



**Interim Management's Report**  
Three-Month and Nine-Month Periods Ended  
March 31, 2010

# Management's Report

## 1. BASIS OF PRESENTATION

The 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 the operations and financial position of Noveko International Inc. ("the Company"). This Management's Report presents an analysis of the Company's operations for the third quarter and nine-month period ended March 31, 2010, in comparison with the corresponding periods ended March 31, 2009, as well as an analysis of its balance sheet, cash flows and changes in financial position between those dates. The Management's Report should be read in conjunction with the unaudited consolidated financial statements as at March 31, 2010 and accompanying notes. It should be noted that these financial statements have not been reviewed by the external auditor.

Supplementary information about the Company, including its Annual Information Form for the fiscal year ended June 30, 2009, annual reports, Management's Reports on previous interim periods and press releases, is available on the websites of the Company ([www.noveko.com](http://www.noveko.com)) and of SEDAR ([www.sedar.com](http://www.sedar.com)).

In this Management's Report, unless otherwise indicated or required by the context, "Noveko International", "the Company", "we", "us", "our", "our Company", "Group" and "our Group" designate, as the case may be, Noveko International Inc. or Noveko International Inc. and its direct and indirect subsidiaries, and "Noveko" designates Noveko Inc., a subsidiary of the Company. The Company's other subsidiaries are designated as follows: "ECM" for S.A.S. E.C.M., "Epurair" for Epurair Inc., "Magnum" for Magnum Pharmaceuticals Inc., "Noveko Algérie" for SARL Noveko Algérie, "Noveko Taiwan" for Noveko Taiwan Co., Ltd., "Noveko Trading" for Noveko Trading 2008 LLC, "Purer Life" for Purer Life Technology Co., Ltd. and "BLI" for Bolduc Leroux Inc.

The information contained in this Management's Report accounts for any major event occurring up to May 12, 2010, the date on which the Board of Directors approved the unaudited consolidated financial statements and Management's Report for the third quarter and nine-month period ended March 31, 2010. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was 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 reporting period 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 this Management's Report and certain other sections of this report also includes some figures that are not performance measures consistent with GAAP, such as earnings (loss) before amortization, financial expenses, other items and income taxes ("EBITDA"). The Company 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 this measure is not established in accordance with GAAP, it might not be comparable to those of other companies.

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

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

Significant items subject to such estimates and assumptions include the estimate of allowance for doubtful accounts, the provision for obsolete inventories, the useful life of fixed and intangible assets which will be used for amortization purposes, depreciation and impairment of long-lived assets and goodwill, the warranty provision, the income taxes provision, the assumptions used in the determination of the stock-based compensation charge, the fair value of financial instruments, the fair value of assets and liabilities acquired in business acquisitions and the fair value of goodwill. Income tax credits refundable are also subject to estimates and assumptions. These tax credits are subject to review and approval by tax authorities. Actual results may differ from these estimates.

Certain statements set forth in this Management's Report constitute forward-looking statements. In some cases, these statements are identified by the use of terms such as "may", "could", "will", "might", "intend", "should", "expect", "project", "plan", "believe", "estimate" or other comparable variants. These statements are based on the information available at the time they are written, on assumptions made by the Company's management and on the expectations of management, acting in good faith, regarding future events, including those relating to economic conditions, fluctuations in exchange rates and operating expenses, and the absence of usual events entailing supplementary expenditures. Although the Company's management considers these assumptions and expectations reasonable based on the information available at the time they are written, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to a number of known and unknown risks, including, without being limited thereto, those mentioned in the Annual Management's Report and the Annual Information Form for the fiscal year ended June 30, 2009, as well as uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability. The Company's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that might be announced or occur subsequent to the date hereof.

Unless otherwise required under securities laws, the Company does not intend and undertakes no obligation to update or revise the forward-looking statements to account for new information, new events or new circumstances.

## **2. DESCRIPTION OF THE COMPANY**

### **Profile of the Company**

Noveko International Inc. offers innovative solutions in the environmental and medical fields worldwide, with the purpose of improving human and animal health and well-being. Through our subsidiaries, we are engaged primarily in the design, development, manufacture and marketing of products incorporating our patented antimicrobial air filtration technologies, specifically surgical masks, respirators and air filters, as well as hand sanitizers with antimicrobial properties and medical equipment, mainly ultrasound scanners for use in human and veterinary medicine.

### **Operational Overview, Third-Quarter Highlights and Subsequent Events**

A more detailed description of our background, products and business segments is provided in the Annual Management's Report and the Annual Information Form for the fiscal year ended June 30, 2009.

### **Strategy**

Our primary objectives for upcoming quarters are to grow our business and to improve our profitability. Our growth strategy is focused on the worldwide marketing of products incorporating our patented air filtration technologies, primarily our antimicrobial masks and respirators and our air filters, and the design of new innovative applications derived therefrom. We are also actively pursuing the development of promising markets for our hand sanitizers and continuing to implement efforts to increase our presence in ultrasound scanners for the human and veterinary medicine markets. Subsequent to the integration of the entities acquired in recent years, we are also concentrating on taking advantage of market and product offering development and diversification synergies.

We remain on the lookout for new partnership opportunities to drive the development, production and marketing of our products, particularly our range of antimicrobial solutions. In this regard, our ultimate objective is to market our patented technologies by entering into licence agreements with partners who are market leaders.

### **Product Development and Marketing**

#### ***Distribution Agreement with Zer Hitech***

On January 19, 2010, we announced the conclusion of an exclusive distribution agreement with Israeli-based Zer Hitech (1976) Ltd. ("Zer Hitech"), a subsidiary of the ZER Group, a leading biotechnology company. This agreement, which has an initial term of three years, covers the distribution of Noveko™ antimicrobial masks and respirators, Microban® hand sanitizers, air filters incorporating the Noveko™ antimicrobial filtration technology to hospitals and commercial buildings and Epurair™ HEPA MA-1 air purifiers in Israel.

***Filters Incorporating our Noveko™ Antimicrobial Filtration Technologies in a Pavilion at the Jewish General Hospital***

On March 17, 2010, we announced that our subsidiary Epurair had signed an agreement with the Jewish General Hospital, one of the largest and busiest hospitals in Quebec, to equip one of its pavilions with filters incorporating the Noveko™ antimicrobial filtration technology. This 30-month agreement covers the supply of the filters and their cleaning.

***Distribution Agreement with AMD-Ritmed***

On March 22, 2010, we announced the conclusion of a distribution agreement with AMD-Ritmed Inc. (“AMD-Ritmed”), a North American leader in the development and distribution of specialized high-quality and disposable medical supplies. This agreement covers the sale and promotion of Microban® hand sanitizers, in Canada, in the health professionals market, including hospital, medical and veterinary settings, and in the United States, to specialized healthcare providers, all subject to certain exceptions. This agreement, which has an initial term of two years, fits with our objective of expanding our client base for our Microban® hand sanitizers in these promising markets.

***Agreement with Bombardier Transportation to Provide the Rail Transportation Industry with Filtration Solutions***

On May 6, 2010, we announced the conclusion of an agreement with Bombardier Transportation, a world leader in rail technology. Pursuant to this agreement, the parties will jointly develop filtration solutions that will be offered to the clients of Bombardier Transportation, according to their specific needs. With operations in more than 60 countries, Bombardier Transportation is the global leader in the manufacture and maintenance of rail transportation equipment. It offers one of the most complete portfolios of rail vehicles worldwide, including mainline trains, subway cars, light rail vehicles and locomotives, and has an installed base of more than 100,000 of its own vehicles worldwide, in addition to all those for which it ensures the maintenance.

***Progress at Operational Level***

During the last fiscal year, we took a series of measures to ensure further cost control throughout the organization. We also streamlined the Group’s structure and management by merging the operations of certain subsidiaries. We have an ongoing benchmarking process and remain highly vigilant to ensure the operational efficiency and operating cost control of each of our business segments.

***Reinforcement of Management Team***

We have further reinforced our management team through the appointment, in December 2009, of a new President of our subsidiary Noveko. In recent months, we have also reassigned some of our managers within the Group in order to set up a business structure better suited to our growth needs. In this context, we are focusing special attention on the activities of our subsidiary Noveko to consolidate the previously achieved advances at the product and market development level and to drive its growth based on its strategic priorities.

### ***New Integrated Management System***

During the quarter ended March 31, 2010, we completed the deployment of a new integrated enterprise resource planning system (ERP) that will provide better management and financial reporting controls and procedures at all levels Company-wide.

### ***Securing of our Foothold in China***

We were recently granted an operating licence by the Beijing Administration of Industry and Commerce, authorizing us to operate a subsidiary in China. As of April 2, 2010, we therefore acquired all the outstanding shares of Beijing Oasis International Business Development Limited (since redesignated Noveko (Beijing) Hi-Tech Development Limited), in consideration of a total of one million renminbis (or the equivalent of \$147,599 in Canadian dollars).

### ***Eventual Sale of BLI***

While pursuing our efforts to divest BLI, whose operations no longer fit with our growth strategy, we are carrying on the measures taken in recent quarters to turn around this subsidiary.

## **Overview by Business Segment**

### ***Antimicrobial Masks and Respirators***

#### *Demand and Production*

Over the past 12 months, we have achieved several breakthroughs paving the way for the production and distribution of our antimicrobial surgical masks and respirators on a wider scale. The A (H1N1) influenza pandemic threat that emerged at the end of April 2009 has had an accelerator effect on the demand for our masks and the Noveko™ branding. The growth in mask and respirator sales seen in the three consecutive quarters ended December 31, 2009 reflects the acceleration of their marketing. During that period, and especially once we raised the funds from our private placement closed at the end of October 2009 (the "Private Placement"), we took the necessary steps with our suppliers to gradually increase our production capacity and inventories. We are now better able to produce according to demand.

However, the A (H1N1) influenza epidemic rapidly came to an end at the outset of the third quarter ended March 31, 2010, which had an adverse impact on the demand for masks compared with previous quarters. This disappearance of an emergency situation led to the deferral of a number of mask and respirator order deliveries. These deferrals add to the delivery delays referred to in the Management's Report for the quarter ended December 31, 2009 that were caused by the small quantity of masks in stock when the pandemic threat emerged, combined with the limited working capital at our disposal until the Private Placement and the time then required to complete the mask production cycles. To these were also added the delays related to the steps that some of our distributors had to take in order to obtain the additional authorizations pursuant to the regulatory requirements specific to their respective territory throughout the quarter ended March 31, 2010.

All these factors slowed down the marketing of our masks and respirators and account for our lower than forecasted sales, especially during the quarter ended March 31, 2010. The financial problems encountered by one of our major distributors also had a negative impact on our third-quarter sales, this distributor having cancelled several orders.

These various factors will also mean that recognition of the revenues from orders and distribution agreements in progress will extend over a longer than expected period, beyond the current fiscal year. Despite these execution delays and even though the growth in demand has now somewhat stabilized, we remain confident as to the evolution of the volume of orders for upcoming quarters. To that end, the reader is reminded of the October 15, 2009 distribution agreement with SappTech for the purchase of a minimum of 100 million masks and respirators over a three-year period, for an estimated value of approximately \$25 million. Deliveries have now started in some of the territories covered by the agreement. Furthermore, the process of obtaining additional certifications is continuing in other markets targeted by Noveko. In this regard, the reader is referred to the “Certification Processes” section below.

Moreover, we are still in talks with various parties aimed at further stimulating our market development and the commercialization of our products, while also increasing their production more efficiently, notably by securing a closer presence to target markets.

#### *Certification Processes*

We have taken the steps to obtain the required additional certifications in order to market our respirators as individual protection equipment (IPE) in Europe. In this regard, we are confident that, within the next few months, our respirators will obtain FFP2 classification pursuant to European standard EN 149:2009. This certification will also facilitate our access to several Asian markets that recognize European standards.

During the second quarter of the current fiscal year, we announced that we were refocusing our strategy for the marketing of our Noveko™ masks and respirators in North America and, accordingly, that we were withdrawing the initial 510(k) submission for the Noveko™ 3xEZ antibacterial surgical mask to the US Food and Drug Administration (“the FDA”) (“the initial FDA submission”). We then took the steps to submit an application to the National Institute for Occupational Safety and Health (“NIOSH”) for the certification of our Noveko™ respirators – which we could not do while the initial FDA submission was underway – and we also obtained our “Manufacturer’s Code”, confirming the official opening of our file with the NIOSH. During the quarter ended March 31, 2010, we proceeded to carry out the tests and to obtain the data needed to comply with NIOSH standards, which enabled us just recently to complete and submit to the NIOSH the applications for certification. As a general rule, the average time between the official submission of an application for certification and the receipt of an answer from NIOSH is 90 days. However, this timeframe can vary depending on several factors beyond our control. Furthermore, NIOSH reserves the right to require supplementary information.

Concurrently with this process, we continue to work on obtaining the required performance data to draw up the file in order to support a future 510(k) submission to the FDA. We expect to submit such an application once we obtain the NIOSH certifications.

## ***Air Filtration Products***

The August 2008 acquisition of Purer Life paved the way for new applications in various promising industrial segments. Initially targeted to the breeding farm market, especially hog farms, our air filtration solutions also have characteristics valued by several other business segments, notably the transportation industry and the real estate market, including healthcare facilities and institutional, commercial and residential buildings. In addition to the properties specific to Noveko's antimicrobial technology, Purer Life's membranes incorporate a patented weaving technology featuring a three-dimensional configuration that ensure them of a superior filtration capacity and increased longevity, setting them apart as a cost-effective and eco-friendly solution.

### ***Air Filters for Farm Buildings***

The global economic slowdown and the subsequent restructuring period in the swine industry created difficult conditions on global swine markets. Despite signs of a recovery, the industry remains fragile. Such less favourable conditions for infrastructure spending delayed the rollout of the marketing of Noveko™ antimicrobial air filters in this segment. However, this industry restructuring period should enable us to shift into a new growth phase within the next fiscal year.

In fact, several early signs enable us to look forward to a certain improvement in business. Industry leaders recognize that changes are needed in the area of production planning to ensure that a sustainable management model is implemented for farmers. In this respect, we are confident we are well positioned for producers to adopt our antimicrobial filtration solutions as a key feature of their bio-safety program, particularly with our new filtration solutions offering for the swine industry. In recent months, our filtration team has developed a new filter that is installed directly on air diffusers in farm buildings. This new configuration features a filtration solution more adapted to the needs of many hog farmers and also has the advantage of eliminating most of the costs related to filter installation, making them a more cost-effective option. We have also re-engineered our filters designed for building air intakes to reduce their production costs, while offering the same level of protection against the airborne spread of pathogens more affordably. Aimed at an expanded client base, these new-generation filtration solutions are attracting the interest of a number of hog farmers and we are currently pursuing our targeted market development activities, especially in North America. We also expect our business to pick up in Europe and Asia.

### ***Air Filters for the Transportation Industry***

The recent significant breakthrough in the rail transportation industry with the conclusion of an agreement with Bombardier Transportation attests to the growing interest in our technologies. Pursuant to this agreement, we are working jointly with Bombardier Transportation to develop air filtration solutions that will be offered to the latter's clients, according to their specific needs. This agreement is the outcome of the many discussions we held with Bombardier Transportation's teams, confirming that our strategy of teaming up with a leading partner in its market is the key to success in order to fully develop the potential of our technologies. With its know-how, in-depth knowledge and vision of the global market, Bombardier Transportation is recognized for its offering of innovative rail solutions built on ongoing and sustainable development.

We therefore believe that this collaboration will represent a strategic advantage for marketing our filters. It showcases the recognition that the energy and cost savings associated with the use of our “green” air filtration solutions, along with their distinctive antimicrobial properties, are particularly valued characteristics in the transportation industry. The Noveko™ filters offer greater filtration effectiveness and durability, while also being washable and recyclable.

In the aeronautics segment, we are currently in the final phase of the required tests to obtain “STC” certification for our filters from Transport Canada. Despite certain start-up delays, we are confident as to our business plan for the commercialization of our filtration technology in the aeronautics field. Airlines have already shown an interest in equipping their aircraft with such air filters, including Air Transat.

#### *Air Filters in the Institutional, Commercial and Residential Markets*

Noveko’s antimicrobial filtration technologies also have the potential to generate several new applications designed for healthcare institutions, commercial and office buildings, and residences. The pooling of the technologies and distribution networks of Epurair increases our development potential in these markets and, in this regard, we achieved a major breakthrough in December 2009 when our subsidiary Epurair entered into an agreement with Desjardins Gestion Immobilière Inc. (“DGI”) to equip Complexe Desjardins, the largest multi-purpose building in the Montreal metropolitan area, with filters incorporating the Noveko™ antimicrobial filtration technologies. We are pleased that a building as large-scale as Complexe Desjardins is the first client to be equipped with our antimicrobial filters, attesting to the interest in our products in this high-potential market. This agreement is the outcome of a process that began 10 months earlier when we met with DGI’s representatives, followed by the development of a customized filter that proved its effectiveness as a filtration solution thanks to a series of tests conducted on-site over a period of more than six months.

Another breakthrough was achieved in March 2010 when Epurair signed an agreement with the Jewish General Hospital to equip one of its pavilions with filters incorporating the Noveko™ antimicrobial filtration technology. Located in Montreal, the Jewish General Hospital is one of the largest and busiest hospitals in Quebec. The 30-month agreement covers the supply of the filters and their cleaning. In this regard, the reader is referred to the “Product Development and Marketing” section of this Management’s Report. We are proud that the Jewish General Hospital, a teaching hospital affiliated with McGill University and recognized for its excellent healthcare services and the calibre of its medical staff, is the first hospital to use our antimicrobial filtration solution. We believe that this agreement will further stimulate the commercialization of our filters in various institutional settings, a high-potential market. In this regard, we are in talks with several real estate groups that are interested in our filtration solutions.

Epurair™ filters incorporating the Noveko™ antimicrobial filtration technologies consist of four layers of synthetic fibre that are fully leak-proof and resistant to temperature variations. Their superior filtration capacity also enables users to achieve energy savings. Thanks to their greater durability and the fact that they are washable and recyclable, the number of filters used is reduced considerably, setting them apart as an effective, cost-efficient and eco-friendly solution.

### *EPURAIR™ Products*

Epurair designs and sells air filtration systems for furnaces and air-conditioners, air exchangers and air purifiers for the residential and commercial markets. Integrating Epurair's technologies with Noveko's air filtration technology allows us to develop promising new products, as explained in the previous section.

### **Sanitizers**

#### *Demand and Production*

We continue to prioritize the most promising hospital and institutional segments for our hand sanitizers, whereas the retail market has also experienced some growth. The pandemic context that has prevailed over the past quarters, combined with general public health concerns, have led to a major increase in the demand for our sanitizers, as attested to by the sales growth mostly seen in the last few quarters over the previous year. Also during that period, and especially once we raised the funds from the Private Placement, we took the necessary steps with our suppliers to gradually increase our production capacity and inventories. We are now better positioned to produce according to demand.

However, as explained in the "Antimicrobial Masks and Respirators" section of this Management's Report, the A (H1N1) influenza epidemic rapidly came to an end at the outset of the third quarter ended March 31, 2010, which had an adverse impact on demand compared with previous quarters, leading to the deferral of a number of sanitizer order deliveries. These add to the delivery delays referred to in the Management's Report for the quarter ended December 31, 2009 that were caused by the small quantity of sanitizers in stock when the pandemic threat emerged, combined with the limited working capital at our disposal until the closing of the Private Placement and the time then required to complete the production while launching our line of Microban® sanitizers.

All these factors slowed down the marketing of our sanitizers and account for our lower than forecasted sales, especially during the quarter ended March 31, 2010. The initially encountered problems in shipping our products over the U.S. border also slowed down our third-quarter sales. This situation has since been corrected.

The various aforementioned factors will also mean that recognition of the revenues from orders and distribution agreements in progress will extend over a longer than expected period, beyond the current fiscal year. Despite these execution delays and even though the growth in demand has now somewhat stabilized, we remain confident as to the evolution of the volume of orders for upcoming quarters.

In this regard, people's increased awareness as to the importance of maintaining good hand hygiene will continue to have a long-term positive impact on the marketing of our sanitizers. The new distribution agreements signed during the quarter with Zer Hitech and AMD-Ritmed, leaders in the medical field, also attest to the growing interest in our sanitizers.

Furthermore, we are still in talks with various parties aimed at further stimulating our market development and the commercialization of our products, while also increasing their production more efficiently, notably by securing closer presence to target markets.

## ***Medical Equipment***

### *Ultrasound Scanners*

Although the swine and bovine industries remain fragile despite signs of a recovery, ECM is maintaining its dominant market share in portable ultrasound scanners for use in veterinary medicine. Furthermore, although initially slowed down by the additional delays encountered in obtaining the product approvals in each of the countries where it was launched, the marketing of the Imagyne™ ultrasound scanner for use in human medicine is going well. ECM plans to finalize the setting-up of a network of exclusive distributors for the human medicine market in the current fiscal year. This network currently extends to 32 countries. The Imagyne™ ultrasound scanner is also intended for use in veterinary medicine, but to a lesser extent.

In January 2010, ECM launched the Exago™, another high-end ultrasound scanner that is initially intended for veterinarians, especially in the equine market, and subsequently for the pets market. Once the required approvals are obtained, this device will also be used in human medicine, especially for emergency, anesthesia and army needs. ECM expects to obtain the authorization to affix CE Marking on this device during the fourth quarter of fiscal 2010. Once the Exagyne™ has also been brought to market, ECM will offer a complete line of ultrasound scanners responding to various clinical applications, thereby driving further penetration of the human medicine market.

### *Noveko Algérie*

Noveko Algérie continues to reap the benefits of the supply of various medical devices. In connection with its healthcare sector reform, Algeria is investing massively to build new infrastructures fitted out with modern medical equipment. We believe that the healthcare promotion in Algeria paves the way for promising breakthroughs for all our products, while also driving this subsidiary's medical equipment import activities.

### 3. SELECTED CONSOLIDATED QUARTERLY INFORMATION

#### Three-Month and Nine-Month Periods Ended March 31, 2010 and 2009

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

	Three Months		Nine Months	
	2010 <sup>(1)</sup>	2009	2010 <sup>(1)</sup>	2009
Revenues from continuing operations	<b>3,005</b>	2,609	<b>12,480</b>	8,789
Gross margin	<b>1,158</b>	1,418	<b>5,288</b>	4,381
Loss before amortization, financial expenses, income taxes, other items and discontinued operations <sup>(2)</sup>	<b>(3,891)</b>	(5,692)	<b>(10,835)</b>	(16,577)
Loss from continuing operations	<b>(4,873)</b>	(5,577)	<b>(13,647)</b>	(18,598)
Loss from discontinued operations <sup>(3)</sup>	<b>(324)</b>	(131)	<b>(698)</b>	(591)
Net loss <sup>(4)</sup>	<b>(5,197)</b>	(5,708)	<b>(14,345)</b>	(19,188)
Loss per Class A share (basic and diluted)				
Continuing operations	\$ <b>(0.06)</b>	\$ (0.08)	\$ <b>(0.19)</b>	\$ (0.28)
Discontinued operations <sup>(3)</sup>	\$ <b>(0.01)</b>	\$ (0.01)	\$ <b>(0.01)</b>	\$ (0.01)
Net loss <sup>(4)</sup>	\$ <b>(0.07)</b>	\$ (0.09)	\$ <b>(0.20)</b>	\$ (0.29)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	<b>75,916</b>	66,999	<b>72,678</b>	66,472

Balance Sheet Data	March 31, 2010	June 30, 2009
Total assets	<b>51,802</b>	50,897
Shareholders' equity	<b>42,193</b>	38,487
Total interest-bearing debt <sup>(5)</sup>	<b>1,885</b>	4,163
Cash, cash equivalents, short-term investments and deposit in trust	<b>6,133</b>	4,711

- 1) The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries as at March 31, 2010.
- 2) Including stock-based compensation of \$599,101, \$3,030,931, \$3,165,463 and \$9,294,848 for the respective periods of 2010 and 2009, which has no impact on the cash balance.
- 3) BLI's results.
- 4) Including BLI's results.
- 5) Including long-term debt and its current portion, bank loans, and short and long-term convertible debentures; excluding BLI.

### 4. OPERATING RESULTS

#### Analysis of Consolidated and Segmented Operating Results for the Third Quarter Ended March 31, 2010 Compared with the Third Quarter Ended March 31, 2009

Our segmented information is reported based on the following business segments: medical equipment, sanitizers, antimicrobial surgical masks and respirators, filtration products and other activities consisting primarily of the activities of the parent company, Noveko International, and of Noveko Trading, as well as the marketing management services offered by Magnum to external clients. Furthermore, the results of operations and the assets and liabilities of BLI are withdrawn from continuing operations to be treated as discontinued operations in the Company's financial statements.

**Consolidated and Segmented Revenues from Continuing Operations** (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
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
Other	77,330	154,643	264,946	650,836
<b>Total</b>	<b>\$ 3,004,781</b>	<b>\$ 2,608,663</b>	<b>\$ 12,479,800</b>	<b>\$ 8,789,018</b>

**Consolidated revenues** for the third quarter grew by \$0.4 million or 15.2% to \$3.0 million. This growth primarily reflects the \$0.3 million increase in sales of filtration products mainly posted by the subsidiary Epurair in the residential and institutional markets, including the initial impact of the agreement concluded in December 2009 with DGI to equip the entire Complexe Desjardins with filters incorporating the Noveko™ antimicrobial filtration technologies. In this regard, the installation of the new filtration systems at Complexe Desjardins is right on schedule. To this increase was added a \$0.3 million growth in medical equipment sales stemming from the commercialization efforts of Noveko Algérie and ECM. In fact, whereas Noveko Algérie posted a 25% growth, ECM increased its sales by approximately 6% during the third quarter. Regarding ECM, this increase would have been higher – at 19% in euros – were it not for the impact of the conversion into Canadian dollars of ECM's sales in euros in the context of the major depreciation of the euro against the Canadian dollar. ECM is further penetrating the human medicine market and its ultrasound scanner sales continue to grow in this market as well as in the veterinary medicine market. Conversely, the mask and sanitizer segments' sales decreased by \$67,205 and \$16,135 respectively. This decline is notably attributable to the rapid end of the A (H1N1) influenza pandemic at the outset of 2010 and the delays to obtain the required additional certifications in order to market our products in certain territories that led to delays in certain order deliveries, as well as to the cancellation of orders by a distributor experiencing financial problems, combined with the other factors set forth in further detail in the *Overview by Business Segment – Antimicrobial Masks and Respirators – Sanitizers* section of this Management's Report.

For the first nine months, consolidated revenues grew by \$3.7 million or 42.0% to \$12.5 million. This growth is due to a \$1.1 million or 18.8% increase in medical equipment sales reflecting the contribution of Noveko Algérie and ECM, as well as an increase of \$2.1 million in sanitizer sales and of \$1.0 million in mask sales, subsequent to the sharp rise in demand seen in the first two quarters of the current fiscal year in the context of the pandemic threat then prevailing. Conversely, filtration product sales decreased by approximately \$0.1 million due to the business slowdown in the swine market.

**The operating profit margin** for the third quarter was 38.5%, compared with 54.4% for the corresponding quarter of the previous year. This decline was caused by an increase in logistics services and transportation expenses in various overseas markets, the lower profit margins recorded in the retail market and the higher raw material supply costs that could not be reflected in selling prices due to exchange rates. For the first nine months, the operating profit margin was 42.4%, down from 49.8% for the corresponding period of the previous year. In addition to the previously mentioned factors, this decrease is due to downward price adjustments at the beginning of the year in the segments of filtration products for breeding farms and medical equipment for use in veterinary medicine.

**Selling and administrative expenses** for the third quarter and first nine months increased by \$0.4 million and \$0.9 million respectively, to \$4.1 million and \$12.1 million. This increase reflects the costs related to product marketing and sales initiatives in our various business segments and the reinforcement of the sales team during the third quarter. In addition, the Company had to recognize a provision for doubtful accounts of \$0.2 million for the third quarter and of \$0.6 million for the first nine months of the current fiscal year, most of which related to the financial problems experienced by one of our distributors.

**Stock-based compensation charge** for the third quarter and first nine months, which has no impact on the Company's cash balance, decreased by \$2.4 million from the third quarter of the previous year and by \$6.1 million from the first nine months of the previous year. Primarily as part of the acquisitions closed at the beginning of the previous year, the Company had granted stock options to employees and consultants entitling them to purchase a total of 2,950,000 Class A shares at a weighted average exercise price of \$2.76 per share with a vesting period extending over 12 to 30 months. In this regard, it should be noted that the Company uses the fair value based method of accounting for all options granted, whereby a stock-based compensation charge is recognized over the vesting periods of the options with a corresponding increase in contributed surplus. The change in stock-based compensation charge between the first nine months ended March 31, 2010 and the first nine months ended March 31, 2009 thus stems from the fact that stock-based compensation is recorded gradually. The fair value of the options was estimated using the Black and Scholes options pricing model based on the assumptions presented in note 9 "Stock Options Plan" accompanying the consolidated financial statements for the third quarter and first nine months ended March 31, 2010.

**Earnings (Loss) before Amortization, Financial Expenses, Income Taxes, Other Items and Discontinued Operations** (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
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)
Other	(2,005,226)	(3,161,750)	(7,175,984)	(10,733,444)
<b>Total</b>	<b>\$ (3,891,379)</b>	<b>\$ (5,692,128)</b>	<b>\$ (10,834,761)</b>	<b>\$ (16,577,292)</b>

Considering the above-mentioned factors, the Company reduced its **loss before amortization, financial expenses, income taxes, other items and discontinued operations**. This loss amounted to \$3.9 million for the third quarter, down by \$1.8 million from the third quarter of the previous year. For the first nine months, it totalled \$10.8 million, down by \$5.7 million from the first nine months ended March 31, 2009. This major reduction in the loss before amortization, financial expenses, income taxes, other items and discontinued operations is attributable to the following factors:

- a major reduction in the stock-based compensation charge of the parent company Noveko International (in the Other segment) during the third quarter and first nine months of the current fiscal year, as previously mentioned, combined with the positive impact of tighter cost management;
- a reduction in the loss from the filtration products segment of \$1.0 million for the third quarter and of \$1.1 million for the first nine months of the current fiscal year, thanks to the sales growth, better operating cost management and a decrease in product development expenses during the third quarter;
- a profit before amortization, financial expenses and income taxes of \$0.4 million achieved by the medical equipment segment for the first nine months of the current fiscal year, compared with a loss of \$6,196 for the corresponding period of 2009, thanks to Noveko Algérie's contribution and improvement in profitability, and that of ECM in the first quarter;
- a reduction of approximately \$0.2 million in the mask segment's loss for the third quarter and of \$0.7 million for the first nine months of the current fiscal year, reflecting the decrease in stock-based compensation charge and the significant sales growth during the first two quarters of the current fiscal year;
- finally, the sanitizer segment increased its loss by \$0.8 million for the third quarter and by \$0.3 million for the first nine months, due mainly to the increase in selling and administrative expenses allocated thereto since the integration of Laboratoire Syma Inc.'s operations with Noveko and the merger of these two entities in July 2009.

**Amortization expenses** increased by \$0.2 million in the third quarter and by \$0.4 million for the first nine months of the current fiscal year as the Company has started to amortize the expenses related to the Exago™ (veterinary medicine) since its market launch at the beginning of the quarter, along with the expenses related to its new integrated management system, the implementation of which was completed during the third quarter of the current fiscal year.

**Financial expenses, less investment income**, amounted to \$0.5 million for the third quarter and to \$1.3 million for the first nine months of the current fiscal year, compared with a negative amount of \$0.4 million for the third quarter of the previous year and a positive amount of \$0.9 million for the first nine months of the previous year. These changes are due primarily to the fact that the Company had to recognize exchange losses of \$0.6 million and \$1.4 million respectively for the third quarter and first nine months of the current fiscal year, whereas it had realized exchange gains of \$0.8 million and \$1.1 million respectively for the third quarter and first nine months of the previous year, on account of the more favourable exchange rate at that time. It is to be noted that the major portion of the exchange losses for the third quarter and first nine months of the current fiscal year is unrealized.

In its June 30, 2009 financial statements, the Company had recorded a \$3.6 million **goodwill impairment charge** related to the medical equipment segment (ECM), which had no impact on the Company's cash balance. When the step-one analysis of the goodwill assessment was initiated as at June 30, 2009, it was determined that a comprehensive step-two analysis would be required for a business unit included in the medical equipment segment as the net book value of this unit exceeded its estimated fair value. Based on the preliminary assessment, determined using the discounted estimated future cash flows method, management had estimated that as at June 30, 2009, the fair value of goodwill in the medical equipment segment amounted to \$2,454,551. Accordingly, as required by CICA Handbook Section 3062, the Company had recorded a \$3.6 million goodwill impairment charge in its June 30, 2009 financial statements. This impairment reflects the market conditions affecting ECM, primarily the economic slowdown and the restructuring periods the swine and bovine industries are undergoing. With the assistance of an independent valuator, the Company proceeded with a comprehensive assessment, which yielded a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. The Company completed the final calculation of the goodwill impairment charge during the second quarter of the current fiscal year and the resulting non-cash adjustment yielded a \$69,700 gain in the consolidated statement of operations for the first nine months of the year.

**Net Earnings (Loss) from Continuing Operations** (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
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)
Other	(2,359,203)	(2,300,853)	(8,484,088)	(11,806,102)
<b>Total</b>	<b>\$ (4,872,825)</b>	<b>\$ (5,576,911)</b>	<b>\$ (13,646,999)</b>	<b>\$ (18,597,582)</b>

In light mainly of the above-mentioned factors, the Company reduced its **net loss from continuing operations** by \$0.7 million to approximately \$4.9 million for the third quarter. For the first nine months of the current fiscal year, its net loss from continuing operations was lowered by \$5.0 million to \$13.6 million.

As detailed in note 4 “Discontinued Operations and Assets Held for Sale” accompanying the consolidated financial statements for the third quarter and first nine months ended March 31, 2010, a \$0.3 million loss from discontinued operations (BLI) was recognized in third-quarter results, compared with \$0.1 million for the third quarter of the previous year. For the first nine months of the current fiscal year, the loss from discontinued operations totalled \$0.7 million, compared with \$0.6 million for the corresponding period of the previous year. Consequently, **the net loss** for the third quarter amounted to \$5.2 million, compared with \$5.7 million for the same quarter of the previous year. For the first nine months of the current fiscal year, the net loss was reduced to \$14.3 million, down from \$19.2 million for the corresponding period of the previous year.

Considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$0.7 million for the third quarter, compared with a net change in unrealized losses of \$1.4 million for the corresponding quarter of the previous year, a net loss of \$5.9 million represented **the comprehensive loss** for the quarter ended March 31, 2010, compared with a net loss of \$7.1 million for the corresponding quarter of the previous year. For the first nine months, a net loss of \$15.7 million represented the comprehensive loss, considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$1.4 million, compared with a net loss of \$19.5 million for the corresponding nine months of the previous year, considering a change in unrealized losses of \$0.3 million for the same period of the previous year.

For the third quarter, **the loss from continuing operations and the net loss** respectively amounted to \$0.06 and \$0.07 **per Class A share (basic and diluted)** on a weighted average of 75,916,023 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.08 and \$0.09 per share respectively on a weighted average of 66,998,694 shares for the third quarter of the previous year. For the first nine months of the current fiscal year, the loss from continuing operations and the net loss amounted to \$0.19 and \$0.20 per Class A share (basic and diluted) respectively on a weighted average of 72,677,982 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.28 and \$0.29 per share respectively on a weighted average of 66,471,880 shares for the corresponding period of the previous year. The increased weighted average number of outstanding shares is due to the issuance of Class A shares related to the private placement closed in October 2009 and the issuance of Class A shares subsequent to the exercise of stock options and to the conversion right of convertible debentures, as detailed in note 8 accompanying the financial statements for the period ended March 31, 2010.

## Principal Quarterly Financial Information

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2010</b>				
Revenues	4,496	4,979	3,005	
Loss from continuing operations	(3,811)	(4,963)	(4,873)	
Comprehensive loss	(4,417)	(5,449)	(5,859)	
Loss per Class A share from continuing operations (basic and diluted)	(0.06)	(0.07)	(0.06)	
<b>Fiscal 2009</b>				
Revenues	2,272	3,908	2,609	3,373
Loss from continuing operations	(6,281)	(6,740)	(5,577)	(10,262)
Comprehensive loss	(6,699)	(5,305)	(6,931)	(9,411)
Loss per Class A share from continuing operations (basic and diluted)	(0.10)	(0.10)	(0.08)	(0.15)
<b>Fiscal 2008</b>				
Revenues	1,295	2,182	1,621	2,331
Loss from continuing operations	(2,127)	(1,701)	(3,418)	(6,825)
Comprehensive loss	(2,230)	(1,534)	(2,573)	(6,928)
Loss per Class A share from continuing operations (basic and diluted)	(0.04)	(0.04)	(0.06)	(0.12)

## 5. FINANCIAL POSITION

### *Analysis of Principal Cash Flows for the Third Quarter and Nine-Month Period Ended March 31, 2010 (unaudited)*

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
<b>Operating activities:</b>				
Net loss	\$ (5,196,538)	\$ (5,707,935)	\$ (14,344,537)	\$ (19,188,367)
Adjustments for loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, amortization, gain on disposal of fixed assets, loss on fair value of short-term investments, unrealized loss (gain) on foreign denominated contracts, foreign exchange loss (gain) and adjustments from discontinued operations	1,519,647	4,214,687	5,975,445	11,002,425
Net change in non-cash balances related to operations	(887,337)	(1,024,129)	(3,127,334)	(5,627,360)
<b>Total</b>	<b>(4,564,228)</b>	<b>(2,517,377)</b>	<b>(11,496,426)</b>	<b>(13,813,302)</b>
<b>Financing activities</b>	<b>(219,003)</b>	<b>(116,346)</b>	<b>13,850,862</b>	<b>3,073,416</b>
<b>Investing activities</b>	<b>4,702,722</b>	<b>2,792,958</b>	<b>(1,289,867)</b>	<b>(609,846)</b>
Foreign exchange loss 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, end of period	\$ 1,843,376	\$ 291,101	\$ 1,843,376	\$ 291,101

For the third quarter, **operating activities after net change in non-cash balances related to operations** used cash flows of \$4.6 million, compared with \$2.5 million for the third quarter of the previous year. This change is due primarily to the reduction in the net loss, less adjustments for the loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation charge, amortization, gain on disposal of fixed assets, loss on fair value of short-term investments, unrealized loss (gain) on foreign denominated contracts, foreign exchange loss (gain) and adjustments from discontinued operations. Net change in non-cash balances related to operations represented a cash outflow of \$0.9 million, compared with a cash outflow of \$1.0 million for the corresponding quarter of the previous year. For the first nine months of the current fiscal year, operating activities after net change in non-cash balances related to operations used cash flows of \$11.5 million, compared with \$13.8 million for the first nine months of the previous year. Net change in non-cash balances related to operations represented a cash outflow of \$3.1 million, compared with a cash outflow of \$5.6 million for the first nine months of the previous year. This change is due primarily to the increase in inventories.

**Financing activities** used cash flows of \$0.2 million during the third quarter, compared with \$0.1 million for the corresponding quarter of the previous year. The Company made repayments of debts and bank advances and paid interest of more than \$0.2 million on convertible debentures, whereas the exercise of stock options provided cash flows of \$8,700. For the first nine months of the current fiscal year, financing activities provided cash flows of \$13.9 million, compared with \$3.1 million for the corresponding period ended March 31, 2009. This change primarily reflects the \$14.6 million net proceeds from the issue of Class A shares related to the private placement closed in October 2009. Furthermore, the Company reduced its long-term debt by approximately \$0.5 million and contracted bank advances in the amount of approximately \$0.1 million during the first nine months of the current fiscal year.

**Investing activities** provided cash flows of \$4.7 million during the third quarter, compared with \$2.8 million in the third quarter of the previous year. This change is due primarily to the fact that the Company encashed short-term investments for a net amount of \$8.0 million and acquired such investments for \$3.0 million, representing an actual encashment of \$5.0 million, compared with an actual encashment of \$3.1 million in the third quarter of the previous year. For the first nine months of the current fiscal year, investing activities used cash flows of \$1.3 million, compared with \$0.6 million for the first nine months of the previous year. This change is due primarily to the fact that the Company acquired short-term investments for a net amount of \$15.1 million subsequent to the private placement closed in October 2009 and encashed an amount of \$14.6 million on such investments, whereas during the first nine months of the previous year, it had encashed short-term investments for \$62.2 million and acquired such investments for \$55.6 million, representing an actual encashment of \$6.6 million. In addition, the Company had then paid a cash consideration of \$5.9 million for the acquisition of Noveko Algérie, Groupe Conseils Micron-Air Inc. (including two other companies of the same group), Unitam International Management Corporation Inc., Purer Life and U-Bond Inc.

Consequently, aggregate cash inflows and outflows for the first nine months ended March 31, 2010 provided **net cash flows** of \$1.0 million, whereas they used cash flows of \$11.3 million during the first nine months of the previous year. The Company ended the nine-month period with **cash and cash equivalents** of \$1.8 million, compared with \$0.3 million as at March 31, 2009.

## Balance Sheet Analysis as at March 31, 2010 (unaudited)

### Summary Balance Sheet

	March 31, 2010	June 30, 2009
Current assets	\$ 21,268,914	\$ 16,579,552
Current assets held for sale <sup>(1)</sup>	1,510,339	1,998,371
Long-term assets	25,490,850	28,481,877
Long-term assets held for sale <sup>(1)</sup>	3,532,239	3,836,738
<b>Total</b>	<b>\$ 51,802,342</b>	<b>\$ 50,896,538</b>
Current liabilities	\$ 3,592,692	\$ 4,434,543
Current liabilities held for sale <sup>(1)</sup>	1,945,971	2,126,397
Long-term liabilities	2,263,520	3,924,773
Long-term liabilities held for sale <sup>(1)</sup>	1,807,616	1,924,217
Shareholders' equity	42,192,543	38,486,608
<b>Total</b>	<b>\$ 51,802,342</b>	<b>\$ 50,896,538</b>

1) Related to BLI.

The changes in the Company's financial position since June 30, 2009 notably reflect the period's results and the use of short-term investments subsequent to the private placement closed in October 2009 and the increase in product inventories in all segments.

As at March 31, 2010, **total assets** amounted to \$51.8 million, up by \$0.9 million over June 30, 2009. **Working capital** stood at \$17.2 million for a current ratio of 4.1:1, compared with \$12.0 million and a 2.8:1 ratio as at June 30, 2009.

**Shareholders' equity** totalled \$42.2 million as at March 31, 2010, compared with \$38.5 million as at June 30, 2009, primarily reflecting the \$14.9 million increase in capital stock subsequent to the Class A share issues during the first nine months of the current fiscal year and the \$3.8 million increase in contributed surplus reflecting the stock-based compensation charge, including the consideration of the options granted to brokers upon the issue of Class A shares related to the private placement closed in October 2009 (the reader is referred to note 8, "Capital Stock", accompanying the financial statements), less a \$16.4 million increase in the deficit. It is to be noted that during the first nine months ended March 31, 2010, the Company granted 750,000 stock options to employees and consultants, entitling them to purchase 750,000 Class A shares at a weighted average exercise price of \$2.37 per share, of which the rights vest gradually over 12 to 30 months following their grant.

## Indebtedness

	March 31, 2010	June 30, 2009
Bank loans	\$ 214,641	\$ 162,970
Current portion of long-term debt	535,176	754,584
Long-term debt	1,047,955	1,455,182
Short and long-term secured convertible debentures	86,894	1,789,827
Total indebtedness	\$ 1,884,666	\$ 4,162,563

**Total interest-bearing debt** (bank loans, current portion of long-term debt, long-term debt and short and long-term secured convertible debentures) stood at \$1.9 million as at March 31, 2010, down by \$2.3 million from June 30, 2009. This reduction stemmed primarily from the \$1.7 million decrease in convertible debentures due to the conversion of debentures for a total principal amount of \$1.9 million into 1,574,554 Class A shares during the period, as well as the \$0.6 million decrease in long-term debt including the current portion, whereas bank loans increased by \$0.1 million. It is to be noted that the total interest-bearing debt (bank advances, current portion of long-term debt and long-term debt) related to BLI, as detailed in note 4 "Discontinued Operations and Assets Held for Sale" accompanying the period's consolidated financial statements, amounted to \$3.2 million as at March 31, 2010.

## Capital Stock Information

During the first nine months ended March 31, 2010, the Company issued 136,665 Class A shares subsequent to the exercise of stock options for a cash consideration of \$130,866 and a transfer of \$89,941 from contributed surplus. In addition, 1,574,554 Class A shares were issued subsequent to the conversion right of \$1,887,414 of convertible debentures. Amounts of \$1,728,329 and \$348,567 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity. Subsequent to the closing of the private placement in October 2009, the Company issued 7,156,000 Class A shares for a total cash consideration of \$15,743,200. Pursuant to this issue, the Company granted 490,571 stock options to brokers entitling them to purchase 490,571 Class A shares and 245,285 warrants at a weighted average exercise price of \$2.58 per unit until October 2012.

Considering these issues, the Company's capital stock consisted of 75,925,912 Class A shares as at March 31, 2010, compared with 67,058,693 Class A shares as at June 30, 2009.

## Other Contractual Commitments

As at March 31, 2010, the balance of contractual commitments under the terms of leases for the rental premises maturing in 2014 totalled \$2.7 million. Minimum lease payments over each of the next five years are as follows:

2010: \$1,006,503	2012: \$719,693	2014: \$68,343
2011: \$776,651	2013: \$154,496	

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 are positive and the working capital exceeds \$6.0 million. Under the terms of the agreement, the Company will continue to pay the royalties up to a maximum of \$520,000. As at March 31, 2010, no payments had yet been made under the terms of this agreement.

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 and any other patent ensuing from this invention. During the first nine months ended March 31, 2010, \$13,371 (\$4,517 as at March 31, 2009) was paid under the terms of this agreement.

## Sources and Requirements of Funds

Since our inception, we have incurred several operating losses due primarily to our product development and commercialization-related expenses. As at March 31, 2010, our deficit amounted to \$77.6 million. Up to now, we have had recourse to public investments and private placements to finance our growth. In October 2009, we closed a best efforts private placement for total gross proceeds of \$15.7 million. As at March 31, 2010, we had \$6.1 million in cash, cash equivalents, deposit in trust and short-term investments. We closely monitor our capital and financial position and we will also be able to take advantage of debt financing to finance our future projects as we continue to grow.

As at March 31, 2010, Epurair had a credit facility on demand of \$250,000, of which \$160,513 was used. This credit, bearing interest at the prime rate of the financial institution plus 1.5%, is renegotiable annually. According to the covenants of this advance, this loan is limited to a value of accounts receivable and inventories and Epurair must maintain a minimum current ratio, debt-to-equity and net worth of \$400,000. As at March 31, 2010, the subsidiary met all of its ratios. For its part, BLI has a credit facility on demand of \$1,350,000, of which \$1,199,427 was used as at March 31, 2010. This credit, bearing interest at the prime rate of the financial institution plus 1.25%, is secured by a movable hypothec on the universality of BLI's receivables, a first-ranking movable hypothec on the universality of BLI's inventories, by a 45% loan guarantee of Investissement Québec and by the guarantee of the Company.

Based on our expected cash inflows and financial position, we estimate we will have to raise additional funds over the next fiscal year in order to pursue our product development and marketing. In this regard, the reader is also referred to Section 6, "Outlook", of this Management's Report.

## Events Subsequent to Balance Sheet Date

As of April 2, 2010, we acquired all the outstanding shares of Beijing Oasis International Business Development Limited (since redesignated Noveko (Beijing) Hi-Tech Development Limited), in consideration of a total of one million renminbis (or the equivalent of \$147,599 in Canadian dollars). In addition, on April 22, 2010, convertible debentures of \$100,002 were repaid in cash. Finally, on May 12, 2010, subject to approval by the Toronto Stock Exchange, 300,000 warrants were granted to Maxim Group LLC, an American investment bank whose services were notably retained to enhance our visibility in the U.S. financial community and thereby favour our access to a larger group of investors. Subject to a six month plus one day holding period, these warrants entitle the holder to purchase 300,000 Class A shares at an exercise price of \$1.00 per share and mature in 36 months.

## 6. OUTLOOK

Pursuant to our corporate vision, we will continue to prioritize the development and commercialization of our antimicrobial solutions. To that end, we will carry on our efforts to forge strategic partnerships that will foster their more efficient production and their distribution on a wider scale. We will also further increase our market share in ultrasound scanners for use in human and veterinary medicine.

With regard to the marketing of our *masks, respirators and hand sanitizers*, and despite the execution delays previously referred to in this Management's Report, we remain confident as to our sales growth in upcoming quarters. In fact, we believe the accelerated Noveko™ branding and increased visibility from which our products benefited over the past year, combined with higher demand than in the prior fiscal year, will have a positive impact on the marketing of our masks, respirators and sanitizers. Also, the progress accomplished in the various certification processes for our respirators should accelerate their commercialization in upcoming quarters, especially in Europe, Asia and North America. Furthermore, we are now better positioned to produce according to demand. This outlook is based on what we are hearing from our distributors and others interested in our products.

Given the recent breakthroughs achieved by our *filtration solutions*, we expect air filters to represent one of our principal growth drivers over the medium and long term. We also foresee that over the next fiscal year, promising advances will be realized in the commercialization of our new applications in the buildings, railway transportation and aeronautics fields.

In the buildings segment, mainly the *institutional – including hospital settings – and commercial markets*, we believe there is great potential, within the near term, for us to win other contracts similar to those concluded to supply our filters to Complexe Desjardins and a pavilion at the Jewish General Hospital, two leading institutions in the Province of Quebec, located in Montreal. This outlook is based on numerous meetings and calls for tenders from real estate groups interested in our filtration solutions.

In *air filters for the transportation industry*, our efforts have paid off and we believe the agreement with Bombardier sets the stage for the development of a highly promising market, although it will probably take a few quarters for this agreement to yield significant revenues, depending on the speed at which Bombardier's clients will opt for our filtration solutions. Despite certain execution delays, we are also confident as to the implementation of our business plan in the aeronautics field, whereas we are in the final phase of the required tests for the purposes of obtaining "STC" certification for our filters from Transport Canada. Air Transat has already stated its interest in equipping its aircraft with such filters.

In *air filters for farm buildings*, several signs allow us to look forward to a forthcoming improvement in our business. Although this segment's results will probably continue to be affected between now and year-end by the difficult conditions that have prevailed in the swine industry, we are confident we are well positioned to benefit from a recovery, mainly in North America, but also in Europe and Asia. This outlook is based notably on the volume of inquiries and calls for tenders with regard to our filtration solutions from producers, who increasingly recognize that a bio-safety program is an important part of a sustainable development program and, in this context, our new-generation filtration solutions are attracting ever-greater interest.

Our *medical equipment* segment should also further improve its profitability, whereas ECM is completing the required approval processes and setting up its distribution network for the human market. Over the next fiscal year, it will also offer a complete line of ultrasound scanners for use in human medicine. Finally, it retains an enviable competitive positioning in ultrasound scanners for use in veterinary medicine.

We will continue to focus particular attention on improving our operational efficiency and on developing our products and markets driving our growth based on our strategic priorities. We maintain our objective of reaching the break-even point in the near term. However, the achievement of this objective, initially expected by the end of the current fiscal year, could be delayed by one or two quarters by the various delays encountered in the execution of existing agreements and orders. It will also depend on our success in pursuing and intensifying the development and marketing of our products and solutions.

We wish to point out that the achievement of this outlook is also subject to certain fluctuations related to economic conditions, exchange rate variations, the execution schedule of agreements and order deliveries, our ability to conclude additional licence and distribution agreements and to obtain the required regulatory approvals for certain products, as well as the risks and uncertainties to which we are regularly exposed and which are mentioned in our continuous disclosure filings.

Considering the various factors previously mentioned in this Management's Report, we estimate we will have to raise additional funds over the next fiscal year in order to pursue our product development and marketing. Furthermore, to improve our visibility in the U.S. financial community and thereby favour our access to a larger group of investors, we have retained the services of Maxim Group LLC, an American investment bank.

## **7. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have been listed on the Toronto Stock Exchange since July 28, 2008. Prior to being listed on the Toronto Stock Exchange, the Company was a venture issuer pursuant to National Instrument 51-102 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). As such, in contrast to the certificate required under NI 52-109, the Company's Venture Issuer Basic Certificate did not include any representations relating to the establishment and maintenance of a system of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing the certificate were not making any representations relating to the establishment and maintenance of: (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its reports filed or submitted under applicable securities legislation were recorded, processed, summarized and reported

within the time periods specified in securities legislation; and (ii) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. However, our certifying officers were responsible for ensuring that processes were in place to provide them with sufficient knowledge to support the representations they were making in their certificate.

## **Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining DC&P designed to provide reasonable assurance that the information we are required to disclose in our annual filings, interim filings and other reports (the "reports") filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation. DC&P include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by an issuer in the reports filed or submitted under the applicable securities legislation is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As at March 31, 2010, an evaluation was carried out, under the supervision of and with the participation of our management, including the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures as defined under NI 52-109. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Upon such review, the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer determined that there were material weaknesses in the design of our DC&P. However, the DC&P deficiencies we identified did not result in adjustments to our interim consolidated financial statements for the periods ended March 31, 2010 and 2009. We have identified the following material weaknesses:

### ***Entity Level Controls***

We did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in our internal control over financial reporting. To mitigate the risk, management relies heavily on manual procedures and detection controls, management meetings, quarterly reviews of financial statements by our subsidiaries and by the Audit Committee. These manual procedures were performed during the interim periods ended March 31, 2010 and 2009.

### ***Recent Acquisitions***

We also carried out an evaluation of the material weaknesses relating to the design of our DC&P as of March 31, 2010 for Noveko Algérie and Purer Life, acquired on July 17 and August 1, 2008 respectively. We determined that risks exist with respect to these two acquired entities that could reasonably result in a material misstatement in their interim filings. Since the end of the previous fiscal year, the certifying officers no longer limit the scope of the design of the DC&P with respect to Noveko Algérie and Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are no longer excluded from the management's evaluation of the design of the Company's DC&P.

## **Internal Controls over Financial Reporting**

Our ICFR includes, among others, those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorization of our management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We carried out an evaluation of our ICFR, under the supervision of and with the participation of our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of March 31, 2010. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the COSO. The evaluation considered the procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the applicable securities legislation and communicated to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chairman of the Board and Chief Executive Officer and Chief Financial Officer have determined that there existed material weaknesses in the design of our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim consolidated financial statements for the periods ended March 31, 2010 and 2009. Following our assessment, we identified the following material weaknesses:

### ***Information Technology General Controls***

We did not adequately maintain effective control over access to our accounting system within our accounting department. In addition, the backup tapes were not periodically tested to ensure their accuracy and there is no information technology strategic plan and no business continuity plan. There is also no periodic review performed on the security logs for failed logins. We are actually in the process of implementing controls over program development and program changes.

The potential ability for someone to improperly access and change accounting records is mitigated by the fact that management relies heavily on manual procedures and detection controls, and quarterly reviews of financial statements by management and by the Audit Committee.

### ***Inventory Management and Control***

We did not maintain effective controls over the management process with respect to some of our inventories. More specifically, controls were not in place to ensure that (i) journal entries presenting inventory movements are reviewed by a person other than the preparer; (ii) sufficiently trained personnel is responsible for inventory management; and (iii) access to the physical inventory is restricted to appropriate personnel. These weaknesses could result in material misstatements in amounts reported for some of the Company's inventories.

### ***Segregation of Duties***

We have deficient controls within our accounting department over segregation of duties inherent to the department's size. Specifically, as a result of the limited number of personnel in the accounting department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and

authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, weekly management meetings, reviews of our subsidiaries' financial statements and quarterly reviews of financial statements by the Audit Committee. These manual procedures were performed for the interim periods ended March 31, 2010 and 2009.

### ***Unusual Transactions***

We have detected unusual transactions in our subsidiary BLI that could have gone undetected. These transactions could have had a material impact on the Company's interim consolidated financial statements as at September 30, 2009. A management employee involved in these unusual transactions has since been dismissed. The Company had already recorded provisions with respect to the client involved during the previous fiscal year ended June 30, 2009. It is also to be noted that BLI's operations have been treated as discontinued since June 30, 2009.

### ***Recent Acquisitions***

We also carried out an evaluation of the material weaknesses of our ICFR as of March 31, 2010 for Noveko Algérie and Purer Life. We determined that risks exist with respect to these two acquired entities that could reasonably result in a material misstatement in their interim filings. Since the end of the previous fiscal year, the certifying officers no longer limit the scope of their design of ICFR for Noveko Algérie and Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are no longer excluded from management's evaluation of the design of the Company's ICFR.

## **Remediation of Material Weaknesses in Internal Control over Financial Reporting and Disclosure Controls**

We have initiated the following actions to address the material weaknesses in our DC&P and ICFR identified as of March 31, 2010.

### ***Entity Level Controls***

Our Management and Audit Committee have taken an active role in responding to the deficiencies identified, including overseeing management's implementation of the remedial measures described below.

### ***Information Technology General Controls***

We will implement enhanced information technology policies and procedures specifically with regard to inventory controls and to the system's change management, program development, access over end-of-period process spreadsheets, IT operations and related monitoring. We have completed the implementation of a new accounting system that will overcome the accounting system inventory controls and access deficiencies. We will also develop and implement a global information technology strategic plan and a business continuity plan.

### ***Inventory Management and Control***

To ensure better control over the management of some of our inventories, we have implemented stricter control measures and reviewed all the inventory transactions that occurred during the quarter. We have also hired additional personnel with the appropriate training to remedy this weakness.

### ***Inadequate Segregation of Duties***

We will continue to use appropriate measures to restrict or independently monitor systems access and properly assign job roles and responsibilities to employees to ensure the proper segregation of duties where feasible. As the Company grows, we will expand the number of individuals involved in the accounting function.

### ***Unusual Transactions***

In addition to dismissing the BLI management employee involved in the said transactions, during the previous year, the Company has hired a controller at BLI with the specific mandate of tightening controls within this subsidiary. An internal investigation continued with respect to these transactions during the interim period ended March 31, 2010.

### ***Recent Acquisitions***

In upcoming quarters, the Company will continue to integrate the subsidiaries Purer Life and Noveko Algérie into its controls and procedures framework, as it did for its other subsidiaries. Control visits will be conducted in the near term to provide the personnel involved with the tools required for the evaluation of – and compliance with – the controls and procedures framework adopted by the Company.

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous DC&P and ICFF. It will take time to put in place the rigorous controls and procedures desired by our management and Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with our Audit Committee, Chairman of the Board and Chief Executive Officer and Chief Financial Officer, think necessary. Again, the control deficiencies which we identified did not result in adjustments to our interim consolidated financial statements for the interim period ended March 31, 2010 or any previous periods.

Other than the remediation efforts discussed above and the implementation of the Company's ICFR, there have been no changes in our ICFR that occurred since the beginning of the interim period ended March 31, 2010 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer, has discussed these issues and remediation efforts with our Audit Committee.

We will provide updates on the remediation plan in our quarterly and annual management's reports.

It should be noted that while our management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human errors and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable assurance, not absolute, that the objectives of the control system are met.

## **8. RISKS AND UNCERTAINTIES**

An investment in our securities involves a high degree of risk and should be considered speculative due to the nature of our business and the businesses of our subsidiaries and their current respective stage of development. The risks and uncertainties described in the Annual Report and the Annual Information Form as at June 30, 2009 remain unchanged. The reader should refer thereto for the complete statement.

## **9. CHANGES IN ACCOUNTING POLICIES**

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.

Effective July 1<sup>st</sup>, 2008, the Company adopted the new accounting recommendations of the CICA Handbook Section 1400 “General standards of financial statements presentation”, Section 1535 “Capital Disclosures”, Section 3031 “Inventories”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”.

Section 1400 requires 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 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 accompanying the financial statements on capital management).

Section 3031 provides more extensive guidance on the recognition and measurement of inventories, and related disclosures. Upon adoption of this new section, in accordance with the transition rules, the Company adjusted opening retained earnings as if the new rules had always been applied in the past, without 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; and
- \$49,243 decrease in the deficit.

Sections 3862 and 3863 replace Section 3861, “Financial Instruments – Disclosures and Presentation”. These new recommendations relate only to disclosure requirements and have no impact on the Company’s financial statements.

### **Future Changes in Accounting Policies**

In 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in GAAP, 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 for 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 changeover plan. This process is presently in the diagnostic stage, 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 exact consequences of the changes. A comprehensive assessment will then be done to precisely establish 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.


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

Section 1582 will be converged 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 be converged with the requirements of the International Accounting Standards 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.

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, under Sections 1582, 1601 and 1602, will become effective to 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.



**ANDRÉ LEROUX**  
Chairman of the Board  
and Chief Executive Officer



**ÉRIC FAVREAU**  
Vice-President and  
and Chief Financial Officer

May 13, 2010