

Consolidated interim financial statements of
(unaudited)

NOVEKO INTERNATIONAL INC.

Periods ended December 31, 2009 and 2008

NOVEKO INTERNATIONAL INC.

Consolidated interim financial statements
(unaudited)

Periods ended December 31, 2009 and 2008

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NOVEKO INTERNATIONAL INC.

Consolidated balance sheets

As at December 31, 2009 and June 30, 2009

	December 31 2009	June 30 2009
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,960,373	\$ 937,319
Deposit in trust	65,440	70,900
Short-term investments	9,144,475	3,702,958
Accounts receivable	5,236,328	3,845,527
Inventories	9,289,940	7,288,071
Prepaid expenses	936,738	734,777
Current portion of assets held for sale (note 4)	1,567,249	1,998,371
	28,200,543	18,577,923
Fixed assets	3,803,738	4,124,110
Intangible assets	9,252,561	10,041,542
Other assets	1,279,607	1,198,345
Future income taxes	19,424	82,691
Goodwill (note 7)	12,521,630	13,035,189
Non-current portion of assets held for sale (note 4)	3,626,566	3,836,738
	\$ 58,704,069	\$ 50,896,538
Liabilities and shareholders' equity		
Current liabilities:		
Bank loans	\$ 276,563	\$ 162,970
Accounts payable and accrued liabilities	4,030,369	2,552,279
Current portion of secured convertible debentures	-	964,710
Current portion of long-term debt	564,850	754,584
Current portion of liabilities held for sales (note 4)	1,808,058	2,126,397
	6,679,840	6,560,940
Long-term debt	1,261,296	1,455,182
Secured convertible debentures	85,313	825,117
Future income taxes	1,372,253	1,644,474
Non-current portion of liabilities held for sales (note 4)	1,864,995	1,924,217
Shareholders' equity:		
Capital stock (note 8)	95,931,823	80,768,629
Portion of secured convertible debentures included in equity	23,906	372,473
Warrants (note 10)	2,862,400	-
Contributed surplus	22,093,143	18,718,376
Accumulated other comprehensive loss (note 11)	(884,234)	(166,928)
Deficit	(72,586,666)	(61,205,942)
	47,440,372	38,486,608
	\$ 58,704,069	\$ 50,896,538

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD,

(signed) *André Leroux*, Director

(signed) *Léon Assayag*, Director

NOVEKO INTERNATIONAL INC.

Consolidated statements of operations

Six and three month periods ended December 31, 2009 and 2008
(unaudited)

	Three months 2009		2008		Six months 2009		2008	
Revenues	\$	4,978,873	\$	3,908,306	\$	9,475,019	\$	6,180,355
Cost of sales		3,051,981		2,141,207		5,345,191		3,217,466
		1,926,892		1,767,099		4,129,828		2,962,889
Operating expenses:								
Administrative and selling expenses		4,236,451		3,861,412		8,009,836		7,499,812
Stock-based compensation		1,315,057		3,207,094		2,566,362		6,263,917
Research and development		552,355		163,952		795,425		488,665
Research and development tax credits		(189,836)		(384,341)		(298,413)		(404,341)
		5,914,027		6,848,117		11,073,210		13,848,053
Loss before amortization, financial fees, income taxes, other element and discontinued operations		(3,987,135)		(5,081,018)		(6,943,382)		(10,885,164)
Amortization (note 5)		567,873		600,995		1,130,746		920,664
Financial expenses less investment revenues (note 5)		509,346		985,290		830,129		1,282,016
Goodwill impairment charge adjustment (note 7)		(69,700)		-		(69,700)		-
		1,007,519		1,586,285		1,891,175		2,202,680
Loss before income taxes		(4,994,654)		(6,667,303)		(8,834,557)		(13,087,844)
Income taxes:								
Current (recovered)		47,031		113,896		99,961		(8,846)
Future		(78,400)		(41,035)		(160,344)		(58,327)
		(31,369)		72,861		(60,383)		(67,173)
Net loss from continuing operations		(4,963,285)		(6,740,164)		(8,774,174)		(13,020,671)
Net loss from discontinued operations (note 4)		(45,382)		(201,138)		(373,825)		(459,761)
Net loss	\$	(5,008,667)	\$	(6,941,302)	\$	(9,147,999)	\$	(13,480,432)
Basic and diluted loss per share:								
From continuing operations	\$	(0.07)	\$	(0.10)	\$	(0.12)	\$	(0.19)
From discontinued operations	\$	(0.00)	\$	(0.00)	\$	(0.01)	\$	(0.01)
Net loss	\$	(0.07)	\$	(0.10)	\$	(0.13)	\$	(0.20)
Weighted average number of outstanding shares, basic and diluted		74,911,651		66,886,157		71,094,158		66,214,199

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Six and three month periods ended December 31, 2009 and 2008
(unaudited)

	Three months		Six months	
	2009	2008	2009	2008
Net loss	\$ (5,008,667)	\$ (6,941,302)	\$ (9,147,999)	\$ (13,480,432)
Other comprehensive income, net of income taxes:				
Change in unrealized losses on translation of financial statements of self-sustaining foreign operations	(440,065)	1,435,062	(717,306)	1,017,250
Comprehensive loss	\$ (5,448,732)	\$ (5,506,240)	\$ (9,865,305)	\$ (12,463,182)

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Six-month periods ended December 31, 2009 and 2008
(unaudited)

	December 31 2009	December 31 2008
DEFICIT		
Deficit, beginning of period	\$ (61,205,942)	\$ (29,323,571)
Restatement related to the adoption of new accounting policies (note 2)	-	49,243
Restated balance	(61,205,942)	(29,274,328)
Net loss	(9,147,999)	(13,480,432)
Share issuance fees	(2,232,725)	(56,000)
Deficit, end of period	\$ (72,586,666)	\$ (42,810,760)
CONTRIBUTED SURPLUS		
Contributed surplus, beginning of period	\$ 18,718,376	\$ 7,967,778
Fair value of stock options granted	2,566,362	6,277,917
Fair value of options granted to the agents (note 8 c) iii))	891,737	-
Fair value of stock options exercised	(83,332)	(244,000)
Contributed surplus, end of period	\$ 22,093,143	\$ 14,001,695

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of cash flows

Six and three months periods ended December 31, 2009 and 2008
(unaudited)

	Three months 2009		2008		Six months 2009		2008	
Cash flows from operating activities:								
Net loss	\$	(5,008,667)	\$	(6,941,302)	\$	(9,147,999)	\$	(13,480,432)
Adjustments for:								
Loss from discontinued operations		45,382		201,138		373,825		459,761
Future income taxes		(78,400)		(41,035)		(160,344)		(58,327)
Accreted interest on secured convertible debentures		9,279		63,721		64,700		137,310
Stock-based compensation		1,315,057		3,207,094		2,566,362		6,263,917
Loss (gain) on disposal of fixed assets		(1,346)		(7,231)		5,937		(7,231)
Amortization		567,873		600,995		1,130,746		920,664
Loss on fair value of short-term investments		-		(78,171)		11,676		(2,821)
Unrealized gains on foreign denominated contracts		-		(549,305)		-		(549,305)
Foreign exchange loss (gain)		17,983		2,733		17,129		(545)
Adjustment from discontinued operations		242,179		108,249		445,767		(375,685)
		(2,890,660)		(3,433,114)		(4,692,201)		(6,692,694)
Net change in non-cash working capital		(1,985,187)		(4,099,930)		(2,239,997)		(4,603,231)
		(4,875,847)		(7,533,044)		(6,932,198)		(11,295,925)
Cash flows from financing activities:								
Net changes in bank loan		144,802		(554,937)		144,802		(642,496)
Increase in long-term debt		30,000		-		60,000		-
Repayment of long-term debt		(180,509)		(126,119)		(359,155)		(227,190)
Interest paid on secured convertible debentures		(7,763)		(39,748)		(40,886)		(86,164)
Proceeds from Class A shares and warrants issued		15,792,868		348,000		15,865,366		3,939,575
Class A shares issue expenses		(1,340,988)		-		(1,340,988)		(12,800)
Cash flows from discontinued operations		(146,172)		(1,358)		(259,274)		218,837
		14,292,238		(374,162)		14,069,865		3,189,762
Cash flows from investing activities:								
Business acquisitions		-		(108,846)		-		(5,906,797)
Acquisition of short-term investments		(12,000,000)		(29,589,165)		(12,090,000)		(54,305,532)
Proceeds from disposal of short-term investments		4,001,836		37,526,590		6,636,261		57,755,393
Acquisition of fixed assets		(83,183)		(222,429)		(133,424)		(496,579)
Proceeds from disposal of fixed assets		16,020		8,859		28,186		8,859
Acquisition of intangible assets		(165,992)		(169,181)		(203,770)		(276,041)
Acquisition of other assets		(49,015)		-		(44,400)		-
Deposit in trust		1,480		(8,900)		5,460		(2,135)
Deferred development costs, net of related research tax credits received		(95,263)		(86,671)		(179,129)		(171,217)
Cash flows from discontinued operations		(11,773)		-		(11,773)		(8,755)
		(8,385,890)		7,350,257		(5,992,589)		(3,402,804)
Foreign exchange loss on cash in foreign currencies								
		(71,629)		79,425		(122,024)		54,101
Increase (decrease) in cash and cash equivalents		958,872		(477,524)		1,023,054		(11,454,866)
Cash and cash equivalents, beginning of period		1,001,501		616,993		937,319		11,594,335
Cash and cash equivalents, end of period	\$	1,960,373	\$	139,469	\$	1,960,373	\$	139,469

Cash flows related to operating activities include interest paid for \$62,109 (\$2,948 in 2008) and income taxes received for \$261,330 (\$99,853 in 2008).

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

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

- Noveko™ **antimicrobial surgical masks and respirators** derived from its patented antimicrobial air filtration technology targeted to the healthcare sector, institutions and general public ("masks");
- Air **filtration products** including Noveko™ antimicrobial filters derived from its patented antimicrobial air filtration technology targeted to the agricultural market, the transportation industry, the institutional market, and commercial and residential buildings, as well as EPURAIR™ air quality systems ("filtration");
- **Sanitizers** with antimicrobial properties, geared to the same markets as the antimicrobial masks ("sanitizers");
- **Medical equipment**, primarily real-time ultrasound scanners for use in human and veterinary medicine, along with medical equipment import and distribution activities ("medical equipments");
- **Other activities**, essentially management marketing services offered to pharmaceutical, over-the-counter drug and medical device manufacturers and distributors, and, additionally, the activities of the parent company, Noveko International Inc., and of Noveko Trading 2008, LLC ("other").

1. Financial statements disclosure:

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"). 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, 2009. 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:

a) For the period ended December 31, 2009:

Effective July 1st, 2009, The Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 3064 "Goodwill and Intangible assets" which provides guidance on the recognition of intangible assets and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This new recommendation, which replace Section 3062, had no impact on the Company's financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

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

b) For the year ended June 30, 2009:

Effective July 1st, 2008, the Company adopted new accounting recommendations from the CICA, Handbook Section 1400 "General standards of financial statement presentation", Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments – Disclosure", and Section 3863 "Financial Instruments – Presentation".

Section 1400 "General standards of financial statement presentation", was amended to require management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern. Any material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern must be disclosed. Management does not believe that there are any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Section 1535 specifies the requirements for the disclosure of both qualitative and quantitative information that enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital (see note 12).

Section 3031 "Inventories", provides more extensive guidance on the recognition and measurement of inventories, and related disclosures. In accordance with the transition rules of this new section, the Company has adjusted opening retained earnings as if the new rules had always been applied in the past, without however restating comparative figures for prior years. Accordingly, the following adjustments were recorded in the consolidated financial statements as of July 1st, 2008:

- \$49,243 increase in inventories
- \$49,243 decrease of the deficit

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation". These new recommendations relate only to disclosure requirements and have no impact on the Company's financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

3. Future changes in accounting policies:

- a) In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian Generally Accepted Accounting Principles, as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period to be completed by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will convert to these new standards according to the timetable set with these rules and will closely monitor changes arising from this convergence.

In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after July 1, 2011, although this transition date will require the restatement of comparative figures reported for the year ending June 30, 2011. Management has established an IFRS implementation team to develop a changeover plan. This process is currently at the stage of diagnostic, which includes a review of the differences between current Canadian GAAP (as applied by the Company) and IFRS and the analysis of possible options regarding adoption. During the period ended December 31, 2009, a preliminary diagnostic analysis was prepared by external consultants. Management is determining the impact of the changeover and assessing the changes to be made to accounting principles and computer systems, training requirements, internal control mechanisms for financial reporting and the repercussions on the Company's business activities

- b) In January 2009, the CICA issued Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements", and 1602 "Non-controlling Interests".

Section 1582 will converge with IFRS 3 "Business Combinations". Section 1602 will converge with the requirements of IAS 27 "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600 "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

3. Future changes in accounting policies (cont'd):

b) Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective for interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

4. Discontinued operations and assets held for sale:

During the year ended June 30, 2009, the Company committed to a plan to pursue the sale of its subsidiary Bolduc Leroux Inc. and discontinued this segment of business since BLI's activities no longer fit with the Company's commercial objectives. Consequently, the operating results, cash flows, assets and liabilities of this segment have been reclassified and presented distinctly and comparative figures of the three and six-month periods ended December 31, 2008 were adjusted accordingly. The Company recorded a loss of \$935,395 on the prospective sale of this subsidiary at June 30, 2009.

The following tables summarize the additional financial information related to the discontinued operations as at December 31, 2009 and December 31, 2008:

Condensed statement of operations:

	Three months		Six months	
Revenues	\$ 922,539	\$ 1,660,241	\$ 1,790,566	\$ 3,665,288
Costs of sales	649,338	1,154,897	1,490,001	2,907,390
	273,201	505,344	300,565	757,898
Operating costs	147,100	376,053	297,944	747,136
Amortization	126,226	151,028	252,109	290,350
Financial fees	45,257	61,113	124,337	122,299
Income taxes	-	118,288	-	57,874
	318,583	706,482	674,390	1,217,659
Loss from discontinued operations	\$ 45,382	\$ 201,138	\$ 373,825	\$ 459,761

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

4. Discontinued operations and assets held for sale (cont'd):

Condensed balance sheet:

	December 31 2009		June 30 2009	
Assets held for sale:				
Accounts receivable	\$	534,037	\$	643,942
Inventories		1,000,620		1,291,587
Prepaid expenses		32,592		62,842
Current assets held for sale		1,567,249		1,998,371
Fixed assets		3,315,784		3,479,234
Intangible assets		310,782		357,504
Non-current assets held for sale	\$	3,626,566	\$	3,836,738
Liabilities held for sale:				
Bank advances	\$	1,142,157	\$	1,341,471
Accounts payable and accrued liabilities		441,492		559,780
Current portion of long-term debt		224,409		225,146
Current liabilities held for sale		1,808,058		2,126,397
Long-term debt		1,864,995		1,924,217
Non-current liabilities held for sale	\$	1,864,995	\$	1,924,217
Net assets held for sale	\$	1,520,762	\$	1,784,495

Condensed cash flows:

	Three months		Six months	
Cash flows from operating activities	\$	242,179	\$	108,249
Cash flows from financing activities		(146,172)		(1,358)
Cash flows from investing activities		(11,773)		-
	\$	84,234	\$	106,891
		\$	\$	(375,685)
		(259,274)		218,837
		(11,773)		(8,755)
	\$	174,720	\$	(165,603)

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

5. Information on operations:

	Three months		Six months	
	2009	2008	2009	2008
a) Amortization:				
Amortization of fixed assets	\$ 128,458	\$ 99,507	\$ 256,234	\$ 193,319
Amortization of intangible assets	361,769	430,827	725,694	590,418
Amortization of deferred development costs	76,880	70,321	147,761	136,367
Amortization of deferred costs	766	340	1,057	560
	\$ 567,873	\$ 600,995	\$ 1,130,746	\$ 920,664
b) Financial expenses:				
Interest on long-term debt	\$ 14,065	\$ 26,203	\$ 39,141	\$ 60,736
Accreted interests on secured convertible debentures	9,279	63,029	64,700	136,618
Interest on bank loan and bank charges	10,164	21,593	36,426	36,904
Foreign exchange loss	503,530	(537,938)	738,303	(355,114)
Loss on fair value of short-term investments	-	(78,171)	11,676	(2,821)
Loss on currency contracts	-	1,606,630	-	1,683,293
Investment revenues	(27,692)	(116,056)	(60,117)	(277,600)
	\$ 509,346	\$ 985,290	\$ 830,129	\$ 1,282,016

6. Non-cash activities:

	December 31		June 30	
	2009		2009	
Conversion of convertible debentures into Class A shares	\$ 2,076,896	\$	\$ 1,014,017	
Issuance of 1,356,800 Class A shares in partial consideration of business acquisitions	\$ -	\$	\$ 5,265,100	
Issuance of 16,800 Class A shares in consideration of fees paid for the acquisition of SARL Noveko Algérie	\$ -	\$	\$ 64,680	
Acquisition of fixed assets in consideration of an obligation under capital leases	\$ -	\$	\$ 129,040	

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

7. Goodwill:

	December 31, 2009					
	Masks	Filtration	Sanitizers	Medical equipment	Others	Total
Balance, beginning of period	\$ -	\$ 2,635,207	\$ 5,196,559	\$ 2,454,551	\$ 2,748,872	\$ 13,035,189
Business acquisitions	-	-	-	-	-	-
Goodwill impairment charge adjustment	-	-	-	69,700	-	69,700
Foreign currency translation adjustments	-	(111,461)	-	(471,798)	-	(583,259)
Balance, end of period	\$ -	\$ 2,523,746	\$ 5,196,559	\$ 2,052,453	\$ 2,748,872	\$ 12,521,630

	June 30, 2009					
	Masks	Filtration	Sanitizers	Medical equipment	Others	Total
Balance, beginning of period	\$ -	\$ -	\$ 5,196,559	\$ 5,762,809	\$ 2,748,872	\$ 13,708,240
Business acquisitions	-	2,733,648	-	260,957	-	2,994,605
Goodwill impairment charges	-	-	-	(3,600,000)	-	(3,600,000)
Foreign currency translation adjustments	-	(98,441)	-	30,785	-	(67,656)
Balance, end of period	\$ -	\$ 2,635,207	\$ 5,196,559	\$ 2,454,551	\$ 2,748,872	\$ 13,035,189

When the Company initiated its step-one analysis as at June 30, 2009, it was determined that a comprehensive step-two analysis of goodwill for a business unit included in the medical equipment segment (ECM) would be required. Based on a preliminary assessment of the estimated fair value of the net asset of the business unit under review, management estimated that as at June 30, 2009, the fair value of the goodwill in the medical equipment segment amounts to \$2,454,551. Accordingly, as required by CICA Handbook Section 3062, in anticipation of completing the comprehensive step-two analysis of goodwill, the Company has recorded a goodwill impairment charge of \$3,600,000 in its financial statements at June 30, 2009.

With the assistance of an independent valuator, the Company has conducted a comprehensive assessment including a detailed calculation of the estimated fair values of recorded and unrecorded fixed and intangible assets of this business unit.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

7. Goodwill (cont'd):

The final impairment calculation has been completed by the Company during the period ended December 31, 2009 and the resulting final non cash adjustment, is a reduction of the preliminary impairment charge recorded during the prior year of \$69,700 recorded to the consolidated statement of operations during this period. This impairment reflects market conditions related to ECM, primarily the economic slowdown and the restructuring periods under way in the swine and bovine industries

8. Capital stock:

a) Authorized:

On December 31, 2009, the authorized capital stock includes the following:

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

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

b) Issued:

	As at December 31 2009	As at June 30 2009
75,915,912 Class A shares (67,058,693 as at June 30, 2009)	\$ 95,931,823	\$ 80,768,629

c) Transactions during the six-month period ended December 31, 2009:

- i) Issuance of 126,665 Class A shares following the exercise of 126,665 stock options for a cash consideration of \$122,166 and a transfer of \$83,332 from contributed surplus.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

8. Capital stock(cont'd):

c) Transactions during the six-month period ended December 31, 2009 (cont'd):

- ii) Issuance of 1,574,554 Class A shares following the exercise of conversion right of \$1,187,414 of convertible debentures. Amounts of \$1,728,329 and of \$348,567 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity.

- iii) Issuance of 7,156,000 units for a total amount of \$15,743,200 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 \$3.00 per share, for a period of 36 months following its issuance. A value of \$2,862,400 was attributed to the warrants granted, and the difference of \$12,880,800 was recorded in the capital stock.

Simultaneously with the issuance of the 7,156,000 units, the Company granted 490,571 agent's options to the brokers allowing the purchase of 490,571 Class A shares and 245,285 warrants at a weighted average price of \$2.58 per unit until October 2012. A value of \$891,737 was attributed to the share issuance fees and the difference was recorded to the contributed surplus.

The granted agent's options weighted average is \$2.22. The fair value was estimated at the date on which the options were granted by using the Black-Scholes' options pricing model with the following assumptions:

	December 31 2009
Weighted average expected dividend rate	Nil
Weighted average expected volatility	104 %
Weighted average risk-free interest rate	1.93 %
Weighted average expected life of options	36 months

As of December 31, 2009, no agent's options were exercised.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

8. Capital stock (cont'd):

d) Transactions during the year ended June 30, 2009:

- i) Issuance of 500,000 Class A shares for a total amount of \$1,976,500, in consideration of the acquisition of all the outstanding shares of Unitam International Management Corporation Inc.
- ii) Issuance of 240,000 Class A shares for a total amount of \$921,120, in consideration of the acquisition of all the outstanding shares of SARL Noveko Algérie.
- iii) Issuance of 16,800 Class A shares for a total amount of \$64,680, in consideration of fees paid for the acquisition of all the outstanding shares of SARL Noveko Algérie.
- iv) Issuance of 600,000 Class A shares for a total amount of \$2,302,800, in consideration of the acquisition of 50% of the outstanding shares of Groupe Conseils Micron-Air Inc. and of 100% of all outstanding shares of Gestion Simon Labrecque Inc.
- v) Issuance of 202,500 Class A shares following the exercise of 202,500 warrants for a cash consideration of \$236,575 and a transfer of \$85,983 from warrants.
- vi) Issuance of 800,000 Class A shares following the exercise of conversion right of \$1,000,000 of convertible debentures. Amounts of \$774,953 and of \$239,064 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity.
- vii) Issuance of 1,100,000 Class A shares for a cash consideration of \$3,355,000.
- viii) Issuance of 511,666 Class A shares following the exercise of 511,666 stock options for a cash consideration of \$427,582 and a transfer of \$300,311 from contributed surplus.

9. Stock option plan:

The Company instituted stock option plans for which options can be granted to its officers, directors, employees and to persons providing services on a continuous basis to the Company. Under those plans, 10,698,780 Class A shares were reserved. The exercise price of the options is equal to the Company's quoted share price at the preceding date on which the options are granted except, under the 2008 stock option plan, if less than 100,000 Class A shares were traded on that date, in which case, the exercise price is equal to the weighted average closing trading price over a period of five business days in which Class A shares have been traded preceding the date of the grant. The term of the stock options is five years and the vesting period is extending from 12 to 30 months, as the case may be.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

9. Stock option plan(cont'd):

The following table summarizes the changes in the plans position between June 30, 2009 and December 31, 2009:

	December 31, 2009		June 30, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	7,791,597	\$ 3.47	5,981,595	\$ 3.77
Granted	690,000	2.48	2,950,000	2.76
Exercised	(126,665)	0.96	(511,666)	0.84
Cancelled	(620,000)	5.83	(568,332)	5.91
Expired	-		(60,000)	0.50
Balance, end of period	7,734,932	\$ 3.23	7,791,597	\$ 3.47
Options that can be exercised at period-end	6,366,267	\$ 3.43	5,859,930	\$ 3.70
Weighted average fair value of options granted during the period		\$ 1.88		\$ 2.05

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

9. Stock option plan (cont'd):

The following table summarizes the information on the outstanding stock options as at December 31, 2009:

Outstanding options			Exercisable options	
Exercise price	Number	Weighted average outstanding maturity period	Number	
\$ 0.87	1,542,998	2.00	1,542,998	
\$ 1.31	241,934	2.25	241,934	
\$ 2.75	450,000	2.42	450,000	
\$ 6.80	1,500,000	2.83	1,500,000	
\$ 6.25	100,000	3.17	100,000	
\$ 4.85	330,000	3.50	330,000	
\$ 3.95	200,000	3.50	200,000	
\$ 3.98	200,000	3.58	166,667	
\$ 3.82	200,000	3.58	166,667	
\$ 3.85	200,000	3.58	166,667	
\$ 3.52	300,000	3.58	250,000	
\$ 3.05	200,000	3.67	166,667	
\$ 2.49	250,000	3.67	208,333	
\$ 3.98	200,000	3.75	166,667	
\$ 1.80	210,000	3.83	140,000	
\$ 2.05	400,000	3.83	266,667	
\$ 1.18	50,000	3.92	33,333	
\$ 0.60	230,000	4.00	110,000	
\$ 0.87	115,000	4.17	46,333	
\$ 2.06	125,000	4.33	25,000	
\$ 2.14	75,000	4.58	21,667	
\$ 2.77	200,000	4.67	66,667	
\$ 2.58	215,000	4.92	-	
\$ 2.20	200,000	5.00	-	
7,734,932		3.20	6,366,267	

a) Transaction during the six-month period ended December 31, 2009:

During the six-month period ended December 31, 2009, the Company granted 690,000 stock options allowing the acquisition of 690,000 Class A shares at a weighted average exercise price of \$2.48 with a vesting period extending from 12 to 30 months.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

9. Stock option plan (cont'd):

b) Transactions during the year ended June 30, 2009:

The Company granted 2,950,000 stock options allowing the acquisition of 2,950,000 Class A shares at a weighted average exercise price of \$2.76 with a vesting period extending over from 12 to 30 months.

c) Compensation costs:

Compensation costs related to the stock option plans amount to \$2,566,362, of which 1,820,748 for employees, for the period ended December 31, 2009 (\$6,263,917, of which 4,486,956 for employees, for the period ended December 31, 2008).

d) Fair value of the options:

The fair value of the options was estimated as at the date on which the options were granted by using the Black-Scholes' options pricing model with the following assumptions:

	December 31 2009	June 30 2009
Weighted average expected dividend rate	Nil	Nil
Weighted average expected volatility	101%	97%
Weighted average risk-free interest rate	2.60%	2.93%
Weighted average expected life of options	60 months	60 months

10. Warrants:

The following table summarizes the changes in the warrants position between June 30, 2009 and December 31, 2009:

	December 31, 2009		June 30, 2009	
	Warrant Number	Amount	Warrant Number	Amount
Balance, beginning of period	-	\$ -	-	\$ -
Granted	3,578,000	2,862,400	-	-
Balance, end of period	3,578,000	\$ 2,862,400	-	\$ -

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

10. Warrants Cont'd:

The following table summarizes the outstanding warrants as at December 31, 2009:

Exercise Price	Number	Weighted average outstanding maturity period (months)
\$3.00	3,578,000	34
	3,578,000	

a) Transactions during the period ended December 30, 2009:

Simultaneously with the issuance of 7,156,000 Class A shares, the Company granted 3,578,000 warrants allowing the purchase of 3,578,000 Class A shares at a price of \$3.00 per share until October 2012. A value of \$2,862,400 was attributed to these warrants. They include a clause for early exercise corresponding to 30 days at the Company's discretion, if the average price of Class A shares is or exceeds \$4.50 for a period of 20 consecutive business days.

11. Accumulated other comprehensive income (loss):

The changes that occurred during the period were as follows:

	December 31 2009	December 31 2008
Balance, beginning of period	\$ (166,928)	\$ 347,359
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	(717,306)	1,017,250
Balance, end of period	\$ (884,234)	\$ 1,364,609

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

12. Capital Management:

The Company's primary objective in managing capital is to maintain an optimal capital base in order to support the capital requirements of its various businesses, including growth opportunities.

In managing its capital structure, the Company takes into account the asset characteristics of its subsidiaries and planned requirements for funds. The Company manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Company may issue new shares or new borrowing securities, acquire or dispose of assets or adjust the amount of cash on hand.

Since the last financial year, the Company has not significantly changed its strategy regarding the management of the capital structure of its continuing operations.

The capital structure of the Company is composed of shareholders' equity, bank loan, long-term debt, convertible debentures, less cash, cash equivalents and short term investments.

The Company met all of its long term debt's covenants and is not subject to any externally imposed capital requirements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

13. Segmented information:

Following the discontinued operations of the custom processing and distribution of steel products segment, management has determined that the Company exercises its activities in five significant segments, which are masks, filtration, sanitizers, medical equipment and the segment "others", as previously described.

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

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

For the period ended December 31, 2008, the Company had divided its activities in four segments: development, manufacturing and marketing of medical equipment, custom processing and distribution of steel products, development and marketing of products in the biomedical and environmental fields and "others". To better understand the Company's performance, to take into account businesses acquired during the year ended June 30, 2009 and to better represent its growth avenues, the Company reorganized its segments into five new segments. Therefore, the former segment related to the development and marketing of products in the biomedical and environmental fields has been divided into three new segments: masks, filtration and sanitizers. The comparative figures were modified to incorporate these changes and the discontinued steel segment.

Information on the results and the assets of each segment:

	Three months		Six months	
	2009	2008	2009	2008
Revenues from external clients:				
Medical equipment	\$ 2,496,617	\$ 2,451,061	\$ 4,792,562	\$ 3,999,457
Sanitizers	1,517,033	131,231	2,309,791	197,969
Masks	290,181	7,568	1,084,458	18,468
Filtration	595,263	1,095,252	1,100,592	1,468,268
Others	79,779	223,194	187,616	496,193
	\$ 4,978,873	\$ 3,908,306	\$ 9,475,019	\$ 6,180,355
Earnings (loss) before amortization, financial fees and income taxes:				
Medical equipment	\$ 385,511	\$ 401,168	\$ 502,997	\$ 6,612
Sanitizers	(427,640)	(640,575)	(685,316)	(1,164,975)
Masks	(494,813)	(122,014)	(455,399)	(957,042)
Filtration	(534,552)	(862,420)	(1,134,906)	(1,198,065)
Others	(2,915,641)	(3,857,177)	(5,170,758)	(7,571,694)
	\$ (3,987,135)	\$ (5,081,018)	\$ (6,943,382)	\$ (10,885,164)

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

13. Segmented information (cont'd):

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

	Three months		Six months	
	2009	2008	2009	2008
Depreciation and amortization:				
Medical equipment	\$ 136,907	\$ 157,215	\$ 268,321	\$ 281,437
Sanitizers	24,227	15,968	48,917	31,017
Masks	16,817	(14,446)	35,418	-
Filtration	66,492	160,646	145,470	277,943
Others	323,430	281,612	632,620	330,267
	\$ 567,873	\$ 600,995	\$ 1,130,746	\$ 920,664
Interest expenses:				
Medical equipment	\$ 12,022	\$ 19,158	\$ 23,905	\$ 41,167
Sanitizers	9,647	4,873	9,656	9,850
Masks	(4,230)	253	5,203	253
Filtration	133	17,180	14,249	30,797
Others	15,936	69,361	87,254	152,191
	\$ 33,508	\$ 110,825	\$ 140,267	\$ 234,258
Income taxes:				
Medical equipment	\$ 6,429	\$ 130,451	\$ 6,560	\$ (727)
Sanitizers	(356)	-	-	-
Masks	(1,422)	-	-	-
Filtration	(13,234)	(43,352)	(12,206)	(57,430)
Others	(22,786)	(14,238)	(54,737)	(9,016)
	\$ (31,369)	\$ 72,861	\$ (60,382)	\$ (67,173)
Net income (loss) from continuing operations:				
Medical equipment	\$ 267,518	\$ 441,866	\$ 199,025	\$ 69,595
Sanitizers	(636,795)	(661,416)	(919,742)	(1,205,842)
Masks	(571,575)	(107,821)	(580,511)	(957,295)
Filtration	(611,866)	(971,203)	(1,348,062)	(1,421,880)
Others	(3,410,567)	(5,441,590)	(6,124,884)	(9,505,249)
	\$ (4,963,285)	\$ (6,740,164)	\$ (8,774,174)	\$ (13,020,671)
December 31,				
Assets:				
Medical equipment			\$ 11,523,376	\$ 17,860,929
Sanitizers			9,379,671	5,953,287
Masks			4,063,540	1,509,122
Filtration			7,258,651	14,164,766
Others			21,304,634	19,186,574
Assets held for sale			5,174,197	8,752,676
			\$ 58,704,069	\$ 67,427,354

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

December 31, 2009
(unaudited)

13. Segmented information (cont'd):

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

	Three months 2009		2008	Six months 2009		2008
Fixed asset expenditures:						
Medical equipment	\$ 157,689	\$	166,654	\$ 288,476	\$	350,240
Sanitizers	13,300		4,479	13,300		42,179
Masks	-		83,104	-		83,104
Filtration	2,478		177,503	2,676		189,040
Others	219,986		46,541	256,271		279,274
	\$ 393,453	\$	478,281	\$ 560,723	\$	943,837

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

	December 31, 2009		June 30, 2009	
Canada	\$ 12,287,471	\$	12,484,641	
France	2,467,956		2,910,921	
Algeria	350,086		379,642	
Luxembourg	625,896		674,059	
Taiwan	593,959		710,036	
	\$ 16,325,368	\$	17,159,299	

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

	Three months 2009		2008	Six months 2009		2008
Canada	\$ 2,351,089	\$	1,133,066	\$ 3,348,095	\$	1,907,620
Latin America	112,894		83,400	194,128		180,543
United States	(158,211)		47,592	221,922		93,011
Europe	1,168,440		1,456,528	3,007,243		2,342,871
Africa and Asia	1,504,661		1,187,720	2,703,631		1,656,310
Total revenues	\$ 4,978,873	\$	3,908,306	\$ 9,475,019	\$	6,180,355

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.