



**NOVEKO**  
INTERNATIONAL INC.

## **Interim Report 1**

Three-Month Period Ended  
September 30, 2007

## Message to Shareholders

During the first quarter, we continued to focus on our priorities, especially on setting up the production and accelerating the marketing of our antimicrobial face masks and air filters and getting ready to launch our new ultrasound scanners, while also taking advantage of a further growth opportunity with the acquisition of Laboratoire SyMa Inc. closed on July 26, 2007.

Noveko remains concentrated on preparing for its future growth and our development initiatives affected our first-quarter results and could continue to impact our performance in upcoming periods. In August 2007, we were pleased to win our first orders totaling \$2.7 million for antimicrobial face masks and air filters. These products are currently being manufactured and we expect to complete the delivery of these orders in early 2008.

Our most promising milestones in recent months are definitely the Health Canada establishment licences for our antimicrobial face masks and for SyMa's Azuro™ product line, along with the FDA authorization granted to SyMa to market its products in the United States. These licences and authorization give us access to major markets in North America for Noveko Inc.'s and SyMa's products.

We are also pleased to inform our shareholders that our new subsidiary SyMa recently entered into significant agreements with two new clients. One of these agreements was signed with METRO Inc., under which SyMa will supply its line of Azuro products to the METRO and METRO Plus supermarkets and the Super C discount supermarkets, representing more than 280 stores in Quebec, whereas the other agreement was signed for a three-year period with the Fédération des Caisses Desjardins du Québec to supply Azuro products to over 1,400 Desjardins branches across Canada.

In October 2007, we established concrete ties in China by signing an agreement with one of its most prominent state-owned companies, specifically *China National Service Corporation*. This agreement will certainly accelerate the promotion of our antimicrobial filtration technology to all levels of Chinese government and its related food and health organizations, the obtaining of the required authorizations and the development of sales and distribution channels. We are proud that this agreement was closely followed by a cooperation agreement with the Ma'anshan Agriculture Committee to equip a pig farm with our antimicrobial air filters. We will thereby demonstrate our technology's performance and market potential.

Many opportunities lie ahead for us and our teams continue to focus on implementing the most efficient initiatives to respond to market demand.

## Management's Report as at September 30, 2007

(Management's Discussion and Analysis of Operating Results, Cash Flows and Financial Position)

### Description of Business as at September 30, 2007

**Noveko International Inc.** ("Noveko" or "the Company") has four subsidiaries: **S.A.S. ECM** (France) ("ECM"), **Bolduc Leroux Inc.** ("BLI"), **Noveko Inc.** and **Laboratoire SyMa Inc.** ("SyMa").

Through its subsidiaries, Noveko is involved in the following sectors:

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

**ECM** specializes in the development and marketing of portable real-time ultrasound scanners for use in veterinary and human medicine. These devices are used to improve breeders' yield by facilitating the diagnosis of animal pathologies, the monitoring of gestation and the evaluation of animals' body fat to optimize meat quality. ECM has also developed a portable ultrasound technology for human applications including cardiovascular, gynecological, abdominal, organ and prostate examinations, which offers considerable potential in regard to ambulatory medicine and healthcare in developing countries. In addition to its products' innovative features and excellent quality/price value, ECM's main differentiating advantage in ultrasonography lies in the fact that its scanners are portable, user-friendly and battery-powered, so they can be used both in clinics and in the field. These characteristics position ECM in specific market niches, including some developing countries, where major competitors are absent. Most component manufacturing is outsourced, product assembly is ensured by ECM and marketing is done primarily through independent agents and distributors around the world.

**BLI** specializes in the custom processing and distribution of steel products based on client specifications and designs. It has also developed and markets a line of downdraft particle extraction tables for various industrial, commercial and pharmaceutical markets.

**Noveko Inc.** develops the Company's biomedical and environmental activities, specifically its patented antimicrobial filtration technology and its derivative products. In May 2006, Noveko Inc.'s antimicrobial filtration technology was patented by the *United States Patent and Trademark Office* and, at the end of June 2007, it was patented by the *Eurasian Patent Office*, located in Moscow. The Company has similar international patents pending. In August 2007, Noveko Inc. was issued an establishment licence by Health Canada, allowing it to begin marketing its products in Canada.

Noveko Inc. has started marketing the two broad lines of the derivative products from its technology, specifically antimicrobial face masks for the healthcare sector, pharmaceutical companies and the general public, and antimicrobial air filters for farm buildings, healthcare institutions, commercial and office buildings and residential properties. In this regard, Noveko Inc. concluded alliances with supplier-partners and distributors in North America and Asia for the manufacture and marketing of its antimicrobial face masks. Furthermore, for the marketing of its antimicrobial air filters in the hog and poultry breeding market in North America, it signed an exclusive distribution agreement with Monitrol Inc., a North American leader in ventilation management software and hardware for farm buildings. Finally, subsequent to the end of the first quarter of the current fiscal year, specifically in October 2007, it signed an agreement with China National Service Corporation to introduce and market its antimicrobial filtration technology in China.

**SyMa** manufactures the Azuro product line, which currently includes a hand sanitizer with emollients that cleans without water and eliminates 99.9% of germs in 4.6 seconds – as well as two new exclusive products: Azuro™ Foot, a foot sanitizer, and Azuro™ Vapo, a surface disinfectant. Distributed in Quebec since November 2005, Azuro™ products are targeted to retail outlets and the corporate, governmental and healthcare sectors. They are also available under private labels as corporate gifts, for fund-raising, golf tournaments, etc.

Noveko International Inc. has been operating since September 2002 and its shares (ticker symbol EKO) have been listed on the TSX Venture Exchange since February 3, 2004.

## **Development Stage of the Company**

Since its inception, the Company has concentrated on setting up an operational structure and a team focused on the growth, elaboration and implementation of a growth strategy, the completion of strategic acquisitions, its research and development (R&D) operations, the establishment of strategic alliances in North America and Asia, the launch of new products and various financing arrangements by way of convertible debentures, a bank financing and a private placement.

## **FOREWORD TO MANAGEMENT'S REPORT**

### **Basis of Presentation**

Management's Report is designed to assist investors in understanding the nature and the importance of the changes and trends, as well as the risks and uncertainties associated with Noveko's operations and financial position. This Management's Report presents an analysis of Noveko's operating results for the first quarter ended September 30, 2007 in comparison with the corresponding period ended September 30, 2006, as well as its cash flows and changes in financial position between those dates. Management's Report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the first quarter ended September 30, 2007.

Supplementary information about the Company, including its Annual Information Form, the interim reports and the Annual Report for the fiscal year ended June 30, 2007, previous annual reports and press releases, is available on SEDAR's website ([www.sedar.com](http://www.sedar.com)) and Noveko's website ([www.noveko.com](http://www.noveko.com)). Certain other documents, such as presentations to investors, are also available on the Company's website.

In this Management's Report, "Noveko International Inc.", "Noveko" or "the Company" designates, as the case may be, Noveko International Inc. and its subsidiaries and divisions, or Noveko International Inc. or one of its subsidiaries or divisions.

The information contained in this Management's Report accounts for any major event occurring prior to November 29, 2007, the date on which the Board of Directors approved the unaudited financial statements and the Management's Report for the first quarter ended September 30, 2007. They present the Company's status and business context as they were, to management's best knowledge, at the time these lines were written.

Unless otherwise indicated, the financial information presented in this report, including tabular amounts, is expressed in Canadian dollars. The Canadian dollar is also the Company's measurement currency. Unless otherwise indicated, the analysis of results for the period in question is made in comparison with results for the equivalent period of the previous year.

#### **Compliance with Canadian GAAP**

Unless otherwise indicated, the financial information presented in this Management's Report, including tabular amounts, is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The information contained in Management's Report and certain other sections of this report also includes some figures that are not performance measures consistent with GAAP, such as profit (loss) before amortization, financial expenses and income taxes ("EBITDA"). Noveko uses EBITDA because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator of a company's ability to repay and assume debt. Investors should not regard it as an alternative to operating revenues or cash flows, or a measure of liquidity. As EBITDA is not established in accordance with GAAP, it may not be comparable to the EBITDA of other companies.

## **Use of Estimates and Forward-Looking Statements**

The preparation of consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenue and expenses and the disclosure of contingent assets and liabilities.

Critical items of the financial statements that require the use of estimates include the determination of the allowance for doubtful accounts, the determination of the allowance for inventory obsolescence, the determination of the useful life of fixed and intangible assets for amortization calculation purposes, the assumptions used for fixed asset, intangible asset and goodwill impairment tests, the determination of the allowance for guarantees, the determination of the allowance for income taxes, the assumptions used for the purposes of calculating the stock-based compensation expense, the determination of the fair value of financial instruments, the determination of the fair value of the assets and liabilities acquired on business acquisitions and the implicit fair value of goodwill. Recoverable tax credits are also subject to certain estimates and assumptions. The recovery of such credits depends on the revision and approval of the admissibility of expenses by tax authorities. Actual results could differ from those estimates.

The statements set forth in this Management's Report and certain other sections of this report that Noveko's describe objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Positive or negative verbs such as "plan", "evaluate", "estimate" and "believe" as well as other related expressions are used to identify such forward-looking statements. Noveko's management would like to point out that, by their very nature, forward-looking statements involve a number of known and unknown risks and uncertainties such that the Company's actual and future results could differ materially from those indicated. There can be no assurance as to the materialization of the results, performance or achievements as expressed in or underlying the forward-looking statements. Unless required to do so pursuant to applicable securities legislation, Noveko's management assumes no obligation as to the updating or revision of the forward-looking statements as a result of new information, future events or other changes. *(For further details, please refer to the "Risks and Uncertainties" section of the 2007 Annual Report.)*

## **Changes in Accounting Policies**

Effective 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 follows:

*(a) Comprehensive Income*

Section 1530, *Comprehensive Income*, 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.

*(b) Financial Instruments*

Sections 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. The measurement of financial instruments in subsequent periods depends on how they were classified.

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 derivatives instruments embedded into hosts 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.

*(c) Equity*

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

*(d) Hedges*

Section 3855, *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 had no impact on the Company's consolidated financial statements for the three-month period ended September 30, 2007.

**SELECTED CONSOLIDATED QUARTERLY INFORMATION****Three-Month Periods Ended September 30, 2007 and 2006**

(in thousands of \$, except per-share amounts (unaudited))

	<b>2007</b>	2006
Revenues	<b>2,802</b>	2,887
Gross margin	<b>944</b>	1,249
EBITDA (loss before amortization, financial expenses and income taxes)	<b>(1,952)</b>	149
Net loss	<b>(2,195)</b>	(358)
Comprehensive loss	<b>(2,298)</b>	(402)
Loss per Class A share (basic and diluted)	<b>(0.04)</b>	(0.01)
Weighted average number of Class A shares outstanding basic and diluted (in thousands)	<b>51,698</b>	39,788

**Balance Sheet Data**

	<b>September 30, 2007</b>	June 30, 2007
Total assets	<b>47,192</b>	42,243
Shareholders' equity	<b>32,166</b>	27,351
Total interest-bearing debt <sup>(1)</sup>	<b>6,963</b>	8,367
Cash, cash equivalents and short-term investments	<b>13,146</b>	16,960

(1) Including long-term debt and its current portion, bank advances and bank loans, as well as convertible debentures.

## **SALIENT EVENTS OF THE PAST THREE FISCAL YEARS**

### **Fiscal 2005**

**Acquisition of ECM** — On November 5, 2004, Noveko completed the acquisition of all the outstanding shares of ECM (France), a company with operations similar to those of Noveko in the breeding and veterinary medicine fields. This transaction consolidated Noveko's position among the world leaders in the development and marketing of portable ultrasound scanners for veterinary use, with a strong presence in the hog industry. The transaction was settled by a cash consideration of 2.0 million Euros and the issue to ECM's shareholders of a total of 2,500,000 Noveko Class A shares. To finance the cash portion of the acquisition price, Noveko concurrently concluded a private placement through the issuance of 3,350,000 units at a price of \$1.00 per unit, each unit being composed of one Class A share and one-half warrant.

**Private Placement** — During the second half of fiscal 2005, the Company completed a private placement of a total amount of \$3.0 million by way of secured convertible debentures, bearing interest at a rate of 8% per annum and maturing on December 15, 2009. The Company also issued a total of 750,000 warrants to the holders of the debentures. These warrants can be exercised starting April 1, 2008 only if the average weighted market value of the share is lower than \$1.50 during the 90 days preceding that date.

### **Fiscal 2006**

**Bank Financing** — On November 10, 2005, the Company completed a bank financing of a maximum of \$1.9 million (term loan: \$1.7 million and margin facility: \$0.2 million), guaranteed by various hypothecs on the universality of all current and future tangible and intangible assets of the Company and of its subsidiaries. Investissement Québec granted the lender a loan guarantee for a portion of the term loan. In consideration of such guarantee, the Company issued to Investissement Québec 365,625 Class A shares valued at \$117,000.

**ECM's Products Sold in 50 Countries** — In October 2005, ECM launched the Agrosan A14, a device designed for bovine, ovine and caprine scanning. That completed its line of Agrosan scanners, the broadest range of portable ultrasound scanners sold primarily in the European Union, Asia, and North and South America.

**Launch of a Line of Environmental Products by BLI** — In May 2006, BLI launched a new line of environmental products designed and developed by its team: five downdraft extraction tables targeted to various industrial, commercial and pharmaceutical markets. This innovation is the result of three years of research and development and meets important needs for the recovery of industrial and commercial industrial wastes. BLI is further developing this high-potential market with the contribution of U.S. distributors.

**Acquisition of Lapjack (Canada) Ltd.** — On April 28, 2006, Noveko announced the closing of the acquisition of Lapjack (Canada) Ltd. ("Lapjack") and its subsidiary Bolduc Leroux Inc. ("BLI"). The purchase price for all the issued and outstanding shares of Lapjack was paid to Alain Bolduc by the Company, \$0.5 million in cash and by the issue to him of 7,000,000 units, each unit being composed of one (1) Class A share and one fifth (1/5) of a warrant, each whole warrant giving the right to its holder to subscribe one (1) Class A share of the Company, at a subscription price of \$1.00 per share, until April 28, 2008. All Class A shares and all warrants so issued by Noveko to Alain Bolduc are subject to an Escrow Agreement (Value Security) as required by the Policies of the TSX Venture Exchange (the "Exchange"). These securities will be released from escrow in accordance with the provisions of the Escrow Agreement and of the Exchange's Policies in the following manner: 10% of the securities shall be released at the date of the Final Bulletin of the Exchange in connection with the acquisition and, the remaining securities, shall be released in the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup> 30<sup>th</sup> and 36<sup>th</sup> months (on a 1/6-basis) following the date of such Final Bulletin. The Company also acquired the 300,000 Class E shares of BLI held by Alain Bolduc.

The ownership of such 300,000 Class E shares was transferred to Noveko at the closing. Furthermore, the payment of the purchase price was payable by the Company only after the U.S. Patent Application for an antibacterial filtration technology had been granted. As stated below, this patent was granted to BLI on May 16, 2006. Subsequent to the acquisition, effective April 28, 2006, Alain Bolduc was appointed as director and Vice-President, Business Development of Noveko.

**Private Placement** — Concurrently with the acquisition of Lapjack, Noveko effected a private placement of a minimum of 4,000,000 units and a maximum of 6,000,000 units, each unit being composed of one (1) Class A share and one-fifth (1/5) of a warrant (each whole warrant entitling its holder to subscribe for one (1) Class A share of the Company, at a subscription price of \$1.00 per share, until April 28, 2008), a total of 4,200,000 units were subscribed for a total consideration of \$2.1 million. On September 18, 2006, the Company announced the closing of this private placement, subsequent to which the total number of the issued and outstanding Class A shares of the Company was equal to 41,183,882 Class A shares. All the Class A shares and all the warrants so issued were subject to a four-month hold period as of their issue date.

**U.S. Patent for Antibacterial Filtration Technology Obtained by Noveko** — On May 16, 2006, the *United States Patent and Trademark Office* delivered Noveko's patent for its antibacterial filtration technology, titled "microbicidal air filter", the result of five years of research and development.

## **Fiscal 2007**

**Issuance of Units** — In September 2006, Noveko issued 1,800,000 units for an amount of \$0.9 million. 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 \$1.00 per share, and that, for a period of 24 months following its issuance.

**Amendment to Stock Option Plan** — On November 10, 2006, Noveko amended its stock option plan to increase the total number of Class A shares that may be acquired under the plan to 8,242,776 Class A shares. As at December 14, 2006, the amendment to the stock option plan was ratified by the Company's shareholders at the Annual General Meeting, and this amendment was approved by the TSX Venture Exchange. The Company also granted options to certain Company employees, consultants and directors to acquire 3,100,000 Class A shares, at a price of \$0.87 per share, 550,000 Class A shares, at a price of \$1.31 per share, and 600,000 Class A shares, at a price of \$2.75 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.

**100% Effectiveness of Noveko's Antimicrobial Technology Successfully Proven** — On November 21, 2006, Noveko announced that it had successfully proven the 100% effectiveness of its antimicrobial filtration technology, usable in medical, biomedical, commercial, industrial and residential applications. The results of the latest testing phases executed in dynamic mode (reproducing human breathing) proved fully conclusive and pave the way for commercialization of these derivative products in the near term. Conducted under the supervision of Dr. Konstantin Goranov, PhD in Polymer Chemistry, by the Microbial-Resolution (Massachusetts) sub-division of Boston Analytical, Inc., these latest testing phases proved the 100% effectiveness of the antimicrobial technology developed by Noveko on some 200 bacterial colonies tested. Besides providing 100% bioprotection against bacteria and viruses — such as clostridium difficile (*C. difficile*), escherichia coli (*E. coli*), the bacteria and viruses causing pneumonia, legionella pneumophila (cause of legionnaire's disease), streptococci, bacillus anthracis (cause of anthrax) and the influenza virus (flu), whatever the currently existing strain — this technology offers other distinct advantages. For instance, it allows the manufacturing of reusable washable face masks that retain their full antimicrobial property and can also be applied to produce conventional face masks meeting the N-95 standard, without changing current manufacturing methods.

This technology therefore features major commercial advantages in a broad high-potential market. Furthermore, in view of using this technology in air filtration systems that can be installed in any healthcare institution as well as in any public, commercial, residential and agricultural building, BLI has obtained the certification of conformance with ASHRAE Standard 52.2-1999 for its prototype number B1F.AB1.150 BI-Antimicrobial.

**\$2.2 Million Financing** — On December 29, 2006, Noveko concluded a \$2.2 million financing arrangement with the Quorum Group, by way of secured convertible debentures bearing interest at a rate of 8% per annum. These debentures are convertible, totally or partially, at the holder's option, into Class A shares on the basis of one Class A share for \$1.25 debenture stock until December 29, 2008, for \$1.38 until December 29, 2009, for \$1.52 until December 29, 2010 and for \$1.67 until its due date on December 29, 2011.

**Partnership for Development of the Asian Market** — On January 16, 2007, the Company entered into a strategic partnership with Unitam Inc., a company with offices in Montreal, Taipei and Beijing whose mission is to introduce North American companies to Asian markets. This partnership was established for the manufacture and distribution of Noveko's antimicrobial face masks and air filters in countries such as China, Taiwan, Japan, Korea, Thailand and other Asian countries.

**Initial Production of Antimicrobial Face Masks** — On February 26, 2007, Noveko Inc. had started to produce antimicrobial face masks. In partnership with key American suppliers, Noveko Inc. has successfully completed its manufacturing tests and produced fabrics for the manufacture of bioactive filtering products. This initial production will allow the manufacturing of some 50,000 face masks for clinical trials and marketing. The tests conducted on these fabrics demonstrated that these face masks provide 100% bioprotection (superior to N-99-approved products) and reduce weight by over 40%, thereby greatly facilitating breathing and offering more comfortable skin contact. This initial production of antimicrobial face masks will be ensured by Suzhou Fangtian Industries Co. ([www.chinamasks.com](http://www.chinamasks.com)), a major Chinese manufacturer and distributor of a wide range of face masks across the United States, Asia, the Middle East and Africa. It should be specified that Noveko Inc. retains all the intellectual property rights to its patented antimicrobial technology. Part of this production will also lead to the completion of the 510K and FDA certification process, under Dr. Goranov's supervision. Moreover, CIBA® Experts Services ([www.cibasc.com](http://www.cibasc.com)) will assist Noveko Inc. in this process. Furthermore, in February 2007, Dr. Goranov joined Noveko Inc.'s team on an exclusive, full-time basis as Chief Technical Officer.

**Management Changes** — On April 2, 2007, Noveko announced several changes to the Company's management in the context of its international developments and in anticipation of its future growth. Thus, André Leroux, founder and Chairman of the Board, President and Chief Executive Officer, continues to act as Chairman of the Board and Chief Executive Officer of Noveko International Inc. Alain Bolduc, formerly Vice-President, Business Development and Industrial Division of Noveko and President of the subsidiary BLI, was promoted to the position of President and Chief Operating Officer of Noveko International Inc. Gaston Lavallée joined Noveko International Inc.'s team as Vice-President, Business Development. On May 28, 2007, Jacques Tessier was appointed as Vice-President and Chief Financial Officer.

**Exclusive Distribution Agreement** — On April 11, 2007, Noveko announced its exclusive distribution agreement with Monitrol Inc. (Boucherville, Quebec), a North American leader in ventilation management software and hardware for farm buildings with a North American network of 300 distributors and 1,500 sales agents. Under this agreement, Monitrol Inc. will act as the exclusive distributor of Noveko's patented antimicrobial air filters for the hog and poultry breeding markets in North America. This market currently represents some 125 million linear feet of air filters and potential revenues of approximately US\$1.3 billion from the sale of these filters in North America. Noveko is confident that this agreement will enable it to achieve a significant breakthrough in the North American hog and poultry breeding market over the next two years with its antimicrobial air filters.

**FDA 510K Accreditation** — In May 2007, Noveko Inc. filed an application for FDA 510K accreditation for its two antimicrobial face masks (Noveko™ 3xEZ and 5dEZR) and obtained a pre-IDE (investigational device exemption) number to complete its submission with the latest data. Noveko Inc. is completing its final test protocols in collaboration with Ciba Expert Services and FDA-accredited Nelson Laboratories (Utah, U.S.).

**\$23 Million Private Placement** — In June 2007, Noveko issued 9,200,000 units for a total amount of \$23.0 million in consideration of \$23.0 million 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 Class A share of the Company at a price of \$3.35 per share, and that, for a period of 24 months following its issuance. These funds will be used for the marketing of antimicrobial face masks and air filters, new product development and various other projects focused on driving the Company's growth.

**Eurasian Patent Obtained** — At the end of June 2007, the Eurasian Patent Office, located in Moscow, delivered a patent for Noveko's antimicrobial filtration technology. With almost double the population of the United States, Eurasia represents an important market for Noveko's antimicrobial face masks and antimicrobial air filters.

## **Fiscal 2008**

### **First Quarter Ended September 30, 2007**

**Acquisition of a Building** — In July 2007, Noveko acquired a building from a company whose shareholders exercise significant influence on the Company. This acquisition was recorded at fair market value and settled by a cash consideration of \$1.2 million.

**Acquisition of Laboratoire SyMa Inc.** — In July 2007, Noveko closed the acquisition of all the shares of SyMa, which specializes in the manufacture of sanitizers, more specifically the exclusive antimicrobial products sold under the Azuro trademark. The acquisition was settled by a cash consideration of \$0.5 million and by the issue of 745,156 Class A shares of the Company for a value of \$4.9 million.

**Establishment Licence Granted by Health Canada** — In August 2007, Noveko was granted an establishment licence by Health Canada, giving it the green light for the Canadian marketing of its antimicrobial face masks to healthcare institutions (hospitals, medical clinics, dental clinics, etc.), government organizations, civil relief units and the general public.

**First Order of Antimicrobial Air Filters** — In August 2007, Noveko won its first order of \$0.4 million of antimicrobial air filters from large hog breeding farms in Ontario and the United States.

**First Canadian Sales of Antimicrobial Face Masks** — In August 2007, Noveko won its first order of \$2.3 million of antimicrobial face masks from Medi-Select, a leader in the distribution of medical equipment and supplies.

**Conversion of Debentures** — In July and September 2007, convertible debentures for an amount of \$1,362,000 were converted into 1,547,728 Class A shares.

**Noveko Head Office Move** — In September 2007, Noveko moved its head office from Lachine, Quebec to a recently acquired building located in Terrebonne, Quebec in order to achieve efficiency gains and to better accommodate its future growth.

## **Events Subsequent to Balance Sheet Date**

**Agreement with China National Service Corporation** — In October 2007, Noveko signed an agreement with China National Service Corporation ("CNSC"), one of China's most prominent state-owned companies, dealing with the businesses of international cooperation, service and Chinese government sponsored projects worldwide. This agreement aims to promote Noveko's antimicrobial filtration technology to all levels of Chinese government and its related food and health organizations, to obtain the government authorizations required for the marketing of Noveko's antimicrobial face masks and antimicrobial air filters, and to develop the supporting sales and distribution channels in China. CNSC is responsible for providing Noveko with monitoring and enforcement services in the Chinese market to prevent any infringement of Noveko's intellectual property rights and trademarks.

**First Pig Farm in China Equipped with Noveko's Antimicrobial Air Filters** — In October 2007, Noveko signed a cooperation agreement with the Ma'anshan Agriculture Committee (Anhui Province, China) to equip a first pig farm with Noveko's antimicrobial air filters in the coming months in order to demonstrate this technology's performance and to market it on a larger scale.

**Grant of Stock Options** — On October 25, 2007, the Company 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 expire in five years.

**Amendment to Stock Option Plan** — On November 20, 2007, the TSX Venture Exchange approved the amendment to the stock option plan adopted by the Company's Board of Directors increasing the number of Class A shares that may be issued followed the exercise of options granted or to be granted under the plan from 8,242,776 to 10,698,780 Class A shares. This amendment is subject to the approval by the Company's shareholders at the Annual General and Special Meeting of Shareholders to be held on December 12, 2007.

**Health Canada Establishment Licence and DIN Delivered for SyMa's Azuro Products — FDA Authorization to Market its Products in the United States — Signature of Two Agreements with New Clients** — In November 2007, SyMa was issued a Health Canada establishment licence and DIN (drug identification number) for all its products, more specifically the Azuro medical (70% alcohol and 0.5% chlorhexidine gluconate) — allowing it to sell them in healthcare institutions across Canada. It also received FDA authorization to market its Azuro™ products in the United States. In addition, SyMa entered into an agreement with METRO INC., under which it will supply its line of Azuro™ products to the METRO and METRO Plus supermarkets as well as the Super C discount supermarkets, representing more than 280 stores operating in Quebec. It also signed a three-year agreement with the Fédération des Caisses Desjardins du Québec, whereby it will supply its line of Azuro™ products to the network of Desjardins credit unions and their service centres, representing more than 1,400 Desjardins branches across Canada.

**Exercise of Warrants** — In October and November 2007, 675,000 warrants from the 1<sup>st</sup> June, 2007 offering were exercised, representing a proceeds of \$2.3 million.

## **Principal Quarterly Financial Information (Unaudited)**

(in thousands of \$, except per-share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2008</b>				
Revenues	2,802			
Net loss	(2,195)			
Comprehensive loss	(2,298)			
Loss per Class A share (basic and diluted)	(0.04)			
<b>Fiscal 2007</b>				
Revenues	2,887	3,474	3,440	3,044
Net loss	(358)	(340)	(1,602)	(2,323)
Loss per Class A share (basic and diluted)	(0.01)	(0.01)	(0.04)	(0.05)
<b>Fiscal 2006</b>				
Revenues	1,293	1,809	1,807	2,757
Net loss	(300)	(568)	(354)	(1,274)
Loss per Class A share (basic and diluted)	(0.01)	(0.02)	(0.01)	(0.04)

## **Operating Results**

### **Analysis of Consolidated and Segmented Operating Results for the First Quarter Ended September 30, 2007 Compared to the First Quarter Ended September 30, 2006**

#### ***Consolidated and Segmented Revenues***

Quarters Ended September 30,	2007	2006
<b>Revenues (\$)</b>		
ECM	<b>1,242,654</b>	1,305,939
BLI	<b>1,507,266</b>	1,581,415
Noveko Inc. and SyMa	<b>52,428</b>	-
<b>Consolidated</b>	<b>2,802,348</b>	2,887,354

For the first quarter ended September 30, 2007, **consolidated revenues** decreased slightly from the corresponding period of the previous year. ECM achieved satisfactory revenues for the quarter, despite a slight decline due mainly to less favourable conditions in the hog market. Furthermore, in recent months, ECM has focused on preparing for the launch of its new products, specifically an ultrasound scanner for veterinary medicine, and two ultrasound scanners for veterinary and human medicine whose features will enable it to strengthen its leadership worldwide in veterinary medicine and to develop the human medicine market with high-end platforms. BLI's revenues amounted to \$1.5 million, down slightly due primarily to the revision of its pricing strategy for its cutting service; during the period nevertheless, BLI won orders from new clients that should be reflected in revenues in upcoming periods.

As indicated in the *Highlights* section, in August 2007, Noveko Inc. won its first orders of antimicrobial face masks for \$2.3 million and of antimicrobial air filters for \$0.4 million. These sales were not recognized in the first quarter as these products are being manufactured and the deliveries are expected to be completed early in 2008. The revenues of \$52,428 posted under Noveko Inc. and SyMa represent the two-month contribution of SyMa acquired on July 26, 2007.

**Selling and administrative expenses** more than doubled to \$2.3 million due to the following main factors:

- the expenses related to the accelerated marketing of the derivative products from the antimicrobial filtration technology, specifically antimicrobial face masks and air filters; and
- the hiring of specialized resources at different levels of responsibility at head office as well as sales agents in the subsidiaries, notably in anticipation of the launch of new products.

In addition, **stock-based compensation** represented an expense of \$0.6 million for the first quarter, as opposed to a nil amount for the comparable period of 2006.

Quarters Ended September 30,	2007	2006
<b>Earnings (loss) before amortization, financial expenses and income taxes (\$)</b>		
ECM	(151,312)	207,939
BLI	84,760	182,315
Noveko Inc. and SyMa	(614,706)	-
Other	(1,270,637)	(241,514)
<b>Total</b>	<b>(1,951,895)</b>	<b>148,740</b>

Considering these factors, Noveko recorded an **operating loss before amortization, financial expenses and income taxes** of \$2.0 million, compared with EBITDA of \$148,838 for the first quarter ended September 30, 2006. The subsidiary BLI posted EBITDA of approximately \$0.1 million for the period, compared with EBITDA of approximately \$0.2 million for the corresponding quarter of the previous year.

Quarters Ended September 30,	2007	2006
<b>Amortization (\$)</b>		
ECM	35,534	58,264
BLI	133,991	220,009
Noveko Inc. and SyMa	51,247	14,424
Other	13,976	-
<b>Total</b>	<b>234,748</b>	<b>292,697</b>

**Amortization expenses** amounted to \$0.2 million, down from \$0.3 million in the same period a year earlier. This decrease is due mainly to the writedown of some of BLI's assets and the fact that the development expenses related to the products of ECM's Agroscan line had already been fully amortized whereas no amortization was recognized for the newly designed platforms currently being marketed.

**Financial expenses** declined by about \$0.2 million to approximately \$0.1 million, due primarily to investment income of close to \$0.2 million for the period and a reduction in indebtedness.

Quarters Ended September 30,	2007	2006
<b>Net loss (\$)</b>		
ECM	<b>(213,429)</b>	49,422
BLI	<b>(68,115)</b>	(20,110)
Noveko Inc. and SyMa	<b>(633,194)</b>	(14,424)
Other	<b>(1,280,339)</b>	(373,220)
<b>Total</b>	<b>(2,195,077)</b>	(358,332)
<b>Comprehensive loss</b>	<b>(2,298,433)</b>	(401,643)

The **net loss** amounted to \$2.2 million, compared with a net loss of \$0.4 million for the first quarter of the previous year. Considering a net change in unrealized losses on the translation of financial statements of self-sustaining foreign operations of \$0.1 million for the first quarter ended September 30, 2007 and of \$43,311 for the first quarter ended September 30, 2006, a net loss of \$2.3 million represents comprehensive loss for the period ended September 30, 2007, compared with comprehensive loss of \$0.4 million for the quarter ended September 30, 2006 (the reader is referred to note 2(a) *Comprehensive Income* accompanying the financial statements contained in this Interim Report).

The **loss per Class A share (basic and diluted)** amounted to \$0.04 on a weighted average of 51,697,758 outstanding shares (basic and diluted), compared with a loss per share of \$0.01 on 39,788,230 shares in the same period a year earlier. The increased weighted average number of outstanding shares is due to the various share issues over the past 12 months, as described in detail in note 8 ("Capital Stock") accompanying the financial statements.

**FINANCIAL POSITION****Analysis of Principal Cash Flows for the First Quarter Ended September 30, 2007**

Quarters Ended September 30,	2007	2006
<b>Operating activities (\$)</b>		
Net loss	<b>(2,195,077)</b>	(358,332)
Adjustments for future income taxes, accreted interest on debentures, stock-based compensation, amortization, foreign exchange loss and loss on fair value of short-term investments	<b>907,971</b>	289,905
Net change in non-cash working capital	<b>(626,654)</b>	(612,791)
<b>Total</b>	<b>(1,913,760)</b>	(681,218)
<b>Financing activities</b>	<b>82,984</b>	667,143
<b>Investing activities</b>	<b>(902,904)</b>	(202,527)
Foreign exchange gain (loss) on cash in foreign currencies	<b>(11,908)</b>	(11,875)
<b>Decrease in cash and cash equivalents</b>	<b>(2,745,588)</b>	(228,477)
<b>Cash and cash equivalents, end of period</b>	<b>(77,094)</b>	397,617

**Operating activities**, after net change in non-cash working capital, used cash flows of \$1.9 million, compared with \$0.7 million in the first quarter ended September 30, 2006. This change is due primarily to the increase in the net loss, less the adjustments in stock-based compensation, accreted interest on secured convertible debentures, amortization, loss on fair value of short-term investments and net change in non-cash working capital. The net change in non-cash working capital amounted to \$0.6 million, remaining at the same level as in the first quarter ended September 30, 2006.

**Financing activities** provided cash flows of \$82,984, compared with \$0.7 million for the corresponding quarter of the previous year. This change is due mainly to the fact that during the period, the Company issued Class A shares for proceeds of \$0.4 million, whereas the proceeds from its Class A share issue totaled over \$0.8 million in the first quarter ended September 30, 2006. In addition, bank indebtedness increased by \$73,444 during the quarter, versus \$0.3 million in the first quarter last year. The Company paid interest of \$56,747 on secured convertible debentures, compared with \$68,288 for the same period a year earlier, due to the fact that an amount of \$1.3 million of debentures was converted into Class A shares. Share issuance fees increased to \$25,090, compared with \$5,398 for the first quarter the previous year. Finally, the Company made a net principal repayment on long-term debt of \$0.3 million.

**Investing activities** used cash flows of \$0.9 million, including a cash payment of \$0.5 million for the acquisition of Laboratoire SyMa Inc. A consideration of \$1.3 million was allocated to the purchase of a building housing the head office as well as office equipment and information technology. In addition, the Company recorded short-term investments for an amount of \$1.0 million.

Also considering a \$11,908 foreign exchange loss on cash in foreign currencies, the period's aggregate cash inflows and outflows used net cash flows of \$2.7 million, whereas cash inflows and outflows for the first quarter of the previous year used net cash flows of \$0.2 million. Noveko ended the first quarter with a cash and cash equivalents deficiency of \$77,094, as opposed to cash of \$0.4 million as at September 30, 2006.

#### **Balance Sheet Analysis as at September 30, 2007**

##### **Summary Balance Sheet (\$)**

	<b>As at September 30, 2007</b>	As at June 30, 2007
Current assets	<b>23,581,370</b>	26,321,742
Long-term assets	<b>23,610,193</b>	15,921,281
Total	<b>47,191,563</b>	42,243,023
Current liabilities	<b>6,852,337</b>	6,329,012
Long-term liabilities	<b>8,172,832</b>	8,562,832
Shareholders' equity	<b>32,166,394</b>	27,351,179
Total	<b>47,191,563</b>	42,243,023

The changes in Noveko's financial position between June 30, 2007 and September 30, 2007 mainly reflect the period's results, the purchase of a building for a consideration of \$1.2 million and the acquisition of all the issued and outstanding shares of Laboratoire SyMa Inc., concluded on July 26, 2007. In addition to a cash consideration of \$0.5 million, this acquisition was settled by the issue of 745,156 Class A shares for a value of over \$4.9 million.

These transactions explain the increase in fixed assets, intangible assets and goodwill over June 30, 2007, as described in detail in note 3 accompanying the financial statements contained in this Interim Report.

As at September 30, 2007, **total assets** amounted to \$47.2 million, up by 11.7% or \$4.9 million over June 30, 2007. **Working capital** totaled \$16.7 million for a current ratio of 3.4:1 as at September 30, 2007, compared with \$20.0 million and a 4.2:1 ratio as at June 30, 2007.

As at September 30, 2007, **shareholders' equity** amounted to \$32.2 million, up from \$27.4 million as at June 30, 2007, primarily reflecting the increase of approximately \$7.0 million in capital stock subsequent to the share issues and of \$0.3 million in contributed surplus, less the increase of \$2.2 million in the period's deficit and of \$0.1 million in other comprehensive income, in conformity with the accounting standards adopted on July 1, 2007.

### Indebtedness (\$)

	<b>As at September 30, 2007</b>	As at June 30, 2007
Bank advances and bank loans	<b>155,818</b>	18,287
Current portion of long-term debt	<b>626,567</b>	801,029
Long-term debt	<b>3,203,623</b>	3,158,442
Secured convertible debentures	<b>2,977,231</b>	4,389,576
<b>Total debt</b>	<b>6,963,239</b>	8,367,334

Considering the period's debt repayments, **long-term debt including the current portion** totaled \$3.8 million as at September 30, 2007, compared with \$4.0 million as at June 30, 2007. **Total interest-bearing debt** (consisting of bank advances and bank loans, current portion of long-term debt, long-term debt and secured convertible debentures) amounted to \$7.0 million as at September 30, 2007, compared with \$8.4 million as at June 30, 2007, a decrease of \$1.4 million reflecting the \$1.4 million decline in debentures from June 30, 2007, due mainly to the conversion of approximately \$1.4 million in debentures into Class A shares.

## **Capital Stock Information**

During the first quarter ended September 30, 2007, the Company issued 745,156 Class A shares for a total of \$4,932,933 in consideration of the acquisition of all the issued and outstanding shares of Laboratoire SyMa Inc.

Noveko also issued 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, as well as 76,000 Class A shares subsequent to the exercise of 76,000 complete warrants for a cash consideration of \$76,000 and a transfer of \$30,400 from warrants.

In addition, the Company issued 1,547,728 Class A shares subsequent to the exercise of the conversion right of \$1,362,000 of convertible debenture. Amounts of \$1,228,655 and \$183,718 were transferred from the secured convertible debentures and from the portion of secured convertible debentures included in equity, respectively.

Considering these issues, Noveko's capital stock consisted of 53,329,503 Class A shares as at September 30, 2007, compared with 50,615,881 as at June 30, 2007.

### ***Escrowed Shares:***

In accordance with the requirements of the TSX Venture Exchange Inc., all of the 7,000,000 Class A shares issued for the acquisition of Lapjack (Canada) Ltd. were held in escrow under a securities escrow agreement. Under the terms of the agreement, 10% of the Class A shares held in escrow were released upon publication of the Final Exchange Bulletin and 15% of the additional Class A shares will be issued at six-month intervals in the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 30 and 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.

## **Other Contractual Commitments**

As at September 30, 2007, the balance of contractual commitments under the terms of operating leases for premises maturing in 2010 amounted to \$0.4 million. Minimum lease payments over each of the next two years are as follows:

2008: \$229,387  
2009: \$187,900

The Company is also committed to pay to a corporate shareholder exercising significant influence a quarterly royalty which represents the lower of \$45,000 or 25% of consolidated cash flows from operating activities if these cash flows exceed \$6,000,000. Under the terms of the agreement, the Company will continue to pay the royalties up to a maximum of \$520,000.

Under the terms of a three-year service agreement, the Company is committed to pay fees to a research and development subcontractor until October 21, 2007. An amount of \$84,000 will be paid during the fiscal year that will end on June 30, 2008. Finally, the Company is committed to pay a quarterly royalty of 1% of the gross revenues generated by the patent obtained in connection with the acquisition of BLI.

### **Related-Party Transactions**

During the first quarter ended September 30, 2007, the Company paid interest in the amount of \$819 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 by the related parties.

On July 17, 2007, the Company acquired a building from a company whose 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 independent real estate appraiser. The acquisition was settled by a cash consideration of \$1,200,000.

### **Litigation**

Besides the litigation for an outstanding doubtful account in Lebanon, an action has been instituted against the Company, the outcome of which is currently impossible to evaluate. A corporate shareholder has guaranteed any amounts payable up to a maximum of \$2.0 million in the event of an unfavorable judgment. Noveko's management is of the opinion that the suit is unfounded.

### **Requirements and Sources of Funds in 2007-2008**

During fiscal 2007, Noveko focused significant efforts on arranging the financing needed for its 2008 growth by way of several issues and private placements. It expanded its investor base and increased its market capitalization more than tenfold, to \$225.2 million as at June 30, 2007. In addition, the exercise of the warrants and broker warrants issued on June 1<sup>st</sup>, 2007 should generate funds of \$17.6 million by the end of May 2009. As at November 29, 2007, 675,000 warrants were exercised. The funds raised in 2007 by way of private placements will be used primarily for intensified antimicrobial face mask and air filter marketing initiatives, product development, new R&D programs, the safeguarding of patents and working capital.

The Company plans to actively pursue its revenue growth, to improve its net earnings and to generate increased cash flows for the fiscal year ending June 30, 2008. The subsidiaries ECM and BLI should make a satisfactory contribution to internal growth in upcoming periods, considering the sustained market development efforts and planned marketing of new products that will meet existing demand. For its part, Noveko Inc. is finalizing a targeted business strategy and intensifying its initiatives to solidly establish its distribution networks and new strategic alliances in order to profit from the great potential of its antimicrobial product lines worldwide.

## **Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The President and Chief Executive Officer and the Chief Financial Officer have assessed the effectiveness of the Company's disclosure controls and procedures as at September 30, 2007, in accordance with the requirements of *Multilateral Instrument 52-109* of the Canadian Securities Administrators. They have concluded that, considering the Company's rapid development, there are certain deficiencies in the disclosure controls and procedures at the level of information technology and access control management. The Company intends to efficiently manage its accesses and to see to the adequate breakdown of tasks in the review of its new financial reporting processes. Furthermore, the Company has now strengthened its internal accounting team

Internal control over financial reporting is designed to provide reasonable assurance as to the reliability of financial reporting and the preparation of financial statements. The President and Chief Executive Officer and the Chief Financial Officer are nevertheless of the opinion that the design of these controls and procedures provides reasonable assurance that material information relating to the Company is made known to them, particularly during the periods in which the financial information is prepared for the publication and filing of annual documents.

## **Risks and Uncertainties**

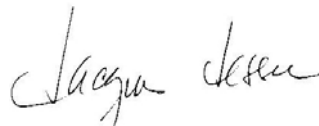
The risks and uncertainties described in the Annual Report as at June 30, 2007 remain unchanged. The reader is requested to refer thereto for the complete statement.

## **Supplementary Information**

Supplementary information about the Company is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).



(signed) **ANDRÉ LEROUX**  
Chairman of the Board and  
Chief Executive Officer



(signed) **JACQUES TESSIER**  
Vice-President and  
Chief Financial Officer

November 29, 2007