

Consolidated interim financial statements of  
(unaudited)

## **NOVEKO INTERNATIONAL INC.**

Periods ended March 31, 2010 and 2009

# NOVEKO INTERNATIONAL INC.

Consolidated interim financial statements  
(unaudited)

Periods ended March 31, 2010 and 2009

## Interim financial statements

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# NOVEKO INTERNATIONAL INC.

## Consolidated balance sheets

As at March 31, 2010 and June 30, 2009

	<b>March 31 2010 (unaudited)</b>	<b>June 30 2009 (audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,843,376	\$ 937,319
Deposit in trust	143,919	70,900
Short-term investments	4,145,780	3,702,958
Accounts receivable	3,604,426	3,845,527
Inventories	10,954,557	7,288,071
Prepaid expenses	576,856	734,777
Current portion of assets held for sale (note 4)	1,510,339	1,998,371
	<b>22,779,253</b>	<b>18,577,923</b>
Fixed assets	3,695,918	4,124,110
Intangible assets	8,652,685	10,041,542
Other assets	1,163,179	1,198,345
Future income taxes	19,424	82,691
Goodwill (note 7)	11,959,644	13,035,189
Non-current portion of assets held for sale (note 4)	3,532,239	3,836,738
	<b>\$ 51,802,342</b>	<b>\$ 50,896,538</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Bank loans	\$ 214,641	\$ 162,970
Accounts payable and accrued liabilities	2,755,981	2,552,279
Current portion of secured convertible debentures	86,894	964,710
Current portion of long-term debt	535,176	754,584
Current portion of liabilities held for sales (note 4)	1,945,971	2,126,397
	<b>5,538,663</b>	<b>6,560,940</b>
Long-term debt	1,047,955	1,455,182
Secured convertible debentures	-	825,117
Future income taxes	1,215,565	1,644,474
Non-current portion of liabilities held for sales (note 4)	1,807,616	1,924,217
Shareholders' equity:		
Capital stock (note 8)	95,620,532	80,768,629
Portion of secured convertible debentures included in equity	23,906	372,473
Warrants (note 10)	3,189,000	-
Contributed surplus	22,525,898	18,718,376
Accumulated other comprehensive loss (note 11)	(1,545,997)	(166,928)
Deficit	(77,620,796)	(61,205,942)
	<b>42,192,543</b>	<b>38,486,608</b>
Contingencies (note 15)		
Subsequent events (note 16)		
	<b>\$ 51,802,342</b>	<b>\$ 50,896,538</b>

See accompanying notes to unaudited consolidated financial statements.

**ON BEHALF OF THE BOARD,**

(signed) *André Leroux*, Director

(signed) *Léon Assayag*, Director

# NOVEKO INTERNATIONAL INC.

## Consolidated statements of operations

Nine and three month periods ended March 31, 2010 and 2009  
(unaudited)

	Three months 2010		2009		Nine months 2010		2009	
Revenues	\$	<b>3,004,781</b>	\$	2,608,663	\$	<b>12,479,800</b>	\$	8,789,018
Cost of sales		<b>1,846,560</b>		1,190,502		<b>7,191,751</b>		4,407,968
		<b>1,158,221</b>		1,418,161		<b>5,288,049</b>		4,381,050
Operating expenses:								
Administrative and selling expenses		<b>4,100,589</b>		3,680,189		<b>12,110,425</b>		11,180,001
Stock-based compensation		<b>599,101</b>		3,030,931		<b>3,165,463</b>		9,294,848
Research and development		<b>466,357</b>		422,493		<b>1,261,782</b>		911,158
Research and development tax credits		<b>(116,447)</b>		(23,324)		<b>(414,860)</b>		(427,665)
		<b>5,049,600</b>		7,110,289		<b>16,122,810</b>		20,958,342
Loss before amortization, financial fees, income taxes, other item and discontinued operations		<b>(3,891,379)</b>		(5,692,128)		<b>(10,834,761)</b>		(16,577,292)
Amortization (note 5)		<b>679,486</b>		471,536		<b>1,810,232</b>		1,392,200
Financial expenses less investment revenues (note 5)		<b>502,411</b>		(398,291)		<b>1,332,540</b>		883,725
Goodwill impairment charge adjustment (note 7)		-		-		<b>(69,700)</b>		-
		<b>1,181,897</b>		73,245		<b>3,073,072</b>		2,275,925
Loss before income taxes		<b>(5,073,276)</b>		(5,765,373)		<b>(13,907,833)</b>		(18,853,217)
Income taxes:								
Current (recovered)		<b>(87,555)</b>		(166,514)		<b>12,406</b>		(175,360)
Future		<b>(112,896)</b>		(21,948)		<b>(273,240)</b>		(80,275)
		<b>(200,451)</b>		(188,462)		<b>(260,834)</b>		(255,635)
Net loss from continuing operations		<b>(4,872,825)</b>		(5,576,911)		<b>(13,646,999)</b>		(18,597,582)
Net loss from discontinued operations (note 4)		<b>(323,713)</b>		(131,024)		<b>(697,538)</b>		(590,785)
Net loss	\$	<b>(5,196,538)</b>	\$	(5,707,935)	\$	<b>(14,344,357)</b>	\$	(19,188,367)
Basic and diluted loss per share:								
From continuing operations	\$	<b>(0.06)</b>	\$	(0.08)	\$	<b>(0.19)</b>	\$	(0.28)
From discontinued operations	\$	<b>(0.01)</b>	\$	(0.01)	\$	<b>(0.01)</b>	\$	(0.01)
Net loss	\$	<b>(0.07)</b>	\$	(0.09)	\$	<b>(0.20)</b>	\$	(0.29)
Weighted average number of outstanding shares, basic and diluted		<b>75,916,023</b>		66,998,694		<b>72,677,982</b>		66,471,880

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

## Consolidated statements of comprehensive loss

Nine and three month periods ended March 31, 2010 and 2009  
(unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
Net loss	\$ (5,196,538)	\$ (5,707,935)	\$ (14,344,537)	\$ (19,188,367)
Other comprehensive income, net of income taxes:				
Change in unrealized losses on translation of financial statements of self- sustaining foreign operations	(661,763)	(1,354,233)	(1,379,069)	(336,983)
Comprehensive loss	\$ (5,858,301)	\$ (7,062,168)	\$ (15,723,606)	\$ (19,525,350)

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Nine-month periods ended March 31, 2010 and 2009  
(unaudited)

	<b>March 31 2010</b>	<b>March 31 2009</b>
<b>DEFICIT</b>		
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	<b>(61,205,942)</b>	<b>(29,274,328)</b>
Net loss	<b>(14,344,537)</b>	<b>(19,188,367)</b>
Share issuance fees	<b>(2,070,317)</b>	<b>(56,000)</b>
Deficit, end of period	\$ <b>(77,620,796)</b>	\$ <b>(48,518,695)</b>
<b>CONTRIBUTED SURPLUS</b>		
Contributed surplus, beginning of period	\$ <b>18,718,376</b>	\$ 7,967,778
Fair value of stock options granted	<b>3,165,463</b>	9,308,848
Fair value of options granted to the agents (note 8 c) iii))	<b>732,000</b>	-
Fair value of stock options exercised	<b>(89,941)</b>	<b>(262,000)</b>
Contributed surplus, end of period	\$ <b>22,525,898</b>	\$ 17,014,626

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

## Consolidated statements of cash flows

Nine and three month periods ended March 31, 2010 and 2009  
(unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
<b>Cash flows from operating activities:</b>				
Net loss	\$ (5,196,538)	\$ (5,707,935)	\$ (14,344,537)	\$ (19,188,367)
Adjustments for:				
Loss from discontinued operations	323,713	131,024	697,538	590,785
Future income taxes	(112,896)	(21,948)	(273,240)	(80,275)
Accreted interest on secured convertible debentures	3,554	64,635	68,254	201,945
Stock-based compensation	599,101	3,030,931	3,165,463	9,294,848
Loss (gain) on disposal of fixed assets	1,502	-	7,439	(7,231)
Amortization	679,486	471,536	1,810,232	1,392,200
Loss (gain) on fair value of short-term investments	-	(433)	11,676	(3,254)
Unrealized loss (gain) on foreign denominated contracts	-	472,420	-	(76,885)
Foreign exchange loss (gain)	(11,089)	(5,688)	6,040	(6,233)
Adjustment from discontinued operations	36,276	72,210	482,043	(303,475)
	<b>(3,676,891)</b>	<b>(1,493,248)</b>	<b>(8,369,092)</b>	<b>(8,185,942)</b>
Net change in non-cash working capital	<b>(887,337)</b>	<b>(1,024,129)</b>	<b>(3,127,334)</b>	<b>(5,627,360)</b>
	<b>(4,564,228)</b>	<b>(2,517,377)</b>	<b>(11,496,426)</b>	<b>(13,813,302)</b>
<b>Cash flows from financing activities:</b>				
Net changes in bank loans	(67,531)	(74,462)	77,271	(716,958)
Increase in long-term debt	-	153,331	60,000	153,331
Repayment of long-term debt	(160,763)	(114,713)	(519,918)	(341,903)
Interest paid on secured convertible debentures	(1,972)	(39,747)	(42,858)	(125,911)
Proceeds from Class A shares and warrants issued	8,700	30,000	15,874,066	3,969,575
Class A shares issue expenses	2,671	-	(1,338,317)	(12,800)
Cash flows from discontinued operations	(108)	(70,755)	(259,382)	148,082
	<b>(219,003)</b>	<b>(116,346)</b>	<b>13,850,862</b>	<b>3,073,416</b>
<b>Cash flows from investing activities:</b>				
Business acquisitions	-	(29,686)	-	(5,936,483)
Acquisition of short-term investments	(3,000,000)	(1,297,584)	(15,090,000)	(55,603,116)
Proceeds from disposal of short-term investments	7,998,164	4,421,842	14,634,425	62,177,235
Acquisition of fixed assets	(91,741)	(179,882)	(225,165)	(676,461)
Proceeds from disposal of fixed assets	(750)	-	27,436	8,859
Acquisition of intangible assets	-	(56,652)	(203,770)	(332,693)
Acquisition of other assets	-	-	(44,400)	-
Deposit in trust	(78,479)	380	(73,019)	(1,755)
Deferred development costs, net of related research tax credits received	(88,457)	(87,913)	(267,586)	(259,130)
Cash flows from discontinued operations	(36,015)	22,453	(47,788)	13,698
	<b>4,702,722</b>	<b>2,792,958</b>	<b>(1,289,867)</b>	<b>(609,846)</b>
Foreign exchange loss (gain) on cash in foreign currencies	(36,488)	(7,603)	(158,512)	46,498
Increase (decrease) in cash and cash equivalents	116,997	151,632	906,057	(11,303,234)
Cash and cash equivalents, beginning of period	1,960,373	139,469	937,319	11,594,335
Cash and cash equivalents, end of period	\$ 1,843,376	\$ 291,101	\$ 1,843,376	\$ 291,101

Cash flows related to operating activities include interest paid for \$104,914 (\$265,740 in 2009) and income taxes received for \$269,345 (\$104,300 in 2009).

See accompanying notes to unaudited consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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

- 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 technologies 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 March 31, 2010:

Effective July 1<sup>st</sup>, 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)

March 31, 2010  
(unaudited)

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

### b) For the year ended June 30, 2009:

Effective July 1<sup>st</sup>, 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 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 13).

Section 3031 provides more extensive guidance on the recognition and measurement of inventories. 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 1<sup>st</sup>, 2008:

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

Sections 3862 and 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)

March 31, 2010  
(unaudited)

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### 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<sup>st</sup>, 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<sup>st</sup>, 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 March 31, 2010, 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 1601 carries forward the requirements of Section 1600 "Consolidated Financial Statements", other than those relating to non-controlling interests. Section 1602 will converge with the requirements of International Accounting Standards ("IAS") 27 "Consolidated and Separate Financial Statements", for 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)

March 31, 2010  
(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.

These new standards will become effective for interim and annual financial statements relating to fiscal years beginning on or after January 1<sup>st</sup>, 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 nine-month periods ended March 31, 2009 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 March 31, 2010 and March 31, 2009:

Condensed statement of operations:

	Three months		Nine months	
	2010	2009	2010	2009
Revenues	\$ 1,047,987	\$ 1,175,141	\$ 2,838,553	\$ 4,840,429
Costs of sales	1,038,808	899,407	2,528,809	3,806,797
	9,179	275,734	309,744	1,033,632
Operating costs	155,147	235,303	453,091	982,439
Amortization	130,342	148,626	382,451	438,976
Financial fees	47,403	22,829	171,740	145,128
Income taxes	-	-	-	57,874
	332,892	406,758	1,007,282	1,624,417
Loss from discontinued operations	\$ 323,713	\$ 131,024	\$ 697,538	\$ 590,785

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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

Condensed balance sheet:

	March 31 2010	June 30 2009
Assets held for sale:		
Accounts receivable	\$ 802,006	\$ 643,942
Inventories	674,577	1,291,587
Prepaid expenses	33,756	62,842
<b>Current assets held for sale</b>	<b>1,510,339</b>	<b>1,998,371</b>
Fixed assets	3,244,295	3,479,234
Intangible assets	287,944	357,504
<b>Non-current assets held for sale</b>	<b>\$ 3,532,239</b>	<b>\$ 3,836,738</b>
Liabilities held for sale:		
Bank advances	\$ 1,199,427	\$ 1,341,471
Accounts payable and accrued liabilities	522,135	559,780
Current portion of long-term debt	224,409	225,146
<b>Current liabilities held for sale</b>	<b>1,945,971</b>	<b>2,126,397</b>
Long-term debt	1,807,616	1,924,217
<b>Non-current liabilities held for sale</b>	<b>\$ 1,807,616</b>	<b>\$ 1,924,217</b>
<b>Net assets held for sale</b>	<b>\$ 1,288,991</b>	<b>\$ 1,784,495</b>

Condensed cash flows:

	Three months		Nine months	
	2010	2009	2010	2009
Cash flows from operating activities	\$ 36,276	\$ 72,210	\$ 482,043	\$ (303,475)
Cash flows from financing activities	(108)	(70,755)	(259,382)	148,082
Cash flows from investing activities	(36,015)	22,453	(47,788)	13,698
	<b>\$ 153</b>	<b>\$ 23,908</b>	<b>\$ 174,873</b>	<b>\$ (141,695)</b>

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

## 5. Information on operations:

	Three months		Nine months	
	2010	2009	2010	2009
a) Amortization:				
Amortization of fixed assets	\$ 95,465	\$ 115,854	\$ 351,699	\$ 309,173
Amortization of intangible assets	385,809	283,899	1,111,503	874,317
Amortization of deferred development costs	196,091	71,441	343,852	207,808
Amortization of deferred costs	2,121	342	3,178	902
	<b>\$ 679,486</b>	<b>\$ 471,536</b>	<b>\$ 1,810,232</b>	<b>\$ 1,392,200</b>
b) Financial expenses:				
Interest on long-term debt	\$ 16,126	\$ 24,522	\$ 55,267	\$ 85,258
Accreted interests on secured convertible debentures	3,554	65,327	68,254	201,945
Interest on bank loans and bank charges	29,738	23,227	66,164	60,131
Foreign exchange loss (gain)	624,922	(769,254)	1,363,225	(1,124,368)
Loss (gain) on fair value of short-term investments	-	(433)	11,676	(3,254)
Loss on currency contracts	-	469,602	-	2,152,895
Investment revenues	(171,929)	(211,282)	(232,046)	(488,882)
	<b>\$ 502,411</b>	<b>\$ (398,291)</b>	<b>\$ 1,332,540</b>	<b>\$ 883,725</b>

## 6. Non-cash activities:

	March 31		June 30	
	2010		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)

March 31, 2010  
(unaudited)

## 7. Goodwill:

	March 31, 2010					
	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	-	(212,085)	-	(933,160)	-	(1,145,245)
Balance, end of period	\$ -	\$ 2,423,122	\$ 5,196,559	\$ 1,591,091	\$ 2,748,872	\$ 11,959,644

	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)

March 31, 2010  
(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 \$69,700 of the the preliminary impairment charge recorded during the prior year, said reduction being 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 March 31, 2010, 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 and C 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 shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

### b) Issued:

	<b>As at March 31 2010</b>	As at June 30 2009
75,925,912 Class A shares (67,058,693 as at June 30, 2009)	<b>\$ 95,620,532</b>	\$ 80,768,629

### c) Transactions during the nine-month period ended March 31, 2010:

- i) Issuance of 136,665 Class A shares following the exercise of 136,665 stock options for a cash consideration of \$130,866 and a transfer of \$89,941 from contributed surplus.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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

c) Transactions during the nine-month period ended March 31, 2010 (cont'd):

- ii) Issuance of 1,574,554 Class A shares following the exercise of conversion right of \$1,887,414 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 \$3,189,000 was attributed to the warrants granted, and the difference of \$12,554,200 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 \$732,000 was attributed to the share issuance fees and the difference was recorded to the contributed surplus.

The fair value of the portion of the half warrants that were granted and the agent's options was estimated at the date on which they were granted by using the Monte Carlo' pricing model with the following assumptions:

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	<b>March 31, 2010</b>
Weighted average expected dividend rate	<b>Nil</b>
Weighted average expected volatility	<b>107 %</b>
Weighted average risk-free interest rate	<b>2.09 %</b>
Weighted average expected life of options	<b>36 months</b>

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As of March 31, 2010, no agent's options were exercised.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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## 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)

March 31, 2010  
(unaudited)

## 9. Stock option plan (cont'd):

The following table summarizes the changes in the plans position between June 30, 2009 and March 31, 2010:

	March 31, 2010		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	750,000	2.37	2,950,000	2.76
Exercised	(136,665)	0.96	(511,666)	0.84
Cancelled	(895,000)	5.12	(568,332)	5.91
Expired	-	-	(60,000)	0.50
Balance, end of period	7,509,932	\$ 3.20	7,791,597	\$ 3.47
Options that can be exercised at period-end	6,642,265	\$ 3.36	5,859,930	\$ 3.70
Weighted average fair value of options granted during the period		\$ 1.79		\$ 2.05

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

## 9. Stock option plan (cont'd):

The following table summarizes the information on the outstanding stock options as at March 31, 2010:

Outstanding options			Exercisable options	
Exercise price	Number	Weighted average outstanding maturity period	Number	
\$ 0.87	1,542,998	1.75	1,542,998	
\$ 1.31	241,934	2.00	241,934	
\$ 2.75	450,000	2.17	450,000	
\$ 6.80	1,500,000	2.58	1,500,000	
\$ 6.25	100,000	2.92	100,000	
\$ 4.85	305,000	3.25	305,000	
\$ 3.95	200,000	3.25	200,000	
\$ 3.98	200,000	3.33	200,000	
\$ 3.82	200,000	3.33	200,000	
\$ 3.85	200,000	3.33	200,000	
\$ 3.52	300,000	3.33	300,000	
\$ 3.05	200,000	3.42	200,000	
\$ 2.49	200,000	3.42	200,000	
\$ 1.80	210,000	3.58	175,000	
\$ 2.05	400,000	3.58	333,333	
\$ 1.18	50,000	3.67	41,667	
\$ 0.60	230,000	3.75	110,000	
\$ 0.87	105,000	3.92	72,000	
\$ 2.06	125,000	4.08	25,000	
\$ 2.14	75,000	4.33	45,333	
\$ 2.77	200,000	4.42	133,333	
\$ 2.58	215,000	4.67	66,667	
\$ 2.20	200,000	4.75	-	
\$ 1.11	60,000	4.92	-	
	7,509,932	2.92	6,642,265	

a) Transaction during the nine-month period ended March 31, 2010:

During the nine-month period ended March 31, 2010, the Company granted 750,000 stock options allowing the acquisition of 750,000 Class A shares at a weighted average exercise price of \$2.37 with a vesting period extending from 12 to 30 months.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(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:

For the nine-month period ended March 31, 2010, compensation costs related to the stock option plans amount to \$3,165,463, of which 2,066,315 for employees (\$9,308,848, of which \$6,546,158 for employees, for the one ended March 31, 2009).

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:

	March 31 2010	June 30 2009
Weighted average expected dividend rate	Nil	Nil
Weighted average expected volatility	99%	97%
Weighted average risk-free interest rate	2.59%	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 March 31, 2010:

	March 31, 2010		June 30, 2009	
	Warrant Number	Amount	Warrant Number	Amount
Balance, beginning of period	-	\$ -	-	\$ -
Granted	3,578,000	3,189,000	-	-
Balance, end of period	3,578,000	\$ 3,189,000	-	\$ -

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

## 10. Warrants (cont'd):

The following table summarizes the outstanding warrants as at March 31, 2010:

Exercise Price	Number	Weighted average outstanding maturity period (months)
\$3.00	3,578,000	31
	3,578,000	

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 \$3,189,000 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:

	March 31 2010	March 31 2009
Balance, beginning of period	\$ (166,928)	\$ 347,359
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	(1,379,069)	(336,983)
Balance, end of period	\$ (1,545,997)	\$ 10,376

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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## 12. Related parties transactions:

During the nine-month period ended March 31, 2010, the Company purchased a fixed asset from a shareholder exercising significant influence for a cash consideration of \$11,500. This transaction was concluded in the normal course of operations and is measured at the exchange value, which is the amount of consideration established and agreed by the related parties.

During the nine-month period ended March 31, 2010, a mandate to represent the Company to relocate its offices was granted to a company of which one of its officers exercises a significant influence on the Company. This mandate will not generate any cash outflow from the Company.

## 13. 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 loans, 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)

March 31, 2010  
(unaudited)

## 14. 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 March 31, 2009, 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 2010		2009		Nine months 2010		2009	
Revenues from external clients:								
Medical equipment	\$	1,951,538	\$	1,678,579	\$	6,744,101	\$	5,678,036
Sanitizers		174,973		191,108		2,484,763		389,077
Masks		255,452		322,657		1,339,910		341,125
Filtration		545,488		261,676		1,646,080		1,729,944
Others		77,330		154,643		264,946		650,836
	\$	3,004,781	\$	2,608,663	\$	12,479,800	\$	8,789,018
Earnings (loss) before amortization, financial fees and income taxes:								
Medical equipment	\$	(64,912)	\$	(12,808)	\$	438,086	\$	(6,196)
Sanitizers		(1,244,360)		(460,587)		(1,929,676)		(1,625,562)
Masks		(424,479)		(606,930)		(879,879)		(1,563,972)
Filtration		(152,402)		(1,150,053)		(1,287,308)		(2,348,118)
Others		(2,005,226)		(3,161,750)		(7,175,984)		(10,733,444)
	\$	(3,891,379)	\$	(5,692,128)	\$	(10,834,761)	\$	(16,577,292)

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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

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

	Three months 2010		2009		Nine months 2010		2009	
<b>Amortization:</b>								
Medical equipment	\$	255,172	\$	149,406	\$	523,493	\$	430,843
Sanitizers		31,286		14,018		80,203		45,035
Masks		17,501		902		52,919		902
Filtration		73,902		171,152		219,372		449,095
Others		301,625		136,058		934,245		466,325
	\$	679,486	\$	471,536	\$	1,810,232	\$	1,392,200
<b>Interest expenses:</b>								
Medical equipment	\$	13,393	\$	20,782	\$	37,299	\$	61,949
Sanitizers		6,281		5,205		15,937		15,055
Masks		2,801		38		8,003		291
Filtration		14,916		12,432		29,165		43,229
Others		12,027		74,619		99,281		226,810
	\$	49,418	\$	113,076	\$	189,685	\$	347,334
<b>Income taxes:</b>								
Medical equipment	\$	(163,573)	\$	(183,939)	\$	(157,013)	\$	(184,666)
Sanitizers		-		(150)		-		(150)
Masks		-		(597)		-		(597)
Filtration		(10,973)		3,255		(23,179)		(54,175)
Others		(25,905)		(7,031)		(80,642)		(16,047)
	\$	(200,451)	\$	(188,462)	\$	(260,834)	\$	(255,635)
<b>Net loss from continuing operations:</b>								
Medical equipment	\$	(430,475)	\$	(814,187)	\$	(231,449)	\$	(744,592)
Sanitizers		(1,349,955)		(483,334)		(2,269,697)		(1,689,176)
Masks		(484,183)		(621,968)		(1,064,694)		(1,579,263)
Filtration		(249,009)		(1,356,569)		(1,597,071)		(2,778,449)
Others		(2,359,203)		(2,300,853)		(8,484,088)		(11,806,102)
	\$	(4,872,825)	\$	(5,576,911)	\$	(13,646,999)	\$	(18,597,582)
<b>Assets:</b>								
Medical equipment					\$	9,616,676	\$	16,776,895
Sanitizers						9,739,513		6,025,877
Masks						4,805,810		1,894,141
Filtration						6,681,762		14,029,805
Others						15,916,004		16,020,387
Assets held for sale						5,042,578		8,466,191
					\$	51,802,342	\$	63,213,296

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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

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

	Three months 2010		2009	Nine months 2010		2009
Fixed and intangibles assets expenditures:						
Medical equipment	\$ 175,306	\$	203,479	\$ 463,782	\$	553,720
Sanitizers	-		-	13,300		42,179
Masks	-		43,266	-		126,370
Filtration	3,185		13,937	5,861		202,977
Others	1,707		63,765	213,578		343,038
	\$ 180,198	\$	324,447	\$ 696,521	\$	1,268,284

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

	March 31, 2010		June 30, 2009	
Canada	\$ 12,204,885	\$	12,484,641	
France	2,004,629		2,910,921	
Algeria	346,885		379,642	
Luxembourg	582,695		674,059	
Taiwan	516,498		710,036	
	\$ 15,655,562	\$	17,159,299	

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

	Three months 2010		2009	Nine months 2010		2009
Canada	\$ 584,994	\$	797,947	\$ 3,933,090	\$	2,705,567
Latin America	139,543		79,197	333,671		259,740
United States	185,361		11,013	407,283		104,024
Europe	1,051,338		1,123,510	4,058,581		3,466,381
Africa and Asia	1,043,544		596,996	3,747,175		2,253,306
Total revenues	\$ 3,004,781	\$	2,608,663	\$ 12,479,800	\$	8,789,018

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

March 31, 2010  
(unaudited)

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## 15. Contingencies:

During the nine-month period ended March 31, 2010, a lawsuit was initiated against the Company and two of its subsidiaries by a former employee. The Company and its subsidiaries are disputing the claim, which is without merit in the opinion of their legal advisors. The outcome of this lawsuit is impossible to determine with certainty, as is the amount, if any, that the Company would have to pay. No provision was recorded in the financial statements.

## 16. Subsequent events:

- a) As of April 2, 2010, the Company acquired all the outstanding shares of Beijing Oasis International Business Development Limited (renamed Noveko (Beijing) Hi-tech Development limited) a Chinese based company. The acquisition will be settled by a cash consideration of 1,000,000 renminbis (or the equivalent of \$147,599 in Canadian dollars).
- b) On April 22, 2010, \$100,002 of convertible debentures were reimbursed in cash.
- c) On May 12, 2010, the Company issued, pending regulatory approval of the Toronto Stock Exchange, 300,000 warrants allowing for the purchase of 300,000 Class A share of the Company at a price of \$1.00 per share and will matured in the 36 months following its issuance. These warrants were issued in consideration of future services to be rendered.

## 17. Comparative figures:

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