last year, thus creating an approximate favourable effect of \$445,000 on the revenues for the year ended December 31, 2008.

Revenues in the electricity segment are cyclical and mainly depend upon the planning of the related major customers. Contracts are awarded by tender; accordingly obtaining or renewing contracts are uncertain elements for the subsidiaries operating in the electricity segment. The increase in revenues in the electricity segment for the year ended December 31, 2008 is mainly due to the revenues generated by the acts of God that occurred in the United States during fiscal 2008. In fact, revenues arising from electricity distribution contracts increased by \$39.9M in the year ended December 31, 2008 compared with last year, of which an amount of \$23.0M was derived from revenues generated by acts of God. The increase in revenues from electricity distribution contracts offset the decrease in revenues from electricity transmission contracts. More precisely, this decline in revenues amounted to \$9.6M in the United States compared to \$13.4M in Canada due to the termination of the agreement related to GLR-Thiro, G.P. Consortium in the fourth quarter of 2007. Approximately 70% of the revenues (55% in 2007) for the year ended December 31, 2008 derives from work carried out in the United States by Thiro USA, and around 30% is attributable to contracts executed in Canada.

Cost of sales

In the CVTs and related products segment as well as in the electricity segment, the cost of sales in terms of percentage of revenues remained stable for the year ended December 31, 2008 compared with the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Research expenses

Research expenses, which consist of design, development and prototyping, amounted to \$1.4M for the year ended December 31, 2008 compared with \$2.1M for the year ended December 31, 2007. The decrease in research expenses is mainly due to the decline in external service costs mostly allocated to the development of an electronic CVT. Scientific research and experimental development tax credits amounted to \$279,000 for the year ended December 31, 2008 compared to \$402,000 for the prior year. These amounts have been applied against research and development expenses.

Administrative expenses

Administrative expenses stood at \$6.9M for the year ended December 31, 2008, representing the same amount as last year.

Depreciation and amortization

The increase in depreciation and amortization expenses is mainly attributable to the amortization expense resulting from the purchase of capital assets made in the year ended December 31, 2008. An amount of \$8.2M was used for the acquisition of property, plant and equipment, thus resulting in a depreciation expense of \$3.5M for the year ended December 31, 2008 compared to \$3.2M a year earlier.

Net interest expense

The net interest expense decreased by \$252,000 for the year ended December 31, 2008 compared with the prior year. First, interest on bank loans decreased by \$131,000 due to the decline in the average prime rate and to a lower use of bank loans. Second, interest on long-term debt and convertible debentures decreased by \$104,000 during the year ended December 31, 2008 compared with the year ended December 31, 2007. Since a significant portion of the company's debts, both short-term and long-term, bears interest at a floating rate, the interest expense is affected by interest rate fluctuations. Consequently, the decrease in the average prime rate in the reporting year versus the prior year had a favourable impact on the interest expense.

Unrealized exchange loss on foreign currency forward contracts

As at December 31, 2008, the company entered into foreign currency forward contracts to sell, over the next 24 months, 4.8 M euros at an average rate of CAN\$1.5628 = 1 euro and US\$6.6M at an average rate of CAN\$1,1879 = US\$1. The net unrealized exchange loss on these foreign currency forward contracts for the year ended December 31, 2008 amounted to \$773,000 and is attributable to the CVTs and related products segment. The fair value of these foreign currency forward contracts continuously varies according to exchange rate fluctuations between the euro and the Canadian dollar, and also between the US dollar and the Canadian dollar.

Payment of life insurance claim

On March 9, 2009, the company received the payment of a life insurance claim related to the death of an insured that occurred in December 2008.

Income taxes and future income taxes

The income tax expense, calculated using the statutory income tax rates of the Canadian federal government and the government of Quebec, differs from the income tax expense per the financial statements. This variation is mainly due to foreign tax rate differences relating to a subsidiary and to an insurance claim, which have been accounted for during the year ended December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Selected quarterly financial information

The following tables set forth the company's unaudited quarterly consolidated results of operations for each of the eight most recent quarters.

(in thousands of dollars, except per share amounts)	Three Months Ended			
	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008
	\$ (a)	\$ (b)	\$ (c)	\$ (d)
Revenues	39,645	41,180	30,384	37,038
Earnings before income taxes	5,904	4,695	1,038	3,231
Net earnings	4,617	2,810	555	1,896
Basic net earnings per share	0.09	0.05	0.01	0.03
Diluted net earnings per share	0.08	0.05	0.01	0.03

(in thousands of dollars, except per share amounts)	Three Months Ended			
	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	March 31, 2007
	\$	\$	\$	\$ (d)
Revenues	31,196	30,467	34,378	33,797
Earnings before income taxes	1,890	1,861	2,504	3,320
Net earnings	1,156	1,064	1,626	2,117
Basic and diluted net earnings per share	0.02	0.02	0.03	0.04

(a) The profitability increase is mainly attributable to the payment of an insurance claim.

(b) The revenue and profitability increase is mostly explained by the revenues derived from acts of God.

(c) The revenue and profitability decrease is mainly attributable to the decrease in revenues from electricity transmission contracts.

(d) The profitability increase is due to the fact that CVTech-AAB's operations for the first quarter are more significant than those carried out in the other quarters due to the seasonality of the snowmobile market.

Fourth quarter of 2008

Revenues for the fourth quarter of 2008 increased by \$8.4M compared to the corresponding quarter of fiscal 2007, or a 27% increase. Revenues arising from the CVTs and related products segment increased by 7%. Such increase is mostly attributable to the Canadian dollar's depreciation against the US dollar and the euro. The average conversion rate of the US dollar versus the Canadian dollar for the year ended December 31, 2008 increased by approximately 25% in comparison with the prior year, thus creating an approximate favourable effect of \$284,000 on the revenues for the year ended December 31, 2008. Concerning the euro, the average conversion rate versus the Canadian dollar increased by approximately 12% during the year ended December 31, 2008 compared to the prior year, thus creating an approximate favourable effect of \$200,000 on the revenues for the year ended December 31, 2008. Revenues from the electricity segment increased by \$8.1M, mostly because of revenues generated by the acts of God that occurred in the United States during the fourth quarter of fiscal 2008.

The company generated net earnings of \$4.6M (\$2.6M excluding the payment of a life insurance claim) in the fourth quarter of 2008 compared to net earnings of \$1.2M in the fourth quarter of 2007. In spite of an unrealized exchange loss on foreign currency forward contracts of \$796,000 in the fourth quarter of 2008, the CVTs and related products segment showed steady results with a net loss of approximately \$365,000 in the fourth quarter of 2008 compared to a net loss of approximately \$372,000 for the corresponding quarter in 2007. The electricity segment generated net earnings of \$5.1M (\$3.1M excluding the payment of a life insurance claim) in the fourth quarter of 2008 compared to net earnings of \$1.5M in the fourth quarter of 2007. The rise in net earnings in the electricity segment is mainly due to an \$8.1M increase in revenues during the fourth quarter of 2008 compared to the same quarter a year earlier. Furthermore, the gross profit ratio derived from revenues related to acts of God is higher than the gross profit ratio derived from regular contracts.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

LIQUIDITY AND CAPITAL RESOURCES

Despite the uncertain economic situation and the volatility of credit markets, the company's balance sheet has remained very sound as at December 31, 2008. With a relatively low debt level and positive cash flows, the company is well positioned to face the current economic conditions and obtain the financial resources necessary to support its growth.

As at December 31, 2008, the company has available lines of credit of a total authorized amount of \$16.3M as well as an additional line of credit of approximately \$3.1M that is available annually over a maximum period of 120 days.

As at December 31, 2008, the company's cash and cash equivalents totalled \$11.7M and the working capital amounted to \$26.5M, or a ratio of 2.1:1. We believe that our cash and cash equivalents, combined with available lines of credit, will be adequate to meet our cash and capital requirements for the foreseeable future. However, possible investments in the acquisition of businesses may require additional financing. There is no guarantee as to the availability of additional financing through the issuance of shares or debt instruments, when required or, if available, that it will be available under satisfactory conditions.

Operating activities

During the year ended December 31, 2008, operating activities generated funds of \$6.6M compared to \$17.2M for the previous year. Cash flows provided from operating activities are attributable to adjusted net earnings of items not affecting cash and cash equivalents totalling \$14.7M and to the negative impact of the net change in non-cash working capital items amounting to \$8.1M.

This net change in non-cash working capital items is mostly attributable to the following factors:

- Increase in accounts receivable by \$9.7M due to higher revenues in the fourth quarter ended December 31, 2008 compared with the corresponding quarter last year.
- Decrease in income taxes and research and development tax credits receivable by \$739,000.

Financing activities

During the year ended December 31, 2008, financing activities used funds of \$3.9M. The company was granted loans totalling \$2.0M to fund the purchase of capital assets in the electricity segment. A sum of \$4.6M was used as payments on debentures and long-term debt. On January 8, 2008, the company declared dividends of \$0.02 per outstanding share, payable on January 31, 2008. Consequently, an amount of \$1.1M was used for the payment of these dividends. Under its normal course issuer bid, the company redeemed 325,400 shares for an amount of \$321,000 during the year ended December 31, 2008.

Investing activities

Investing activities used funds of \$4.2M for the year ended December 31, 2008. A sum of \$4.0M was cashed due to matured short-term investments, and an amount of \$8.2M was used for the acquisition of property, plant and equipment, of which \$1.6M for the construction of a building at the company's head office and \$2.3M for the construction of a new plant in Thetford-Mines for CVTech-AAB inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

FINANCIAL POSITION

Assets

Total assets increased by approximately \$13.0M as at December 31, 2008 compared to December 31, 2007, representing a 17.0% increase. This rise is mainly due to the following factors. First, short-term investments totalling \$4.0M as at December 31, 2007 were cashed during the year ended December 31, 2008. Secondly, accounts receivable increased by \$10.7M. This increase is explained by the rise in revenues in the fourth quarter of 2008 versus the corresponding quarter of 2007. Finally, additions to property, plant and equipment made during the year ended December 31, 2008 had the effect of increasing the net amount of property, plant and equipment by approximately \$6.4M.

Liabilities

Total liabilities as at December 31, 2008 has remained relatively stable with an approximate increase of 0.1% versus total liabilities recorded as at December 31, 2007. The \$4.0M increase in current liabilities was mostly offset by the \$3.3M decrease in long-term debts and convertible debentures further to payments on long-term debt made during the year ended December 31, 2008. Moreover, in June 2008, 15% of a convertible debenture with a par value of \$3.5M was converted into 375,000 voting and participating shares of the company at a conversion price of \$1.40, representing an amount of \$525,000. Furthermore, in September 2008, the conversion option related to the first convertible debenture expired without being exercised. Accordingly, an amount of \$168,000 has been reflected in the contributed surplus, and the debenture has been reclassified as a long-term debt item.

Financial ratios

CVTech is required by the financial institutions to meet specific financial ratios. As at December 31, 2008, all the required ratios have been met.

Capital stock

The following table presents the outstanding capital stock activity for the year ended December 31, 2008:

('000)	Number
Balance – Beginning of year	54,872
Issuance of shares	556
Conversion of a debenture	375
Exercise of stock options	186
Redemption of shares	(217)
Treasury shares	(109)
Balance – End of year	55,663

The total number of shares outstanding as of March 26, 2009 is 55,601

Stock options

The following tables summarize information about outstanding and exercisable stock options:

Under the plan

As at December 31, 2008

Exercise price	Options outstanding ('000)	Options exercisable ('000)
\$0.50	3,898	3,898
\$0.88	100	25
\$0.90	35	21
\$1.58	50	13
	4,083	3,957

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

As at March 26, 2009

Exercise price	Options outstanding ('000)	Options exercisable ('000)
\$0.50	3,897	3,897
\$0.88	100	25
\$0.90	35	21
\$1.58	50	13
	4,082	3,956

External to the plan

As at December 31, 2008

Exercise price	Options outstanding ('000)	Options exercisable ('000)
\$1.25	120	120

This information remains unchanged as at March 26, 2009.

NEW ACCOUNTING STANDARDS

Accounting changes adopted

On January 1, 2008, the company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

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

Section 3031, "Inventories", which replaces the former Section 3030 with the same title, prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Future accounting changes

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Upon consideration of this new standard, the company has concluded that it will not impact significantly its consolidated financial statements.

The CICA issued Abstract EIC-173 "Credit Risk and the Fair Value of Financial Assets and Liabilities", which will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. This standard clarifies the application of Section 3855 "Financial Instruments – Recognition and Measurement". Upon consideration of this new standard, the company has concluded that it will not impact significantly its consolidated financial statements.

The CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

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

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the company's accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting and information technologies. The company is currently evaluating the impact of these new standards on its financial statements.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2008, there were no related party operations, and the company did not conclude any off-balance sheet arrangements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is presented in note 3 to the audited consolidated annual financial statements. The following aims at helping the reader to better understand our financial statements and our MD&A. The following section should be read in conjunction with the notes to the audited consolidated annual financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include obsolete inventories, future income tax assets and liabilities as well as tax credits recoverable, the progress report of work in process, the useful lives of property, plant and equipment and intangible assets, the impairment of intangible assets and the value of goodwill. Management believes its estimates to be appropriate; however, actual results could differ from those estimates.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the values of the net identifiable assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired. The carrying amount of goodwill is then compared with its fair value, and an impairment loss equal to the excess is recognized, if any. Fair value of goodwill is calculated based on discounted future cash flows. Fair value of goodwill is estimated in the same way as it was determined at the date of acquisition. The company has elected to perform its annual impairment test in December of each fiscal year for all its current reporting units. During fiscal years 2008 and 2007, no impairment loss has been recognized.

Revenue recognition

Sales of parts are recognized when the products have been delivered, title of ownership has been passed to the customer, collection is reasonably assured and consideration is fixed or determinable. Revenues and profits from contracts are accounted for using the percentage-of-completion method. The percentage of work completion is obtained by dividing the cumulative costs incurred on the balance sheet date by the aggregate costs incurred and contemplated for completing the contract. Revenues and profits from fixed unit price contracts (short-term contracts) are accounted for using the completed contract method. Revenues from hour for hour contracts are recognized when services have been rendered and collection is reasonably assured. Revenues from claims are accounted for in the year in which such claims are settled. Revisions of estimates are reflected in the accounts on a periodic basis, and all foreseeable losses are included in earnings, when it is determined that such losses are estimated to be likely to occur.

Income taxes

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Contractual Obligations

The following table summarizes the company's long-term contractual obligations as at December 31, 2008:

Years ending December 31	2009	2010	2011	2012	2013 and thereafter	Total
	\$	\$	\$	\$	\$	\$
- Principal and interest instalments						
- Long-term debt	6,642	5,936	5,016	3,414	6,968	27,976
- Principal and interest instalments						
- Convertible debentures	46	46	46	272	307	717
- Unrealized liabilities on foreign currency forward contracts	717	80	-	-	-	797
Total	7,405	6,062	5,062	3,686	7,275	29,490

SUBSEQUENT EVENTS

On January 13, 2009, obtained additional term loans totalling \$10.7M. These loans were granted to fund the new company's head office (\$1.3M), the construction of CVTech-AAB inc.'s new plant (\$2.7M) and to conclude foreign currency forward contracts up to \$6.7M.

As mentioned on page 5 of this MD&A, on February 9, 2009, the company signed a letter of intent to purchase all of the issued and outstanding shares of a North American company, which provides electrical services to the industrial and utility markets.

DISCLOSURE CONTROLS

The company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the company's disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that information required to be disclosed by the company in reports filed with securities regulatory authorities is recorded and/or disclosed on a timely basis, as required by law, and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation of the company's disclosure controls and procedures, the company's Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures operated effectively as of December 31, 2008 to ensure material information relating to the company would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the company's financial reporting and its compliance with GAAP in its financial statements. The company has evaluated the operating effectiveness of internal controls over financial reporting as at December 31, 2008. This evaluation was performed according to the control framework criteria of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") adopted by the company and in compliance with guidance presented in Canadian Securities Administrators' ("CSA") National Instrument 52-109. Based on the results of this evaluation, the company's Chief Executive Officer and Chief Financial Officer have concluded that internal controls over financial reporting are efficient and are well designed to provide reasonable assurance that financial reporting is reliable and that the financial statements have been prepared in accordance with Canadian GAAP. No material weaknesses have been identified through management's evaluation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Furthermore, this evaluation enabled to conclude that during the fiscal year ended December 31, 2008, there have been no changes in the company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

RISKS AND UNCERTAINTIES

The main risks and uncertainties that could affect the company's activities are summarized below:

Foreign exchange risk

Revenues denominated in foreign currencies accounted for 69% of the company's total revenues for the year ended December 31, 2008. Consequently, the Canadian dollar movements versus the US dollar and euro constitute an element of uncertainty and risk for the company. These risks are partially offset by the following elements: the U.S. subsidiary's operating expenses are denominated in US dollars, raw material purchases are denominated in US dollars and euros and finally, foreign currency forward contracts are entered into by the company. The company's policy is not to utilize those derivative financial instruments for trading or speculative purposes. If the Canadian dollar's rise against the US dollar goes on, this would negatively affect the company's results of operations.

Concentration of customers

For the year ended December 31, 2008, the company's two largest customers represented 59% of the company's revenues. Should certain customers cease doing business with the company or reduce their purchases due to financial difficulties or other causes, this would have a significant impact on the company's revenues, financial position and results of operations. Contracts in the electricity segment are awarded by tender. There can be no assurance that the company will be able to obtain new contracts or renew the existing ones, which might have an unfavourable effect on the company's operations.

Pricing

The highly competitive markets in which CVTech carries on business may force the company to lower its prices. If competitors offer substantial discounts on certain products and services to recover or increase their market share, the company might have to lower its prices and offer favourable terms in order to compete successfully. Such changes could reduce profit margins and detrimentally affect the company's results of operations. Some of the company's competitors could offer products that compete with those of CVTech for promotional purposes or in connection with a long-term pricing strategy, or offer price guarantees or product implementation. Such practices could, over time, restrict the pricing of CVTech's products. If the company is unable to offset such price reductions with corresponding increases in sales or reduce expenses, the loss of revenues could detrimentally affect its profit margins and results of operations.

Ability to hire and retain key personnel

The company's success depends upon its ability to hire and retain key personnel, as regards senior management and technical and professional services as well. Its inability to hire or retain such collaborators could have a material adverse effect on the company.

Acquisition program

The company intends to continue acquiring businesses and assets. There can be no assurance that the company will ultimately make any such acquisitions, or that the company will be able to successfully integrate any business or assets it may acquire into its operations; moreover, if the company fails to retain the key personnel of acquired businesses, this could have a material adverse effect on its results of operations. The acquisition program could require, in addition to cash flows from operations, other sources of financing. There is no guarantee as to the availability of additional financing and, if available, that it will be available under satisfactory conditions. If the company is unable to obtain additional financing, the conclusion of acquisitions could be complex and even impossible.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2008

Intellectual property

The company relies on a combination of patents and trademarks laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. Despite the company's best efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of CVTech's products or obtain information the company regards as proprietary. Policing unauthorized use of CVTech's proprietary technology, if required, may be difficult, time-consuming and costly. In addition, the laws of certain countries in which the company's products are sold do not protect its products and related intellectual property rights to the same extent as the laws of Canada and the United States. There can be no assurance that the company will be successful in protecting its proprietary rights, which may materially adversely affect the latter.

Uncertainty in the CVTs and related products segment

The market for the company's products depends on economic conditions affecting the snowmobile, all-terrain vehicles, golf carts and minicars markets. In economic downturns, companies might delay or cancel proposed CVT and related products purchases, reduce their overall budgets or reduce or cancel orders for these products. In this context, clients might experience financial difficulties, not purchase or delay budgets for the purchase of the company's products or cease doing business. This might in turn lead to longer sales cycles, delays or defaults in payment and collection and downward pressure on prices resulting in lower revenues and margins for the company.

Raw material price fluctuations

The production cost of the CVTs manufactured by the company is affected by the price of aluminum and steel. If the price of aluminum and/or steel increases, the company could be unable to transfer the entire rise to its customers or to fully offset the higher costs of raw materials through productivity gains, which could decrease the company's profitability.

Forward-Looking Statements

This MD&A contains certain forward-looking statements. These statements relate to future events or future performance and reflect the expectations of management regarding the growth, the results of operations, performance and business prospects and opportunities of the company. Such forward-looking statements reflect current beliefs of management and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, investors should specifically consider various factors, including the risks outlined under the heading "Risk factors", which may cause actual results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

For further information relating to CVTech, the reader may consult the SEDAR database at the following Internet address: www.sedar.com and the company's Internet site at the following address: www.groupecvtech.com.

(signed by)
André Laramée, M.B.A.
President and Chief Executive Officer

(signed by)
Mario Trahan, C.M.A.
Chief Financial Officer

March 26, 2009

Auditors' Report

To the Shareholders of
CVTech Group inc.

We have audited the consolidated balance sheets of **CVTech Group inc.** as at December 31, 2008 and 2007 and the consolidated statements of earnings, contributed surplus, retained earnings, accumulated other comprehensive income (loss), comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed by PricewaterhouseCoopers LLP)
Québec, Quebec, Canada
March 26, 2009

I Chartered accountant auditor permit No. 7871

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

Consolidated Balance Sheets

As at December 31,
(in thousands of dollars)

	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	11,746	10,887
Short-term investments	–	3,993
Accounts receivable (notes 5 and 12)	22,883	12,227
Inventories (notes 6 and 12)	4,397	4,616
Costs and anticipated profits in excess of billings	8,719	7,638
Income taxes and research and development tax credits receivable	793	1,954
Prepaid expenses	744	743
Future income taxes (note 22b)	615	397
	49,897	42,455
Research and development tax credits receivable	684	634
Investments (notes 7 and 15)	1,943	1,926
Property, plant and equipment (notes 8, 12 and 15)	26,329	19,938
Intangible assets (note 9)	5,470	6,546
Deferred charges (note 10)	45	337
Goodwill (note 11)	5,339	4,672
Future income taxes (note 22b)	–	156
	89,707	76,664
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	13,039	11,204
Dividends payable (note 17)	1,115	–
Unrealized liabilities on foreign currency forward contracts	717	–
Income taxes payable	2,598	2,503
Future income taxes (note 22b)	623	1,230
Current portion of long-term debt (note 15)	5,281	4,403
	23,373	19,340
Convertible debentures (note 14)	514	2,257
Long-term debt (note 15)	17,521	19,099
Accrued benefit liabilities (note 16)	165	178
Future income taxes (note 22b)	3,516	3,896
Unrealized liabilities on foreign currency forward contracts	80	–
	45,169	44,770
Shareholders' Equity		
Capital stock (note 17)	21,966	20,994
Stock options and warrants (note 18)	1,131	1,145
Debenture conversion option	22	208
Contributed surplus	433	263
Retained earnings	19,002	11,459
Accumulated other comprehensive income (loss)	1,984	(2,175)
	44,538	31,894
	89,707	76,664
Contingency (note 27)		
Subsequent events (note 28)		

Approved by the Board of Directors

(signed by)
Jacques Joly, CA
Director

(signed by)
André Laramée, M.B.A.
Director

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

Consolidated Statements of Contributed Surplus, Retained Earnings, Accumulated Other Comprehensive Income (Loss) and Comprehensive Income

For the years ended December 31,
(in thousands of dollars)

Contributed Surplus

	2008	2007
	\$	\$
Balance – Beginning of year	263	15
Cancelled stock options (note 18)	2	15
Matured warrants (note 18)	–	48
Matured debenture conversion option (note 14)	168	185
Balance – End of year	433	263

Retained Earnings

	2008	2007
	\$	\$
Balance – Beginning of year	11,459	5,496
Net earnings for the year	9,878	5,963
	21,337	11,459
Declared dividends (note 17)	2,213	–
Redemption of shares (note 17)	122	–
	2,335	–
Balance – End of year	19,002	11,459

Accumulated Other Comprehensive Income (Loss)

	2008	2007
	\$	\$
Balance – Beginning of year	(2,175)	53
Translation adjustment of a self-sustaining foreign operation's financial statements (note 2)	4,159	(2,228)
Balance – End of year	1,984	(2,175)

Comprehensive Income

	2008	2007
	\$	\$
Net earnings for the year	9,878	5,963
Translation adjustment of a self-sustaining foreign operation's financial statements (note 2)	4,159	(2,228)
Comprehensive income for the year	14,037	3,735

Total retained earnings and accumulated other comprehensive income (loss) amount to \$20,986 and \$9,284 as at December 31, 2008 and 2007, respectively.

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

Consolidated Statements of Earnings

For the years ended December 31,

(in thousands of dollars, except the number of shares and per share data)

	2008	2007
	\$	\$
Revenues	148,247	129,838
Expenses		
Cost of sales and operating, research, selling and administrative expenses	128,162	113,336
Depreciation and amortization	5,078	4,699
Net interest expense (note 20)	1,931	2,183
Foreign exchange loss	208	45
Payment of life insurance claim (note 5)	(2,000)	—
	133,379	120,263
Earnings before income taxes (note 21a)	14,868	9,575
Income tax expense (note 22a)		
Current	6,256	3,967
Future	(1,266)	(355)
	4,990	3,612
Net earnings for the year	9,878	5,963
Net earnings per share (note 24)		
Basic	0.18	0.11
Diluted	0.17	0.11
Weighted average number of shares outstanding (note 24)		
Basic	55,258,157	52,499,952
Diluted	57,639,401	54,420,584

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

Consolidated Statements of Cash Flows

For the years ended December 31,
(in thousands of dollars)

	2008	2007
	\$	\$
Cash flows from operating activities		
Net earnings for the year	9,878	5,963
Items not affecting cash and cash equivalents		
Depreciation and amortization	5,078	4,699
Accretion on debentures	60	59
Stock-based compensation	38	105
Life insurance investment income	(8)	(12)
Capitalized interest	(9)	(10)
Future income taxes	(1,266)	(355)
Loss on disposal of property, plant and equipment	107	30
Writeoff of product deferred development expenses	-	78
Employee future benefits	(13)	6
Unrealized exchange loss (gain) on foreign currency forward contracts	773	(28)
Amortization of deferred financing expenses (note 20)	83	66
	14,721	10,601
Net change in non-cash working capital items (note 21b)	(8,125)	6,642
	6,596	17,243
Cash flows from financing activities		
Variation in bank loans	-	(7,044)
Long-term debt contracted	2,036	10,311
Convertible debentures contracted	-	1,050
Payments on long-term debt	(4,620)	(8,266)
Issuance of shares (note 17)	-	5,000
Exercise of stock options (note 21c)	93	95
Share issue expenses	-	(221)
Variation in deferred financing expenses	-	(101)
Dividends paid	(1,098)	-
Redemption of shares	(321)	-
	(3,910)	824
Cash flows from investing activities		
Variation in short-term investments	3,993	(3,993)
Additions to property, plant and equipment (note 21c)	(8,174)	(4,783)
Proceeds from disposal of property, plant and equipment	76	76
Additions to intangible assets	(56)	(101)
Variation in deferred charges	-	(65)
Payment of business acquisition-related costs	-	(149)
	(4,161)	(9,015)
Effect of foreign exchange rate changes on cash and cash equivalents	2,334	(456)
Increase in cash and cash equivalents	859	8,596
Cash and cash equivalents – Beginning of year	10,887	2,291
Cash and cash equivalents – End of year (note 21d)	11,746	10,887
Additional information (note 21b and c)		

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

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

1. Statutes and nature of activities

The company, incorporated under the Canada Business Corporations Act, owns subsidiaries and a joint venture specializing in the design, manufacture and distribution of continuously variable power transmission systems and related products as well as in the construction and maintenance of electrical lines.

2. Changes in accounting policies

Accounting changes adopted

On January 1, 2008, the company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.
- Section 3031, "Inventories", which replaces the former Section 3030 with the same title, prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
- Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".
- Section 1400 amended by the CICA "General Standards of Financial Statement Presentation" to include the criteria for determining and presenting an entity's ability to continue as a going concern.

The company has applied these changes prospectively (notes 19 and 23). The implementation of these standards had no impact on the company's financial results.

Future accounting changes

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Upon consideration of this new standard, the company has concluded that it will not impact significantly its consolidated financial statements.

The CICA issued Abstract EIC-173 "Credit Risk and the Fair Value of Financial Assets and Liabilities", which will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. This standard clarifies the application of Section 3855 "Financial Instruments – Recognition and Measurement". Upon consideration of this new standard, the company has concluded that it will not impact significantly its consolidated financial statements.

The CICA published the following sections of the CICA Handbook that apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

2. Changes in accounting policies (continued)

Future accounting changes (continued)

- (a) Section 1582, "Business Combinations", which replaces the former Section 1581 with the same title, establishes accounting standards for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3, "Business Combinations".
- (b) Section 1601, "Consolidated Financial Statements", which replaces the former Section 1600 with the same title, establishes standards for the preparation of consolidated financial statements.
- (c) Section 1602, "Non-Controlling Interests". This new section establishes standards on accounting for non-controlling interests in a subsidiary in consolidated financial statements prepared subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, "Consolidated and Separate Financial Statements".

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

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from Canadian generally accepted accounting principles ("GAAP") to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company has developed a plan for the conversion of its consolidated financial statements to IFRS. An analysis of the differences between IFRS and the company's accounting standards is underway. This analysis is being conducted by taking into account the potential impacts, among others, on accounting policies, financial reporting and information technologies. The company is currently evaluating the impact of these new standards on its financial statements.

3. Summary of significant accounting policies

Consolidation

These consolidated financial statements include the accounts of CVTech Group inc. and those of all its subsidiaries. All significant intercompany transactions and balances have been eliminated. The company does not own any interests in variable interest entities.

The interest in the joint venture is accounted for using the proportionate consolidation method whereby the company records its share in the joint venture's assets, liabilities, revenues, expenses and cash flows.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include obsolete inventories, future income tax assets and liabilities as well as tax credits recoverable, the progress report of work in process, the useful lives of property, plant and equipment and intangible assets, the impairment of intangible assets and the value of goodwill. Management believes its estimates to be appropriate; however, actual results could differ from those estimates.

Foreign currency translation

Foreign currency transactions

Transactions denominated in currencies other than the Canadian dollar are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Non-monetary assets and liabilities are translated at historical rates. Exchange gains and losses arising from such translation are reflected in the statement of earnings.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

3. Summary of significant accounting policies (continued)

Self-sustaining foreign subsidiary

The accounts of the self-sustaining foreign subsidiary, whose functional currency is other than the Canadian dollar, are translated into Canadian dollars using the current rate method, whereby assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Gains and losses resulting from translation are deferred and recorded as a translation adjustment of a self-sustaining foreign operation's financial statements in the statement of comprehensive income.

Foreign currency forward contracts

The company has elected not to apply hedge accounting. Accordingly, the company's foreign currency forward contracts, which are used to hedge anticipated sales denominated in foreign currencies are recorded at fair value. Any unrealized gains or losses have been reflected in the statement of earnings under caption "Foreign exchange loss".

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and all highly liquid short-term investments with original maturities of three months or less.

Inventories

Raw materials, supplies and resale products inventories are valued at the lower of cost and net realizable value. Cost is determined on the first in, first out basis and using the average cost method for transmission systems and related products, respectively. Work in process and finished goods inventories are valued at the lower of cost and net realizable value. Cost includes raw materials and direct labour costs as well as a fair portion of manufacturing overhead. Spare parts inventories for automotive equipment are valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

Investments

Portfolio investments are recorded at cost, except in the case of any permanent impairment in value. In such a case, the carrying value of investments is reduced according to this permanent impairment in value.

The cash surrender value of life insurance policies includes the savings portion of the premiums paid, adjusted according to the annual yield.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated using the following methods, periods and rates:

	Methods	Periods and rates
Land improvements	Declining balance	5 and 8%
	Straight-line	10 years
Buildings	Declining balance	3 and 5%
	Straight-line	28 and 40 years
Molds, matrixes and templates	Declining balance	20%
Machinery and tools *	Declining balance	20%
	Straight-line	5 years
Machinery and equipment	Declining balance	20%
	Straight-line	3 years
Office furniture and fixtures	Declining balance	20%
	Straight-line	5 and 7 years
Computer equipment	Declining balance	20 and 30%
Automotive equipment *	Declining balance	30%
	Straight-line	5 to 10 years
Research equipment	Declining balance	20%
Communication equipment	Declining balance	20 and 30%
Construction work in progress	—	—

* Certain machinery and automotive equipment items have residual values of 15% and 10%, respectively.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets are recorded at cost and are amortized using the following methods, periods and rates:

	Methods	Periods and rates
Patents	Straight-line	17 and 20 years
Software	Declining balance	30%
Customer relationships	Sum-of-the-years-digits and straight-line	5 to 15 years 5 years
Technology	Straight-line	10 years
Trademark	Straight-line	10 to 15 years

Deferred charges

Start-up costs are recorded at cost and are amortized using the straight-line method over a twelve-month period from January 1, 2008.

Deferred life insurance premiums are recorded at cost and are amortized by an amount equivalent to the increase in the cash surrender value of life insurance policies.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value of the asset over its fair value. During fiscal years 2008 and 2007, no impairment loss has been recognized.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the values of the net identifiable assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired. The carrying amount of goodwill is then compared with its fair value, and an impairment loss equal to the excess is recognized, if any. Fair value of goodwill is calculated based on discounted future cash flows. Fair value of goodwill is estimated in the same way as it was determined at the date of acquisition.

The company has elected to perform its annual impairment test in December of each fiscal year for all its current reporting units. During fiscal years 2008 and 2007, no impairment loss has been recognized.

Employee future benefits

The company offers two defined contribution pension plans and has adopted, in this regard, the following policies:

- the cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement age of employees;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which is one year for both plans as of December 31, 2008.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

3. Summary of significant accounting policies (continued)

Revenue recognition

Sales of parts are recognized when the products have been delivered, title of ownership has been passed to the customer, collection is reasonably assured and consideration is fixed or determinable.

Revenues and profits from contracts are accounted for using the percentage-of-completion method. The percentage of work completion is obtained by dividing the cumulative costs incurred on the balance sheet date by the aggregate costs incurred and contemplated for completing the contract. Revenues and profits from fixed unit price contracts (short-term contracts) are accounted for using the completed contract method. Revenues from hour for hour contracts are recognized when services have been rendered and collection is reasonably assured. Revenues from claims are accounted for in the year in which such claims are settled. Revisions of estimates are reflected in the accounts on a periodic basis, and all foreseeable losses are included in earnings, when it is determined that such losses are estimated to be likely to occur.

Research and development costs

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred.

Tax credits and government assistance

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

Income taxes

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

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

Transaction costs

Transaction costs related to financial instruments are recognized on the balance sheet as an adjustment to the cost of the financial instrument upon initial recognition and amortized using the effective interest rate method. Consequently, deferred financing expenses have been reclassified and applied against the related debts.

Stock-based compensation and other stock-based payments

The company uses the fair value-based method of accounting for stock options granted to employees, officers, directors and consultants. Any consideration paid by the plan participants on the exercise of stock options is credited to capital stock with any other cost related to stock-based compensation. Stock-based compensation costs are recognized according to the vesting periods of the options.

Equity issue expenses

Equity issue expenses are applied against shareholders' equity.

Earnings per share

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

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

3. Summary of significant accounting policies (continued)

Earnings per share (continued)

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

Comparative figures

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

4. Interest in a joint venture

The company get involved in a joint venture with GLR inc. to form GLR-Thiro, G.P. which specializes in the construction and maintenance of electrical lines.

The accounts resulting from that investment have been consolidated with those of the company using the proportionate consolidation method.

The joint venture ceased its operations at the end of fiscal 2007.

The following items correspond to the share in assets, liabilities, revenues, expenses and cash flows of the joint venture, which is included in these consolidated financial statements (nil in 2008):

	2007
	\$
Statement of earnings	
Revenues	13,952
Expenses	12,287
Net earnings for the year	1,665
Statement of cash flows	
Cash flows provided from operating activities	1,953
Balance sheet	
Current assets	344
Current liabilities	53

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

5. Accounts receivable

	2008	2007
	\$	\$
Trade	19,400	11,210
Life insurance claim receivable *	2,000	—
Holdbacks on contracts	1,066	609
Commodity taxes	320	354
Unrealized assets on foreign currency forward contracts	51	28
Others	46	26
	22,883	12,227

* On March 9, 2009, the company received the payment of an insurance claim related to the death of an insured that occurred in December 2008.

6. Inventories

	2008	2007
	\$	\$
Raw materials, supplies and resale products	2,307	2,911
Work in process	823	708
Finished goods	1,036	799
Spare parts	231	198
	4,397	4,616

7. Investments

	2008	2007
	\$	\$
Guaranteed investment certificates, bearing interest at 1.70% (4.00% in 2007), renewed in January 2009, used as collateral for a loan (note 15)	660	651
Cash surrender value of life insurance policies (note 15)	1,283	1,275
	1,943	1,926

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

8. Property, plant and equipment

	2008		2007	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	\$	\$	\$	\$
Land	1,185	–	1,092	–
Land improvements	342	133	322	108
Buildings	7,206	1,750	5,469	1,406
Molds, matrixes and templates	2,654	1,413	2,522	1,126
Machinery and tools	6,043	3,987	5,566	3,374
Machinery and equipment	736	314	545	184
Office furniture and fixtures	571	309	387	196
Computer equipment	752	393	616	324
Automotive equipment	18,189	6,200	12,865	3,452
Research equipment	824	457	692	407
Communication equipment	102	52	93	31
Construction work in progress*	2,342	–	249	–
Deposits on additions to capital assets*	391	–	128	–
	41,337	15,008	30,546	10,608
Less:				
Accumulated depreciation	15,008		10,608	
Net amount	26,329		19,938	

*The company has committed to purchasing property, plant and equipment totalling \$3,774 (\$1,613 in 2007). Of that sum, an amount of \$2,733 (\$377 in 2007) has already been accounted for as deposits on additions to capital assets and construction work in progress.

9. Intangible assets

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Finite useful life				
Patents	585	192	534	155
Software	292	206	437	316
Customer relationships	7,879	3,548	7,471	2,145
Technology	600	140	600	80
	9,356	4,086	9,042	2,696
Less:				
Accumulated amortization	4,086		2,696	
	5,270		6,346	
Indefinite useful life				
Trademark	200		200	
Net amount	5,470		6,546	

During the year, the company acquired intangible assets in the amount of \$56 (\$101 in 2007), which are subject to amortization.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

10. Deferred charges

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Start-up costs	-	-	267	-
Deferred life insurance premiums	1,468	1,423	1,468	1,398
	1,468	1,423	1,735	1,398
Less:				
Accumulated amortization	1,423		1,398	
Net amount	45		337	

11. Goodwill

	2008	2007
	\$	\$
Balance – Beginning of year	4,672	4,800
Price adjustment for the purchase of Atelier Adrien Bernard inc. ("AAB") (note 17a)	500	-
Effect of foreign exchange rate	167	(128)
Balance – End of year	5,339	4,672

Goodwill is not deductible for income tax purposes.

12. Credit facilities

The company has credit facilities, which are allocated as follows:

Operating credit

A loan totalling \$12,000 to allow for the financing of day-to-day operating requirements.

Foreign exchange credit

Credit facility of \$3,855 to hedge against currency fluctuations related to the company's operations.

Credit cards

An agreement related to credit cards totalling \$225.

These credit facilities are secured by a first hypothec on the company's current assets, a junior hypothec on the company's equipment and a shareholder's life insurance policy in the amount of \$500. They bear interest at prime rate plus 0.25% and are renewable annually.

The company's foreign subsidiary has a basic authorized credit facility amounting to \$4,263 and an additional credit of \$3,045 that is available at all times, on demand for 120 consecutive days. An additional credit of \$1,218 is available for letters of credit. As at December 31, 2008, the company issued letters of credit totalling \$856 in favour of an insurance company. This credit facility is renewable annually and bears interest at LIBOR rate plus 1.75%. All the foreign subsidiary's moveables and immoveables have been given as security.

Under these credit facilities, the company is required to respect certain covenants, which have been met as at December 31, 2008.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

13. Accounts payable and accrued liabilities

	2008	2007
	\$	\$
Suppliers and accrued expenses	9,004	8,214
Salaries, vacation and bonuses	3,235	2,390
Commodity taxes	716	562
Holdbacks on contracts	84	38
	13,039	11,204

14. Convertible debentures

In 2006, the company negotiated a financing in the form of three convertible debentures with an aggregate par value of \$15,000. These debentures are convertible into common shares of the company up to an amount corresponding to 30% of the par value upon issuance. On September 8, 2006, the first debenture with a par value of \$9,000 was cashed. The second debenture in the amount of \$3,500 was cashed on June 11, 2007. The third debenture in the amount of \$2,500 has not been cashed yet since the related conditions remain to be met.

	2008	2007
	\$	\$
Convertible portion of debentures		
Bearing interest at an annual rate of 8.75%, payable on a quarterly basis, refundable in 20 equal quarterly payments as of the 15th month following the date of issue, convertible into common shares of the company at a price determined as follows: \$1.40 per share for the first half of the convertible capital for the period ranging between the 6th month and the 12th month following the date of issue, and \$2.00 per share for the second half of the convertible capital for the period ranging between the 13th month and the 24th month following the date of issue. All capital refunds will be initially allocated to the reduction of the non-convertible portion of the debentures, secondly, to the reduction of the convertible capital at \$2.00 per share and, finally, to the reduction of the first portion of the convertible capital at \$1.40 per share	525	2,400
Debenture conversion option	(7)	(118)
Accretion on convertible debentures	2	23
Financing expenses	(6)	(48)
	514	2,257

The accretion on convertible debentures, equivalent to the fair value of the conversion option, has been charged to earnings from the date of issue of the debentures.

In 2008, a portion of the debenture conversion option expired. Accordingly, an adjustment of \$168 has been reflected in the contributed surplus, and an amount of \$1,350 has been reclassified as a long-term debt item.

A portion of the debenture conversion option amounting to \$525 was also exercised, resulting in the issuance of 375,000 shares. Furthermore, the value of the conversion option in the amount of \$3 has been charged to capital stock.

In 2007, a portion of the debenture conversion option expired. Accordingly, an adjustment of \$185 has been reflected in the contributed surplus, and an amount of \$1,350 has been reclassified as a long-term debt item.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

14. Convertible debentures (continued)

For the year ended December 31, 2007, the fair value of the conversion option has been determined using the Black-Scholes model. The following assumptions have been used:

Risk-free interest rate	4.7%
Expected volatility	48%
Dividend yield	Nil
Expected life	24 months
Average fair value of each option granted	\$0.06

The principal instalments due on the convertible debenture over the next years amount to \$228 in 2012 and \$297 in 2013.

15. Long-term debt

		2008	2007
		\$	\$
Loans for which all the company's assets have been given as security			
At the lender's prime rate plus 2.35%, maturing in March 2020	(a), (b)	3,478	3,600
At the lender's prime rate less 0.65%, maturing in August 2019	(a), (b)	2,049	2,082
At the lender's prime rate plus 0.75%, maturing from December 2010 to November 2013	(a)	3,900	4,723
Loans, bearing interest at lender's prime rate plus 0.75%, payable at the company's option. The company's life insurance policies, cash surrender value of life insurance policies and guaranteed investment certificates (note 7) have been given as security		1,468	1,468
Loan for which all of a subsidiary's assets and a guarantee from the parent company, Thiro, have been given as security, bearing interest at the lender's prime rate plus 1%, maturing in September 2009	(a)	98	229
Loans for which all of a subsidiary's assets and a guarantee from the parent company, Thiro Itée, and from the indirect controlling parent company, CVTech Group, have been given as security, bearing interest at the lender's prime rate plus 0.75%, maturing in February and April 2013	(a)	404	–
Loan for which a building has been given as security, bearing interest at 7.5%, maturity in August 2017	(a), (d)	347	293
Loans for which automotive equipment has been given as security			
Bearing interest at 6.88%, maturing in February 2010	(a), (d)	393	572
Bearing interest at 5.9%, maturing in June 2009	(a), (d)	57	135
Bearing interest at LIBOR rate plus 2%, maturing in April 2013 and April 2014	(a), (d)	1,980	881
Bearing interest at the lender's prime rate plus 0.75%, maturing in October 2011	(a)	127	171
(forward)		14,301	14,154

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15. Long-term debt (continued)

	2008	2007
	\$	\$
(brought forward)	14,301	14,154
Loans reimbursed during the year	–	119
Other loans	22	29
Non-convertible portion of the debentures, bearing interest at an annual rate of 8.75%, payable on a quarterly basis in 20 equal quarterly payments as of the 15th month following the date of issue (note 14)	8,903	9,650
Debt conversion option (c)	(368)	(275)
Accretion on debentures (c)	131	53
Deferred financing expenses	(187)	(228)
	22,802	23,502
Less: Current portion	5,281	4,403
	17,521	19,099

(a) The company has agreed to maintain certain financial ratios. As at December 31, 2008, these ratios have been met.

(b) A hypothec of \$1,500 on a shareholder's life insurance has also been given as security.

(c) 70% of the value of the debt conversion option has been allocated to the non-convertible portion of the debentures in order to reflect the estimated rate at which the company could contract an unsecured debt without granting any conversion privileges.

(d) company's loans payable in US dollars.

The principal instalments due on long-term debt over the next five years amount to \$5,281 in 2009, \$4,918 in 2010, \$4,318 in 2011, \$3,238 in 2012 and \$1,175 in 2013.

16. Employee future benefits

The subsidiary, Thiro ltée, offers two defined contribution pension plans to certain employees, being the designated officers plan and the B plan.

Information related to these plans, taken collectively, is detailed as follows:

	2008	2007
	\$	\$
Accrued benefit obligations		
Balance – Beginning of year	1,739	1,601
Current service cost	55	52
Interest expense on accrued benefit obligations	93	86
Benefits paid	(40)	(39)
Actuarial losses (gains)	(313)	39
Balance – End of year	1,534	1,739
Plan assets, at fair value		
Balance – Beginning of year	1,492	1,449
Actual return on plan assets	(313)	46
Employer contributions	80	36
Benefits paid	(40)	(39)
Balance – End of year	1,219	1,492
Deficiency of assets over obligations	315	247
Unamortized net actuarial loss	(150)	(69)
Accrued benefit liability – End of year	165	178

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16. Employee future benefits (continued)

	2008	2007
	\$	\$
Accrued benefit expense		
Current service cost	55	52
Interest expense on accrued benefit obligations	93	86
Actual return on plan assets	313	(46)
Amortization of actuarial loss	24	5
Pension expense before adjustment	485	97
Difference between expected return and actual return on market value	(418)	(55)
	67	42

The following table presents the breakdown of pension plan assets at year-end:

	2008	2007
	%	%
Asset categories		
Balanced assisted management fund	72	70
Bonds	5	4
Canadian and foreign shares	23	26
	100	100

The weighted average of significant actuarial assumptions adopted by the company in measuring its accrued benefit obligations is as follows:

	2008	2007
	%	%
Accrued benefit obligations at year-end		
Discount rate	6.75	5.25
Rate of compensation increase		
Designated officers plan	3.00	3.00
B plan	5.50	5.50
Benefit cost for the twelve-month periods ended at the measurement date		
Discount rate	6.75	5.25
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase		
Designated officers plan	3.00	3.00
B plan	5.50	5.50

Actuarial valuations

The pension plans are subject to an actuarial valuation every three years for the designated officers plan and every four years for the B plan. The most recent valuation, for the designated officers plan, was as of December 31, 2006, and the next valuation will be as of December 31, 2009 and will be obtained during fiscal 2010. Concerning the B plan, the most recent valuation was as of January 1, 2005, and the next valuation will be as of January 1, 2009.

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17. Capital stock

Authorized

Unlimited number of common shares, without par value, voting and participating

The following table presents the capital stock activity since January 1, 2007:

Issued and outstanding	2008		2007	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	54,872,277	20,994	50,681,927	16,066
Issuance of shares (a) and (b)	555,555	500	4,000,000	5,000
Exercise of a debenture conversion option (note 14)	375,000	528	–	–
Exercise of stock options	186,300	143	190,350	128
Share issue expenses, net of future income taxes of \$59	–	–	–	(200)
Redemption of shares (c)	(216,900)	(88)	–	–
	55,772,232	22,077	54,872,277	20,994
Treasury shares (c)	(108,500)	(111)	–	–
Balance – End of year	55,663,732	21,966	54,872,277	20,994

(a) On December 19, 2008, as part of the acquisition of AAB in 2006, the company issued 555,555 shares at a price of \$0.90 per share pursuant to a price adjustment clause related to the attainment of objectives.

(b) During the year ended December 31, 2007, the company issued 4,000,000 shares in connection with a private placement.

(c) On October 14, 2008, the company's Board of Directors approved a normal course issuer bid. Under the terms of the bid, the company may redeem up to 5% of the outstanding shares (2,771,678 shares), as defined by the Toronto Stock Exchange, at the ruling market price. During the year ended December 31, 2008, the company redeemed 325,400 shares for an amount of \$321 under its normal course issuer bid. Thereafter, it cancelled 216,900 acquired shares with an average paid-up capital of \$88. The excess of average paid-up capital over the redemption price of the cancelled shares, being \$122, has been reflected in retained earnings.

On January 8, 2008 and December 18, 2008, the company declared dividends of \$0.02 per outstanding share.

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18. Stock options and warrants

Stock options under the plan

On April 20, 2005, the company adopted a stock option plan ("the plan") whereby key employees, officers, directors and consultants may acquire shares of the company up to a maximum of 20% of the shares issued by the company after the issuance of shares resulting from the qualifying transaction (maximum of 5% of the number of outstanding shares in favour of one person). The exercise price of stock options is based on the market price of the shares of the company at the close of business on the day preceding the date of grant of stock options. Stock options are exercisable over a maximum period of 10 years following the granting or at the latest 90 days after the holder terminates his/her employment with the company or in the year following the date of his/her death.

The following table summarizes information about stock options outstanding and exercisable since January 1, 2007:

	2008			2007		
	Number	Carrying value	Exercise price	Number	Carrying value	Exercise price
		\$	\$		\$	\$
Outstanding –						
Beginning of year	4,125,325	1,107	0.50	4,239,075	1,022	0.53
Granted during the year (a)	150,000	–	1.11	20,000	–	0.90
Exercised during the year	(186,300)	(50)	0.50	(17,850)	(5)	0.50
Cancelled during the year (b)	(6,300)	(2)	0.50	(115,900)	(24)	0.85
Stock-based compensation	–	38	–	–	114	–
Outstanding – End of year	4,082,725	1,093	0.53	4,125,325	1,107	0.50
Exercisable – End of year	3,956,475	–	0.51	3,031,825	–	0.50

(a) For the years ended December 31, 2008 and 2007, the fair value of stock options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	2008	2007
Risk-free interest rate	4.22%	4%
Expected volatility	73%	75%
Dividend yield	Nil	Nil
Expected life of each option granted	5 years	5 years
Average fair value of each option granted	\$0.67	\$0.41

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18. Stock options and warrants (continued)

- (b) For the year ended December 31, 2007, an amount of \$9 resulting from the cancellation of stock options has been applied against the compensation costs of \$114 in the statement of earnings. No amount has been accounted for in 2008.

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2008:

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life	
\$0.50	3,897,725	1.30	3,897,725	1.30	
\$0.88	100,000	4.86	25,000	4.86	
\$0.90	35,000	2.94	21,250	2.90	
\$1.58	50,000	4.61	12,500	4.61	
	4,082,725		3,956,475		

Stock options external to the plan

The following table summarizes information about stock options outstanding since January 1, 2007:

	2008			2007		
	Number	Carrying value	Exercise price	Number	Carrying value	Exercise price
		\$	\$		\$	\$
Outstanding and exercisable						
– Beginning of year	120,000	38	1.25	172,500	28	0.50
Granted as compensation under a private placement	–	–	–	120,000	38	1.25
Exercised during the year	–	–	–	(172,500)	(28)	0.50
Outstanding and exercisable						
– End of year	120,000	38	1.25	120,000	38	1.25

For fiscal 2007, the fair value of stock options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

Risk-free interest rate	4.21%
Expected volatility	56%
Dividend yield	Nil
Expected life of each option granted	2 years
Average fair value of each option granted	\$0.32

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18. Stock options and warrants (continued)

Warrants

The following table presents the warrant activity since January 1, 2007:

	2008			2007		
	Number	Carrying value	Exercise price	Number	Carrying value	Exercise price
		\$	\$		\$	\$
Outstanding and exercisable						
– Beginning of year	–	–	–	300,000	48	0.50
– Matured during the year	–	–	–	(300,000)	(48)	0.50
Outstanding and exercisable						
– End of year	–	–	–	–	–	–

For the year ended December 31, 2007, the amount of \$48 has been reflected in the contributed surplus.

19. Capital disclosures

The company's objectives when managing capital are to:

- have sufficient funds that allow pursuing its growth strategy while maximizing investment return to its shareholders; and
- maintain financial flexibility in order to preserve its ability to meet financial obligations and seize potential business opportunities.

The company defines its capital as follows:

- cash and cash equivalents;
- short-term and long-term investments;
- bank loans;
- convertible debentures;
- long-term debt, including the current portion; and
- shareholders' equity.

	2008	2007
	\$	\$
Cash and cash equivalents	(11,746)	(10,887)
Short-term investments	–	(3,993)
Investments	(1,943)	(1,926)
Convertible debentures	514	2,257
Long-term debt, including the current portion	22,802	23,502
Shareholders' equity	44,538	31,894
	54,165	40,847

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

The principal use of the company's capital is to finance current operations, make purchases of property, plant and equipment required to ensure the company's growth, and fund business acquisitions.

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19. Capital disclosures (continued)

Any decision to pay company's dividends is periodically assessed by the company's board of directors and is based on the company's profits and financial position as well as on covenants in its credit facility agreements and other relevant factors. There can be no assurance as to the amounts or payment dates of such dividends in the future.

The company's credit facilities include covenants providing for the attainment of certain financial ratios, which are measured on a quarterly basis. As at December 30, 2008, these covenants have been met. The company is not subject to any obligation under external rules.

During the years ended December 31, 2008 and 2007, the company followed the same strategy. In order to follow up its financial leverage, the company uses the consolidated net debt to earnings before interest, tax, depreciation and amortization ("EBITDA") ratio that it aims to maintain at a level below or equal to 3.0:1. The net debt is measured on the latest quarterly closing date. EBITDA is based on the last four quarters ended on such date. EBITDA represents a measure that is not in accordance with generally accepted accounting principles. As at December 31, 2008 and 2007, the net debt to EBITDA ratios are detailed as follows:

	As at December 31,	
	2008	2007
	\$	\$
Convertible debentures	514	2,257
Long-term debt, including the current portion	22,802	23,502
Cash and cash equivalents	(11,746)	(10,887)
Short-term investments	–	(3,993)
Investments	(1,943)	(1,926)
Net debt	9,627	8,953

	For the years ended December 31,	
	2008	2007
	\$	\$
Net earnings	9,878	5,963
Depreciation and amortization	5,078	4,699
Net interest expense	1,931	2,183
Income tax expense	4,990	3,612
EBITDA	21,877	16,457
Net debt / EBITDA ratio	0.44	0.54

The ratio decline results mainly from the rise in net earnings for 2008, which is attributable to the increase in revenues in the electricity segment and to the payment of a life insurance claim.

20. Net interest expense

	2008	2007
	\$	\$
Interest on long-term debt and convertible debentures	1,877	1,981
Interest on bank loans and bank charges	166	297
Interest income	(255)	(220)
Amortization of deferred financing expenses	83	66
Accretion on debentures	60	59
	1,931	2,183

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21. Additional disclosures

(a) Statements of earnings

Earnings before income taxes have been established considering the following items:

	2008	2007
	\$	\$
Cost of goods sold (transmission systems and related products segment)	16,718	16,743
Depreciation of property, plant and equipment	3,546	3,227
Amortization of intangible assets	1,240	1,428
Amortization of deferred charges	292	44
Loss on disposal of property, plant and equipment	107	30
Writeoff of product deferred development expenses	–	78
Research and development costs	1,429	2,089
Tax credits	(279)	(402)
Stock-based compensation costs	38	105
Allowance for obsolete inventories	226	71

(b) Statements of cash flows

Net change in non-cash working capital items

	2008	2007
	\$	\$
Accounts receivable	(9,724)	6,375
Inventories	219	(17)
Costs and anticipated profits in excess of billings	362	(924)
Income taxes and research and development tax credits receivable	739	2,174
Prepaid expenses	44	16
Accounts payable and accrued liabilities	235	(982)
	(8,125)	6,642

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

	2008	2007
	\$	\$
Additions to property, plant and equipment included in accounts payable and accrued liabilities	649	55
Debenture conversion option exercised	528	–
Issuance of shares as a price adjustment for the acquisition of AAB	500	–
Stock options exercised	50	33
Stock options granted as compensation under a private placement	–	38
Stock options cancelled and reflected in the contributed surplus	2	15

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21. Additional disclosures (continued)

(d) Cash and cash equivalents consist of the following:

	2008	2007
	\$	\$
Cash	5,606	5,936
Cash equivalents	6,140	4,951
	11,746	10,887

Supplementary information

	2008	2007
	\$	\$
Interest paid	2,042	2,012
Income taxes paid	5,410	1,354

22. Income taxes and future income taxes

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

	2008	2007
	\$	\$
Income taxes at the combined federal and provincial statutory tax rate (30.9% in 2008 and 32% in 2007)	4,594	3,079
Increase (decrease) due to the following items:		
Non-taxable life insurance claim payment	(618)	—
Non-deductible stock-based compensation	12	34
Non-deductible expenses and non-taxable income	88	122
Non-taxable provincial tax credits	(17)	(21)
Foreign tax rate differences	1,077	590
Effect of the taxation rate variance	(97)	(191)
Other	(49)	(1)
	4,990	3,612
Current income taxes	6,256	3,967
Future income taxes	(1,266)	(355)
	4,990	3,612

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22. Income taxes and future income taxes (continued)

(b) As at December 31, future income tax assets and liabilities are detailed as follows:

	2008	2007
	\$	\$
Future income tax assets		
Provision deductible upon settlement	386	350
Research and development costs	–	43
Unrealized liabilities on foreign currency forward contracts	242	–
Share issue expenses	144	246
Employee future benefits	13	13
Non-capital losses	733	314
Capital losses	272	272
Valuation allowance	(272)	(272)
Future income tax liabilities		
Costs and anticipated profits in excess of billings and holdbacks	(600)	(611)
Joint venture's profit carry-over	–	(615)
Unrealized assets on foreign currency forward contract	(16)	–
Property, plant and equipment	(2,713)	(2,087)
Intangible assets	(1,481)	(1,927)
Research and development tax credits	(197)	(184)
Financing expenses	(35)	(43)
Deferred charges	–	(72)
Future income taxes, net	(3,524)	(4,573)
	2008	2007
	\$	\$
Classified as follows:		
Current future income tax assets	615	397
Long-term future income tax assets	–	156
Current future income tax liabilities	(623)	(1,230)
Long-term future income tax liabilities	(3,516)	(3,896)
	(3,524)	(4,573)

As at December 31, 2008, the company has accumulated capital losses of \$1,739. These losses can be applied against capital gains and can be carried forward indefinitely. A valuation allowance has been established against the full amount of this future income tax asset since the company considers that it is not more likely than not that this future income tax asset will be realized.

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23. Financial instruments

Fair value

The fair value of financial instruments as at December 31, 2008 and 2007 is detailed as follows:

	As at December 31, 2008					
					Carrying value	Fair value
	Held for trading	Loans and receivables	Held to maturity	Other financial liabilities	Total	Total
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	11,746	–	–	–	11,746	11,746
Accounts receivable	–	22,883	–	–	22,883	22,883
Costs and anticipated profits in excess of billings	–	8,719	–	–	8,719	8,719
Investments	–	–	1,943	–	1,943	1,943
	11,746	31,602	1,943	–	45,291	45,291
Financial liabilities						
Accounts payable and accrued liabilities	–	–	–	13,039	13,039	13,039
Dividends payable	–	–	–	1,115	1,115	1,115
Long-term debt and convertible debentures, including the current portion*	–	–	–	23,316	23,316	23,836
Unrealized liabilities on foreign currency forward contracts, including the current portion	797	–	–	–	797	797
	797	–	–	37,470	38,267	38,787

* The fair value of the long-term debt and convertible debentures has been measured by discounting anticipated cash flows at the rates currently offered to the company for debts with similar maturities and conditions.

	As at December 31, 2007					
					Carrying value	Fair value
	Held for trading	Loans and receivables	Held to maturity	Other financial liabilities	Total	Total
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	10,887	–	–	–	10,887	10,887
Short-term investments	3,993	–	–	–	3,993	3,993
Accounts receivable	–	12,227	–	–	12,227	12,227
Costs and anticipated profits in excess of billings	–	7,638	–	–	7,638	7,638
Investments	–	–	1,926	–	1,926	1,926
	14,880	19,865	1,926	–	36,671	36,671
Financial liabilities						
Accounts payable and accrued liabilities	–	–	–	11,204	11,204	11,204
Long-term debt and convertible debentures*	–	–	–	25,759	25,759	26,035
	–	–	–	36,963	36,963	37,239

* The fair value of the long-term debt and convertible debentures has been measured by discounting anticipated cash flows at the rates currently offered to the company for debts with similar maturities and conditions.

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23. Financial instruments (continued)

Fair value (continued)

The company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of December 31, 2008.

Credit risk

Financial instruments which potentially subject the company to credit risk consist principally of cash and cash equivalents, investments, accounts receivable and costs and anticipated profits in excess of billings. The company's cash and cash equivalents as well as investments are held with or issued by high-credit quality financial institutions. Therefore, the company considers the risk of non-performance on these instruments to be remote.

Generally, the company does not require collateral or other security from customers for trade accounts receivable; however credit is extended following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance when accounts are determined to be uncollectible. Though approximately 60% of the company's revenues are coming from two customers, the company believes that the credit risk associated with these customers is limited. Moreover, the provision for bad debts as at December 31, 2008 and 2007 is of very little importance. In addition, the company believes that the credit risk related to accounts is limited for the following reasons:

- The company's client base is divided into two business segments and is dispersed across varying geographic locations.
- Just above 28% of the company's trade receivables is outstanding for less than 30 days, and approximately 43% are outstanding for a period from 31 to 60 days.

Interest rate risk

The company is exposed to interest rate risk with regard to its cash and cash equivalents and a part of its long-term debt, and is not currently using any financial instrument to hedge against these risks. As at December 31, 2008, the company's convertible debentures and approximately 43% of the total long-term debt bear interest at a fixed rate. Since management believes that the interest rate fluctuations will not have any significant impact on the company's net earnings, no sensitivity analysis has been prepared regarding the effects of such fluctuations.

Cash and cash equivalents	Variable interest rate
Accounts receivable	Non-interest bearing
Costs and anticipated profits in excess of billings	Non-interest bearing
Investments	As described in note 7
Accounts payable and accrued liabilities	Non-interest bearing
Dividends payable	Non-interest bearing
Convertible debentures	As described in note 14
Long-term debt	As described in note 15

Foreign exchange risk

A portion of the company's sales and purchases is denominated in foreign currencies. The company is mainly affected by the euro and US dollar exchange rate fluctuations versus the Canadian dollar.

As at December 31, 2008 and 2007, the balances denominated in foreign currencies are detailed as follows:

	2008		2007	
	US\$ translated into CAN\$	EUROS translated into CAN\$	US\$ translated into CAN\$	EUROS translated into CAN\$
Cash and cash equivalents	298	276	859	289
Accounts receivable	732	1,166	661	1,234
Accounts payable and accrued liabilities	76	179	55	270

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23. Financial instruments (continued)

Foreign exchange risk (continued)

In order to reduce the potential negative impact of Canadian dollar fluctuations, the company holds foreign currency forward contracts and makes foreign currency-denominated purchases. Pursuant to these foreign currency forward contracts, the company is required to sell currencies at a predetermined rate.

As at December 31, 2008, the company entered into foreign currency forward contracts to exchange, over the next 24 months, 4,800 euros at an average rate of CAN\$1.5628 = €1 and US\$6,625 at an average rate of CAN\$1.1879 = US\$1. These foreign currency forward contracts, whose net fair value amounts to \$746, are classified as unrealized liabilities and assets on foreign currency forward contracts.

The following table shows the effect on the company's earnings resulting from the 10% Canadian dollar's fluctuation against the US dollar and euro. This sensitivity analysis is based on the net exposure of sales denominated in US dollars and euros less purchases denominated in US dollars and euros related to the company's Canadian operations. Such analysis does not include the effect of this change on working capital items denominated in US dollars and euros.

	Effect of the CAN\$ rise against the US\$	Effect of the CAN\$ rise against the euro
Earnings	294	506

(Pre-tax calculations)

Liquidity risk

Liquidity risk is the risk that the company will encounter in raising funds to meet its commitments at maturity. The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Carrying amount	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	13,039	13,039	13,039	–	–
Dividends payable	1,115	1,115	1,115	–	–
Convertible debentures	514	717	46	46	625
Long-term debt, including the current portion	22,802	27,976	6,643	5,936	15,397
Unrealized liabilities on foreign currency forward contracts, including the current portion	797	797	717	80	–
	38,267	43,644	21,560	6,062	16,022

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

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

24. Earnings per share

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

	2008	2007
Basic weighted average number of shares outstanding	55,258,157	52,499,952
Dilutive stock options	2,381,244	1,879,430
Dilutive warrants	–	41,202
Diluted weighted average number of shares outstanding	57,639,401	54,420,584

Furthermore, the following table presents the items excluded from the calculation of diluted earnings per share for fiscal years 2008 and 2007 because the exercise price was greater than the average market price of the common shares:

	2008	2007
Weighted average number of stock options at exercise prices varying from \$1.25 to \$1.58	50,000	50,000
Weighted average number of options for convertible debentures at exercise prices varying from \$1.40 to \$2.00	837,500	1,770,089

25. Segment information

The company is organized under two operating segments, being the manufacture of transmission systems and related products and electricity. The company's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations which include, but are not limited to, customer base and homogeneity of products. The operating segments disclosed in these consolidated financial statements are based on this organizational structure and information reviewed by the company's management to evaluate the operating segment results.

The following table presents information by segment:

	2008		
	Transmission systems and related products	Electricity	Total
	\$	\$	\$
Segment revenues	25,106	123,141	148,247
Depreciation of property, plant and equipment	1,039	2,507	3,546
Amortization of intangible assets	809	431	1,240
Amortization of deferred charges	292	–	292
Net interest expense	1,425	506	1,931
Payment of life insurance claim	–	(2,000)	(2,000)
Income tax expense (recovery)	(198)	5,188	4,990
Segment net earnings (segment net loss)	(152)	10,030	9,878
Segment assets	33,704	56,003	89,707
Goodwill	3,947	1,392	5,339
Capital expenditures	3,915	4,315	8,230

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

25. Segment information (continued)

	2007		
	Transmission systems and related products	Electricity	Total
	\$	\$	\$
Segment revenues	24,691	105,147	129,838
Depreciation of property, plant and equipment	1,050	2,177	3,227
Amortization of intangible assets	865	563	1,428
Amortization of deferred charges	37	7	44
Net interest expense	1,555	628	2,183
Income tax expense (recovery)	(345)	3,957	3,612
Segment net earnings (segment net loss)	(929)	6,892	5,963
Segment assets	36,298	40,366	76,664
Goodwill	3,447	1,225	4,672
Capital expenditures	1,653	3,231	4,884

Geographic information

The following revenues are allocated by country based on the customers' place of residence:

	2008	2007
	\$	\$
Canada	45,690	56,346
United States	93,496	64,630
France	6,782	7,428
Taiwan	725	36
Italy	690	621
Finland	383	286
Other	481	481
	148,247	129,828

Long-lived assets by geographic region, which consist of property, plant and equipment, intangible assets and goodwill, are detailed as follows:

	2008	2007
	\$	\$
Canada	28,427	24,424
United States	8,711	6,732
	37,138	31,156

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except the number of shares, stock options and warrants and per share data and unless otherwise stated)

26. Major customers

Customers representing 10% or more of revenues are as follows:

	2008	2007
	%	%
Electricity segment		
Customer 1	36.99	33.20
Customer 2	22.45	20.45

27. Contingency

The company is currently facing legal proceedings for work carried out in the electricity segment, which has caused fire damage. However, it is insured against such proceedings. The company has already paid the deductible payable and believes that the final settlement should not exceed the insurance coverage.

28. Subsequent events

In January 2009, the company obtained additional long-term loans totalling \$10,700. These loans were granted to fund capital assets that have already been acquired or construction work in progress up to \$4,000 and to conclude foreign currency forward contracts up to \$6,700.

On February 9, 2009, the company signed a letter of intent to purchase all of the issued and outstanding shares of a North American company, which provides electrical services to the industrial and utility markets. The purchase price offered is approximately \$60,000. The acquisition is conditional upon a legal, accounting, financial, technological and environmental due diligence audit, the approval of the competent regulatory authorities as well as the Toronto Stock Exchange and the company's Board of Directors.

Senior Management

André Laramée, M.B.A.
President and Chief Executive Officer

Mario Trahan, C.M.A.
Chief Financial Officer

Guy Aubert, C.G.A.
Vice-president, Electrical Lines and Clearance & Pruning Division

Alain Charest, M.B.A., Eng.
Vehicles Division

Board of Directors

The Board of directors of CVTech Group consists of 7 members.

Jacques Joly, Chairman
André Lepage, Secretary
Guy Aubert, Director
Robert Beaudoin, Director
Françoise Lavallée, Director
Pierre-André Julien, Director
André Laramée, Director

Stock Symbol :

CVT – Toronto Stock Exchange (TSX)

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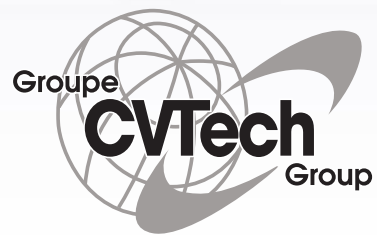
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