

Consolidated interim financial statements of

**NOVEKO INTERNATIONAL INC.**

Three-month periods ended September 30, 2007 and 2006

# NOVEKO INTERNATIONAL INC.

Consolidated interim financial statements

Three-month periods ended September 30, 2007 and 2006

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# NOVEKO INTERNATIONAL INC.

## Consolidated balance sheets

as at September 30, 2007 and June 30, 2007

	September 30 2007	June 30 2007
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 2,668,494
Short-term investments	13,223,455	14,291,887
Accounts receivable (note 5)	3,129,099	2,494,052
Inventories	3,920,300	3,276,904
Prepaid charges	185,378	502,982
Investment in Canadian Immigrant Investor Program	3,123,138	3,087,423
	23,581,370	26,321,742
Fixed assets	6,831,763	5,605,250
Intangible assets	4,622,938	1,656,586
Other assets	806,291	911,354
Future income taxes	831,229	680,706
Goodwill	10,517,972	7,067,385
	\$ 47,191,563	\$ 42,243,023
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Bank overdraft	\$ 77,094	\$ -
Bank advances	14,158	18,287
Bank loan (note 6)	141,660	-
Accounts payable and accrued liabilities (note 7)	2,869,720	2,422,273
Loans under Canadian Immigrant Investor Program	3,123,138	3,087,423
Current portion of long-term debt	626,567	801,029
	6,852,337	6,329,012
Long-term debt	3,203,623	3,158,442
Secured convertible debentures	2,977,231	4,389,576
Future income taxes	1,991,978	1,014,814
Shareholders' equity:		
Capital stock (note 8)	40,579,779	33,570,722
Portion of the secured convertible debentures included in equity	735,017	918,735
Warrants (note 10)	4,637,046	4,667,446
Contributed surplus	1,666,142	1,325,504
Deficit	(14,889,260)	(12,672,254)
Accumulated other comprehensive loss (note 11)	(562,330)	(458,974)
	32,166,394	27,351,179
Financial statement disclosure (note 1)		
Subsequent events (note 14)		
	\$ 47,191,563	\$ 42,243,023

See accompanying notes to unaudited consolidated financial statements.

On behalf of the board,

\_\_\_\_\_, director

\_\_\_\_\_, director

# NOVEKO INTERNATIONAL INC.

## Consolidated statement of operations

Three-month periods ended September 30, 2007 and 2006  
(unaudited)

	September 30 2007	September 30 2006
Revenues	\$ 2,802,348	\$ 2,887,354
Cost of sales	1,858,041	1,637,941
	944,307	1,249,413
Operating expenses:		
Administrative and selling expenses	2,281,545	1,079,128
Stock-based compensation	565,167	-
Research and development	59,490	21,545
Research and development tax credits	(10,000)	-
	2,896,202	1,100,673
Income (loss) before amortization, financial expenses and income taxes	(1,951,895)	148,740
Amortization (note 4)	234,748	292,698
Financial expenses (note 4)	95,624	251,094
	330,372	543,792
Loss before income taxes	(2,282,267)	(395,052)
Income taxes		
Current (recovered)	-	75,074
Future	(87,190)	(111,794)
	(87,190)	(36,720)
Net loss	\$ (2,195,077)	\$ (358,332)
Basic and diluted earnings per share	\$ (0.04)	\$ (0.01)
Weighted average number of outstanding shares, basic and diluted	51,697,758	39,788,230

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Three-month periods ended September 30, 2007 and 2006  
(unaudited)

	September 30 2007	September 30 2006
Net loss	\$ (2,195,077)	\$ (358,332)
Other comprehensive loss, net of income taxes:		
Change in unrealized losses on translation of financial statements of self-sustaining foreign operations	(103,356)	(43,311)
Comprehensive loss	\$ (2,298,433)	\$ (401,643)

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

## Consolidated statement of deficit and contributed surplus

Three-month periods ended September 30, 2007 and 2006  
(unaudited)

	September 30 2007	September 30 2006
<b>DEFICIT</b>		
Deficit, beginning of period	\$ (12,672,254)	\$ (5,693,747)
Restatement related to the new accounting policies regarding financial instruments (note 2)	3,161	-
Restated balance	(12,669,093)	(5,693,747)
Net loss	(2,195,077)	(358,332)
Share issuance fees	(25,090)	(5,398)
Deficit, end of period	\$ (14,889,260)	\$ (6,057,477)
<b>CONTRIBUTED SURPLUS</b>		
Contributed surplus, beginning of period	\$ 1,325,504	\$ 85,673
Fair market value of stock options granted	565,167	-
Fair value of stock options exercised	(224,529)	-
Contributed surplus, end of period	\$ 1,666,142	\$ 85,673

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

## Consolidated statement of cash flows

Three-month periods ended September 30, 2007, and 2006  
(unaudited)

	September 30 2007	September 30 2006
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,195,077)	\$ (358,332)
Adjustments for:		
Future income taxes	(87,190)	(111,794)
Accreted interest on secured convertible debentures	147,909	86,148
Stock-based compensation	565,167	-
Amortization (note 4a))	234,748	292,698
Amortization - deferred financing costs	-	17,515
Loss (gain) on disposal of fixed assets	-	(2,062)
Loss on fair value of short-term investments	45,754	-
Exchange loss	1,583	7,400
	(1,287,106)	(68,427)
Net change in non-cash working capital	(626,654)	(612,791)
	(1,913,760)	(681,218)
<b>Cash flows from financing activities:</b>		
Net changes in bank advances	(68,216)	254,211
Increase in bank loan	141,660	-
Interest paid on secured convertible debentures	(56,747)	(68,288)
Proceeds of Class A shares and warrants issued	408,822	840,000
Share issuance fees	(25,090)	(5,398)
Principal repayment on long-term debt	(317,445)	(353,382)
	82,984	667,143
<b>Cash flows from investing activities:</b>		
Business acquisition, including bank overdraft assumed (note 3)	(525,403)	-
Acquisition of fixed assets	(1,314,461)	(92,580)
Acquisition of intangible assets	(7,500)	-
Proceeds from disposal of short-term investment	1,003,490	-
Proceeds from disposal of fixed assets	-	9,763
Deferred development costs	(59,030)	(119,710)
	(902,904)	(202,527)
Exchange loss on cash in foreign currencies	(11,908)	(11,875)
Net change in cash and cash equivalents	(2,745,588)	(228,477)
Cash and cash equivalents, beginning of period	2,668,494	626,094
Cash and cash equivalents, end of period	\$ (77,094)	\$ 397,617

Cash flows related to operating activities include interests paid for \$171,467 (\$158,785 in 2006) and income taxes paid for \$46,340 (received for \$11,400 in 2006).

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

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Noveko International Inc. ("the Company"), is incorporated under the Canada Business Corporations Act, and operates in the following reportable segments:

- development, manufacturing and marketing of medical equipment;
- custom processing and distribution of steel products; and
- development and marketing of products in the biomedical and environmental fields.

## 1. Financial statements disclosure:

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The financial information was prepared in accordance with the same accounting policies and methods as the audited annual financial statements for the year ended June 30, 2007. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements and accompanying notes. The results of operations for the interim period presented do not necessarily reflect results for the full year.

## 2. Changes in accounting policies:

On July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section, 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*. Changes in accounting policies in conformity with these new accounting standards are as follow:

### a) Comprehensive Income

Section 1530 introduces the concept of comprehensive income, which is calculated by including other comprehensive income with net income. Other comprehensive income represents changes in shareholders' equity arising from transactions and other events with non-owner sources, such as unrealized gains and losses in financial assets classified as available-for-sale, changes in translation adjustment of self-sustaining foreign operations, and changes in fair value of effective portion of cash flow hedging instruments. With the adoption of this section, the consolidated financial statements now include consolidated statements of comprehensive income. The comparative statements were restated solely to include the translation adjustment of self-sustaining foreign operations as provided by transition rules.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

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## 2. Changes in accounting policies (cont'd):

### b) Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3861, *Financial Instruments – Disclosure and Presentation* describe standards for the classification, recognition, measurement, disclosure and presentation of financial assets, financial liabilities and derivatives. Under this standard, financial instruments are now classified as: held-for-trading, financial assets available-for-sale, investments held-to-maturity, loans and receivables, or other financial liabilities. The financial assets and liabilities are initially recorded at fair value. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and presented as a reduction of the underlying financial instruments.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes recognized in income. Available-for-sale financial assets are measured at fair value or at cost, in the case of financial assets that do not have a quoted market price in an active market, and changes in fair value are recorded in comprehensive income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, using the effective interest method amortization.

The new standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivative instruments embedded into host contracts must be separately recorded at fair value if the economic characteristics and risks of the embedded derivative instrument and the host contract are not closely related and if the host contract is not already recorded at fair value. This change had no impact on the Company's consolidated financial statements.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments:

- Cash and cash equivalents, short-term investments, investment in Canadian immigrant investor program and loans under Canadian immigrant investor program are classified as assets and liabilities held-for-trading. This change resulted in a decrease of \$19,105 in short-term investments and an increase of \$12,988, net of future income taxes in opening deficit;
- Accounts receivable are classified as loans and receivables. This change had no impact on the Company's consolidated financial statements;
- Bank overdraft, bank advances, bank loan, accounts payable and accrued liabilities, long-term debt and secured convertible debentures are classified as other financial liabilities. This change resulted in a decrease of \$163,096 in deferred financing costs previously included in other assets, an increase of \$23,755 in secured convertible debentures and a decrease of \$16,149, net of future income taxes in opening deficit.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007

(unaudited)

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## 2. Changes in accounting policies (cont'd):

### c) Equity

Section 3251, *Equity*, describes standards for the presentation of equity and changes in equity for the reporting period as a result of application of Section 1530, *Comprehensive Income*.

### d) Hedges

Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company's consolidated financial statements for the three-month ended September 30, 2007.

## 3. Business combination:

On July 26, 2007, the Company acquired 100% of outstanding shares of Laboratoire Syma Inc., a company operating in the manufacture of sanitizer products. The operations of this company were grouped in the segment of development and marketing of products in the biomedical and environmental fields. The acquisition was settled by a cash consideration of \$500,000 and by the issuance of 745,156 Class A shares accounting to \$4,932,933. The acquisition fees of \$16,976 are included in the acquisition price. The acquisition was accounted for under the purchase method and the operating results of the subsidiary are included in the consolidated financial statements from the acquisition date.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007

(unaudited)

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### 3. Business combination:

The fair value of the net assets acquired is attributed as follows:

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Assets acquired:	
Accounts receivable	\$ 58,166
Inventories	117,922
Fixed assets	78,824
Intangible assets	3,033,390
Future income taxes	62,157
Goodwill	3,526,041
	<hr/>
	6,876,500
Liabilities assumed:	
Bank overdraft	8,427
Bank advances	64,088
Accounts payable and accrued liabilities	170,587
Long-term debt	209,111
Future income taxes	974,378
	<hr/>
	1,426,591
Net assets at fair value	<hr/>
	\$ 5,449,909
Consideration:	
Cash, including acquisition fees	\$ 516,976
Common shares issued (note 8 c))	4,932,933
	<hr/>
	\$ 5,449,909

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# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

## 4. Information on operations:

	September 30 2007	September 30 2006
a) Amortization:		
Amortization of fixed assets	\$ 159,518	\$ 209,024
Amortization of intangible assets	74,233	39,320
Amortization of deferred development costs	997	44,354
	<hr/>	<hr/>
	\$ 234,748	\$ 292,698
b) Financial expenses:		
Interest on loan due to corporate shareholder and to a shareholder exercising significant influence	\$ 819	\$ 5,569
Interest on long-term debt	74,721	99,621
Accreted interest on secured convertible debentures	147,909	86,148
Amortization of deferred financing costs	-	17,515
Interest on bank loans and bank charges	13,015	33,826
Exchange loss	19,517	8,513
Investment revenues	(160,357)	(98)
	<hr/>	<hr/>
	\$ 95,624	\$ 251,094

## 5. Accounts receivable:

	September 30 2007	June 30 2007
Trade	\$ 2,194,064	\$ 1,898,335
Sales taxes	175,710	113,203
Research and development tax credits	50,000	40,000
Advances to shareholders exercising significant influence	34,175	22,349
Income taxes receivable	323,101	134,319
Receivable interest	289,252	222,736
Others	62,797	63,110
	<hr/>	<hr/>
	\$ 3,129,099	\$ 2,494,052

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
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## 6. Bank loan:

The bank loan of an initial amount of \$100,000 euros (\$141,660) bearing interest at prime rate of the financial institution plus 1.0 % is payable in December 2007.

## 7. Accounts payable and accrued liabilities:

	September 30 2007	June 30 2007
Trade	\$ 1,634,002	\$ 1,301,315
Accrued liabilities	574,116	539,589
Advances from a shareholder exercising significant Influence without interest	41,960	-
Salaries and deductions at source payable	619,642	581,369
	<u>\$ 2,869,720</u>	<u>\$ 2,422,273</u>

## 8. Capital stock:

### a) Authorized:

On September 30, 2007, authorized capital stock includes the followings:

Unlimited number of Class A shares, voting, participating, without par value;

Unlimited number of Class B shares, non-voting, non-participating, dividends at prime rate of Bank of Canada plus variable rates from 0% to 5% of issuance value cumulative or non cumulative, at board of directors' discretion, dividend with priority rank to Class A shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

Unlimited number of Class C shares, non-voting, non-participating dividends at prime rate of Bank of Canada plus variable rates from 0% to 5% of issuance value cumulative or non cumulative, at board of directors' discretion, dividend with priority rank to Class A shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

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## 8. Capital stock (cont'd):

b) Issued:

	September 30	June 30
	2007	2007
53,329,503 Class A shares (50,615,881 in June 2007)	\$ 40,579,779	\$ 33,570,722

c) Transactions during the period ended September 30, 2007:

- i) Issuance of 745,156 Class A shares for a total amount of \$4,932,933, in consideration of the acquisition of all the outstanding shares of Laboratoire Syma Inc.
- ii) Issuance of 344,738 Class A shares subsequent to the exercise of 344,738 stock options for a cash consideration of \$332,822 and a transfer of \$224,529 from contributed surplus.
- iii) Issuance of 76,000 Class A shares subsequent to the exercise of 76,000 warrants for a cash consideration of \$76,000 and a transfer of \$30,400 from warrants.
- iv) Issuance of 1,547,728 Class A shares subsequent to the exercise of conversion right of \$1,362,000 of convertible debenture. Amounts of \$1,228,655 and of \$183,718 were transferred from secured convertible debentures and from portion of secured convertible debentures included in equity, respectively.

d) Transactions during the year ended June 30, 2007:

- i) Issuance of 1,800,000 units for a total amount of \$900,000, of which \$840,000 in cash and \$60,000 in consideration of an amount owed to a supplier. Each unit includes one Class A share and one fifth of a warrant, each complete warrant allowing for the purchase of a single Class A share of the Company at a price of \$1 per share, and that, for a period of 24 months following its issuance. A value of \$144,000 was attributed to the warrants granted and the difference of \$756,000 was recorded in the capital stock.
- ii) Issuance of 9,200,000 units for a total amount of \$23,000,000 in consideration of \$23,000,000 in cash. Each unit includes one Class A share and one half of a warrant, each complete warrant allowing for the purchase of a single Classe A share of the Company at a price of \$3.35 per share, and that, for a period of 24 months following its issuance. A value of \$3,420,886 was attributed to the warrants granted and the difference of \$19,579,114 was recorded in the capital stock.
- iii) Issuance of 80,002 Class A shares subsequent to the exercise of 80,002 stock options for a cash consideration of \$58,502 and a transfer of \$39,502 from contributed surplus.
- iv) Issuance of 52,000 Class A shares subsequent to the exercise of 52,000 warrants for a cash consideration of \$52,000 and a transfer of \$20,800 from warrants.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

## 8. Capital stock (cont'd):

d) Transactions during the year ended June 30, 2007 (cont'd):

- v) Issuance of 100,000 Class A shares subsequent to the exercise of conversion right of \$88,000 of convertible debenture. Amounts of \$76,130 and of \$11,870 were transferred from secured convertible debentures and from portion of secured convertible debentures included in equity, respectively.

e) Escrowed shares:

In accordance with the requirements of the TSX inc. Venture Exchange, all of the 7,000,000 issued Class A shares resulting from the acquisition of Lapjack (Canada) Ltée will be held in escrow under a securities escrow agreement. Under the terms of the agreement, 10% of Class A shares held in escrow have been released upon publication of the Final Exchange Bulletin and 15% of the additional Class A shares will be released at six months intervals on the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> et 36<sup>th</sup> months following the initial release. As at September 30, 2007, 4,200,000 Class A shares were still held in escrow.

## 9. Stock options plan:

The Company instituted a fixed stock option plan according to which options can be granted to its managers, directors, employees and to persons providing services on a continuous basis to the Company. Under this plan, 8,242,776 Class A shares were reserved. The exercise price of the options is equal to the Company's quoted share price at the date on which the options are granted.

The following summarizes the changes in the plan position between June 30, 2007 and September 30, 2007:

	September 30, 2007		June 30, 2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	4,394,998	\$ 1.17	225,000	\$ 0.50
Granted	-	-	4,250,000	1.19
Exercised	(344,738)	0.97	(80,002)	0.73
Balance, end of period	4,050,260	\$ 1.18	4,394,998	\$ 1.17
Options that can be exercised at period-end	1,820,919	\$ 0.98	1,303,333	\$ 0.87

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
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## 9. Stock options plan (cont'd):

The following is a summary of the information on the outstanding stock options as at September 30, 2007:

		Outstanding options	Exercisable options
Exercise price	Number	Weighted average outstanding maturity period (year)	Number
\$ 0.50	150,000	1.33	150,000
0.87	2,808,327	4.25	1,404,164
1.31	508,600	4.42	169,533
2.75	583,333	4.67	97,222
	4,050,260	4.22	1,820,919

a) Transaction during the year ended June 30, 2007:

During the year, the Company has granted 4,250,000 stock options allowing the acquisition of 4,250,000 Class A share at a weighted average exercise price of \$0.99 with a vesting period extending over 18 months.

b) Compensation cost:

Compensation costs related to the stock option plan amount to \$565,167 for the period ended September 30, 2007 (\$- for the period ended September 30, 2006).

c) Fair value of the options:

The weighted average fair value of the 4,250,000 stock options granted during the year ended June 30, 2007 is \$0.99 each. This fair value was estimated as at the date on which the options were granted by using the Black-Sholes' options pricing model with the following assumptions:

Weighted average expected dividend rate	Nil
Weighted average volatility	82%
Weighted average risk-free interest rate	3.99%
Weighted average expected life of options	60 months

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

## 10. Warrants:

The following summarizes the changes in the warrants position between June 30, 2007 and September 30, 2007:

	September 30, 2007		June 30, 2007	
	Warrant Number	Amount	Warrant Number	Amount
Balance, beginning of period	7,792,000	\$ 4,667,446	3,915,000	\$ 1,090,000
Granted	-	-	5,604,000	4,170,246
Exercised	(76,000)	(30,400)	(52,000)	(20,800)
Expired	-	-	(1,675,000)	(572,000)
Balance, end of period	7,716,000	\$ 4,637,046	7,792,000	\$ 4,667,446

The following is a summary of the information on the outstanding warrants as at June 30, 2007:

Exercise price	Number	Weighted average outstanding maturity period (months)
\$ 1.00	2,200,000	7
1.00	40,000	10
1.00	232,000	12
3.35	5,244,000	20
	7,716,000	16

a) Transactions during the year ended June 30, 2007:

- i) Simultaneously with the issuance of 1,800,000 Class A shares, the Company granted 360,000 warrants allowing the purchase of 360,000 Class A shares at a price of \$1.00 per share until September 2008. A value of \$144,000 was attributed to the warrants granted.
- ii) Simultaneously with the issuance of 9,200,000 Class A shares, the Company granted 4,600,000 warrants allowing the purchase of 4,600,000 Class A shares at a price of \$3.35 per share until May 2009. A value of \$3,420,886 was attributed to the warrants granted. These warrants bear a provision for early exercise at the option of the Company, if the average price of Class A shares is or exceeds \$4.00 for 20 consecutive trading days commencing the 20<sup>th</sup> trading day prior to the expiry of the four month hold period to which those securities are subject.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

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## 10. Warrants (cont'd):

a) Transactions during the year ended June 30, 2007 (cont'd):

- iii) Simultaneously with the issuance of 9,200,000 Class A shares, the Company granted 644,000 warrants to the brokers allowing the purchase of 644,000 Class A shares at a price of \$3.35 per share until May 2009. A value of \$605,360 was attributed to the warrants granted.

The fair value of warrants issued and described at iii) is \$0.94 each. The fair value was estimated at the date on which they were granted by using the Monte Carlo' pricing model with the following assumptions:

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Expected dividend rate	Nil
Volatility	100%
Risk-free interest rate	4.57%
Expected life of options	24 months

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## 11. Accumulated other comprehensive loss:

The changes that occurred during the period were as follows:

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	September 30 2007
Restated opening balance due to the new accounting policies adopted regarding financial statements (note 2)	\$ (458,974)
Unrealized loss on translation of financial statements of Self-sustaining foreign operations	(103,356)
Balance, end of period	(562,330)

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## 12. Segmented information:

The segmented information comprises three significant segments: development, manufacturing and marketing of medical equipment, custom processing and distribution of steel products and development and marketing of products in the biomedical and environmental fields.

These segments are managed separately and are assessed individually based on operating income before amortization, financial expenses and income taxes. Most of the businesses were acquired as a unit, and management at the time of the acquisition was retained.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

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## 12. Segmented information (cont'd):

The accounting policies of each segment are identical to those policies used for the consolidated financial statements.

For the period ended September 30, 2006, there were only two business segments, being the development, manufacturing and marketing of medical equipment and custom processing and distribution of steel products. Consequently, the comparative figures were modified to include the sector of development and marketing of products in the biomedical and environmental fields.

Informations on the results and the assets of each segment:

	September 30 2007	September 30 2006
<b>Revenues from external clients:</b>		
Manufacturing and distribution of medical equipment	\$ 1,242,654	\$ 1,305,939
Custom processing and distribution of steel products	1,507,266	1,581,415
Development of biomedical and environmental activities	52,428	-
	<u>\$ 2,802,348</u>	<u>\$ 2,887,354</u>
<b>Profit (loss) before amortization, financial expenses and income taxes:</b>		
Manufacturing and distribution of medical equipment	\$ (151,312)	\$ 207,939
Custom processing and distribution of steel products	84,760	182,315
Development of biomedical and environmental activities	(614,706)	-
Other	(1,270,637)	(241,514)
	<u>\$ (1,951,895)</u>	<u>\$ 148,740</u>
<b>Amortization:</b>		
Manufacturing and distribution of medical equipment	\$ 35,534	\$ 58,264
Custom processing and distribution of steel products	133,991	220,009
Development of biomedical and environmental activities	51,247	14,424
Other	13,976	-
	<u>\$ 234,748</u>	<u>\$ 292,697</u>
<b>Interest expense:</b>		
Manufacturing and distribution of medical equipment	\$ 20,001	\$ 16,640
Custom processing and distribution of steel products	59,275	94,209
Development of biomedical and environmental activities	3,059	-
Other	154,129	114,315
	<u>\$ 236,464</u>	<u>\$ 225,164</u>

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2007  
(unaudited)

## 12. Segmented information (cont'd):

Informations on the results and the assets of each segment (cont'd):

	September 30 2007	September 30 2006
<b>Income taxes:</b>		
Manufacturing and distribution of medical equipment	\$ (9,491)	\$ 75,074
Custom processing and distribution of steel products	(40,392)	(111,794)
Development of biomedical and environmental activities	(35,818)	-
Other	(1,489)	-
	<u>\$ (87,190)</u>	<u>\$ (36,720)</u>
<b>Net loss:</b>		
Manufacturing and distribution of medical equipment	\$ (213,429)	\$ 49,422
Custom processing and distribution of steel products	(68,115)	(20,110)
Development of biomedical and environmental activities	(633,194)	(14,424)
Other	(1,280,339)	(373,220)
	<u>\$ (2,195,077)</u>	<u>\$ (358,332)</u>
<b>Assets:</b>		
Manufacturing and distribution of medical equipment	\$ 10,581,568	\$ 10,257,502
Custom processing and distribution of steel products	11,482,892	13,652,039
Development of biomedical and environmental activities	9,908,333	1,136,406
Other	15,218,770	705,665
	<u>\$ 47,191,563</u>	<u>\$ 25,751,612</u>
<b>Fixed asset expenditures:</b>		
Manufacturing and distribution of medical equipment	\$ 67,013	\$ 121,361
Custom processing and distribution of steel products	275	90,929
Development of biomedical and environmental activities	1,280	-
Other	1,312,423	-
	<u>\$ 1,380,991</u>	<u>\$ 212,290</u>

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

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## 12. Segmented information (cont'd):

The geographical distribution of capital assets and goodwill of the Company is as follows:

	September 30 2007	June 30 2007
Canada	\$ 11,764,435	\$ 6,984,628
France	5,585,300	5,688,007
	\$ 17,349,735	\$ 12,672,635

The geographical distribution of revenues of the Company is as follows:

	September 30 2007	September 30 2007
Canada	\$ 1,643,259	\$ 1,684,850
Latin America	99,081	8,548
United States	111,111	46,572
Europe	719,161	752,459
Africa and Asia	229,736	394,925
Total revenues	\$ 2,802,348	\$ 2,887,354

## 13. Related party transactions:

- During the period ended September 30, 2007, the Company paid interest in the amount of \$819 (\$5,569 for the period ended September 30, 2006) to a corporate shareholder exercising significant influence. This amount was charged to financial expenses in the statement of operations. These transactions were concluded in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.
- On July 17, 2007, the Company acquired a building from a company whose the shareholders directors exercise significant influence on the Company. This acquisition, not in the normal course of operations, was recorded at the market value determined by an independant real estate appraiser. The acquisition was settled by a cash consideration of \$1,200,000.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

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## 14. Subsequent events:

- a) On October 25, 2007, the Company has granted to directors, consultants and employees, stock options to acquire a total number of 2,000,000 Class A shares, at a price of \$6.80 per share. These options can only be exercised on the basis of one-sixth (1/6) of the total number of options per every completed three-month period following their grants and will due in 5 years.
- b) On November 20, 2007, the TSX Venture Exchange approved the amendment to the stock option plan of the Company increasing the number of Class A shares that may be issued following the exercise of options granted or to be granted under the Plan from 8,242,776 to 10,698,780 Class A shares. The amendment to the Plan is subject to approval by the Company's shareholders at the next Annual General Meeting.
- c) In October and in November 2007, 675,000 Class A shares were issued subsequent to the exercise of 675,000 warrants for a cash consideration of \$2,261,250 and a transfer of \$499,500 from warrants.

## 15. Comparative figures:

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