



Interim Management's Report
Three-Month Period Ended September 30, 2009

Management's Report

1. PURPOSE AND 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 first quarter ended September 30, 2009, in comparison with the corresponding period of the previous year, 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 and accompanying notes for the first quarter ended September 30, 2009. 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) and of SEDAR (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 November 13, 2009, the date on which the Board of Directors approved the unaudited consolidated financial statements and Management's Report for the three-month period ended September 30, 2009. 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 non-cash 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, 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 and 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: (i) antimicrobial surgical masks and respirators derived from our patented antimicrobial air filtration technologies; (ii) filtration products, including antimicrobial air filters derived from our patented antimicrobial air filtration technology and EPURAIR™ air quality management systems; (iii) hand sanitizers with antimicrobial properties; and (iv) medical equipment, including ultrasound scanners for human and veterinary medicine.

Operational Overview, First-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 our patented air filtration technologies 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 our efforts to increase our presence in ultrasound scanners for 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 connection with this growth strategy, promising new agreements have been concluded recently.

Product Development and Marketing

Distribution Agreement with BLD Distribution

In July 2009, we entered into an exclusive distribution agreement with U.S.-based BLD Distribution, L.L.C. ("BLD") for our hand sanitizers. This agreement covers the sale and promotion of the hand sanitizers within the United States to the foodservices and educational segments, industrial sectors such as janitorial, warehousing and farming, and government and pharmaceutical entities. BLD committed to purchase Noveko hand sanitizers for an amount of at least US\$3 million within the first year.

Licence and Supply Agreement with Microban

In August 2009, we entered into a licence and supply agreement with Microban International, Ltd. ("Microban"), the global leader in built-in antimicrobial product protection, offering durable antimicrobial solutions for consumer, industrial and healthcare products around the world. Pursuant to this agreement, Microban granted us the right to sell our line of hand sanitizers under the Microban® brand name. This global agreement also granted us the right to use the Microban® brand as the lead/host brand or ingredient brand, and the right and licence to use the Microban® antimicrobial technology and proprietary antimicrobial additives in the manufacture of Noveko™ surgical masks and respirators through December 31, 2012.

Air Transat Chooses Noveko™ Antimicrobial Technology

In September 2009, we announced we had won a first order from Air Transat, Canada's leading holiday travel airline, for some 500,000 Noveko™ antimicrobial masks and respirators, as well as for hand sanitizers. Additional orders are expected within the near term. The antimicrobial products purchased by Air Transat are intended to protect the airline's passengers, flight personnel and ground crew. Furthermore, discussions are still under way with Air Transat and the French company Aerosys Technologies to obtain the required certifications in order to equip Air Transat's aircraft fleet with filters incorporating Noveko's antimicrobial filtration technology.

Distribution Agreement with SappTech

On October 15, 2009, we announced the conclusion of an exclusive distribution agreement for our antimicrobial masks and respirators and hand sanitizers with Malaysian-based SappTech Sdn Bhd ("SappTech"). This agreement, which has an initial term of three years, covers the distribution of these products in Malaysia, Singapore, Indonesia, Thailand, and in the State of Brunei Darussalam. This agreement also covers Epurair's air purifiers. SappTech has undertaken to purchase a minimum of 100 million masks over the Term of the agreement for an estimated value of approximately \$25 million.

Closing of a Private Placement for Total Gross Proceeds of \$15.7 Million

On October 8, 2009, we announced the closing of an initial amount of \$11.7 million units in connection with a best efforts private placement (the "Offering"). On October 27, 2009, we closed this Offering when the Agents exercised in whole the option granted to them pursuant to the agency agreement, generating additional gross proceeds of \$4 million, for total gross proceeds of \$15.7 million under the Offering. Each unit was offered at \$2.20 and consisted of one (1) Class A Share of the Company (one "Class A Share") and one-half of one Class A share purchase warrant (each whole Class A Share Purchase Warrant, a "Warrant"). Each Warrant entitles its holder to purchase a Class A Share, at a price of \$3.00 per share for a period of 36 months ending on October 8, 2012, subject to acceleration of the exercise period as described below. Accordingly, we issued a total of 7,156,000 Class A Shares under the Offering and 3,578,000 Class A Shares may be issued upon due exercise of the Warrants.

The Warrants are subject to an acceleration clause whereby, if the Company's Class A Shares trade at a price per share equal to or higher than \$4.50 on a weighted average basis for a period of 20 consecutive business days on the TSX, and upon notification by the Company through the issuance of a press release, the period during which the Warrants may be exercised will be decreased to a period of 30 days (the "New Exercise Period") that will begin at the last of the following dates: (i) the first business day immediately after completion of the four month plus one day hold period, or (ii) the first business day immediately after the above mentioned 20 consecutive business days, but, in both cases, the New Exercise Period shall not end later than the initial 36-month period. Upon the expiry of the New Exercise Period, the Warrants will no longer be exercisable.

We intend to use the net proceeds from the offering to pursue our global growth objectives, namely, fund the expansion of international distribution networks, develop our current IP portfolio, develop new innovative applications, increase our production capacity, and for general working capital purposes.

Progress at Operational Level

Agreement with McKesson Logistics Solutions

In August 2009, we concluded an agreement with McKesson Logistics Solutions ("MSL"), Canada's leading third-party logistics provider for the healthcare industry, pursuant to which MSL provides us with full order-to-cash logistics management services, including order fulfillment, storage, inventory and transportation management, for the distribution of our Noveko™ surgical masks and respirators and hand sanitizers.

New Integrated Management System

We are continuing to deploy a new integrated enterprise resource planning system (ERP) that will provide better management and financial reporting controls and procedures at all levels of the Company.

Steps to Secure Foothold in China

We are taking further steps to establish our presence in China through a subsidiary in order to accelerate the development of our various activities in this market.

Eventual Sale of BLI

As previously announced, since the operations of BLI no longer fit with our growth strategy, we are actively pursuing our efforts to divest this subsidiary.

Overview by Business Segment

Antimicrobial Masks and Respirators

Increased Demand and Production

During the last fiscal year and the quarter ended September 30, 2009, we achieved several breakthroughs that pave the way for the production and distribution of our antimicrobial surgical masks and respirators (collectively the "masks") on a wider scale. The A (H1N1) influenza pandemic threat that emerged at the end of April 2009 continues to have an accelerator effect on the demand for Noveko™ masks. We believe this situation will also have a positive impact on their marketing over the longer term, raising the demand threshold, although demand is likely to return to a more stable growth rate once the threat of a pandemic has passed.

During the fourth quarter ended June 30, 2009, in order to attempt to meet the growing demand and given the limited quantity of mask inventories available, we took the necessary steps to increase our production, primarily by enhancing our assembly capacity. The assembly of the inventories of the various mask components will have enabled us to gradually produce approximately 7 million masks. The limited working capital at our disposal prior to the closing of the Offering and the time required to increase the assembly rate had led to a delay in production. The masks deliveries that began in the first quarter will therefore be completed during the current quarter.

We also started to produce approximately 20 million additional masks during the fourth quarter of the fiscal year ended June 30, 2009. We expect to complete a large proportion of the production and assembly of these masks in the second quarter ending December 31, 2009. Furthermore, we have begun producing additional masks to meet the strong demand insofar as possible.

On September 24, 2009, we announced that the value of our firm orders for our masks, for the period beginning July 1st, 2009, totalled \$12 million, representing a quantity of approximately 50 million masks, reflecting a sharp increase in the demand. Since then, as mentioned in the “Product Development and Marketing” section of this Management’s Report, Malaysian-based SappTech has undertaken to purchase a minimum of 100 million masks, for an estimated value of approximately \$25 million over a three-year period. In order to maintain its exclusive distribution rights in the Territory throughout the term of the agreement, SappTech must proceed, on a yearly basis, with purchases of masks equal to at least one-third of the minimum purchase. In addition to these orders, negotiations are still under way with various potential distributors and clients with respect to several other orders.

We are still discussing with various suppliers to increase the assembly pace of the materials used in the manufacture of our masks and remain on the lookout for opportunities to expand our production more efficiently. We expect to reach a monthly production rate of about 9 million face masks in the current quarter and to continue gradually increasing it throughout the fiscal year.

Our masks are scheduled to be delivered to different markets, notably Canada, Mexico, South America, Europe, Asia, the Maghreb and the Middle East. The masks are being sold either directly by Noveko, or else through independent distributors or subsidiaries of the Company.

Certifications and Approvals

On November 6, 2009, we announced that we are refocusing our strategy for the marketing of our Noveko™ masks and respirators in North America. In this regard, 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”) has been withdrawn. The prevailing A (H1N1) influenza virus pandemic context and the time and cost imperatives associated with the initial FDA submission process – which took longer and proved more complex than initially expected, moreover being limited to the Noveko™ 3xEZ surgical mask which had only an antibacterial claim – led us to refocus our strategy to prioritize the accelerated marketing of our Noveko™ masks and respirators in the United States, outside healthcare institutions, as well as in North America, globally.

We will submit to the National Institute for Occupational Safety and Health (“NIOSH”) an application for the certifications (N95, N99) still generally used in the North American market, for our Noveko™ masks and respirators, which we could not do while the initial FDA submission was underway. Even though Noveko™ masks integrate antimicrobial ingredients, some markets still seek NIOSH recognition when making their purchasing decisions, although NIOSH standards are only particle filtration standards. We believe that the North American population would benefit from having faster access, as is the case in many other markets worldwide, to our antimicrobial masks and respirators, which have been tested and proven effective not only in filtering out, but also in neutralizing a broad spectrum of viruses and bacteria. We also plan to submit the mask product labelling to the *US Environmental Protection Agency* (“EPA”) for certification for industrial use, as the antimicrobial chemical additive incorporated into Noveko™ masks and respirators is already EPA registered under the *US Federal Insecticide, Fungicide and Rodenticide* program.

Refocusing our strategy will also allow us to concentrate on developing the test protocols and obtaining the required performance data to support a new application to market our Noveko™ masks and respirators with an antiviral claim for healthcare institutions in the United States. As previously announced on September 11, 2009, at a formal pre-IDE (investigational device exemption) meeting with the FDA, we held discussions with respect to an additional claim that would allow Noveko™ masks and respirators to be marketed as a medical device reducing the exposure to airborne influenza particles. The FDA has indicated that it would treat any file supporting such an antiviral claim in priority. Furthermore, a new submission to the FDA by Noveko would allow the Company to include all the improvements currently developed in the design and antimicrobial properties of the Noveko™ masks and respirators since the filing of the initial FDA submission.

We are confident that the experience acquired throughout the initial FDA submission process will be highly useful for a new application to gain FDA clearance for our masks and respirators with an antiviral claim. Finally, we do not expect our repositioning strategy to have any negative impact on mask sales worldwide. On the contrary, it will give us easier and faster access to a wider market.

Air Filtration Products

Antimicrobial Filtration Products

Air Filters for Farm Buildings

The global economic slowdown combined with the restructuring currently under way in the swine industry have delayed any prospective increase in pork prices and created difficult conditions on global swine markets. Such less favourable conditions for infrastructure spending are delaying the rollout of the marketing of Noveko™ antimicrobial air filters in this market. However, this swine industry restructuring should shift into a new growth phase in the current fiscal year. Industry leaders recognize that changes are needed in the area of production planning to ensure that a sustainable management model is implemented for producers. In this respect, we believe we are well positioned for producers to adopt our antimicrobial filtration solutions as a key feature of their bio-safety program. Further market development activities are underway in North America, South America, Europe and Asia.

Air Filters for the Transportation Industry

The August 2008 acquisition of Purer Life paved the way for new applications in various promising industrial segments, notably the railway industry and the aeronautics field. 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, characteristics that are particularly valued in the transportation industry.

We are in further talks with various railway companies that have shown an interest in our filtration technologies. In the aeronautics segment, Aerosys Technologies has successfully completed several of the prerequisite tests for the marketing of air filters incorporating Noveko's antimicrobial filtration technology. Additional tests are progressing well, notably to certify the air filters in accordance with the industry's non-flammability standards. Airlines have already shown an interest in fitting out their aircraft with such air filters, including Air Transat, as mentioned in the "Product Development and Marketing" section of this Management's Report.

Air Filters in the Institutional, Commercial and Residential Markets

Noveko's antimicrobial filtration technology has the potential to generate several new applications designed eventually for healthcare institutions, commercial buildings, properties and residences. In this regard, the pooling of the technologies and distribution networks of Epurair increases our development potential in these markets. During the fiscal year ended June 30, 2009, we proceeded with the first installations of air filters incorporating Noveko's antimicrobial technology in commercial buildings in the Greater Montreal Area. The results of performance tests that are about to be completed have proven positive – especially in regard to the considerable air filtration capacity and greater longevity of the air filters.

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 and distribution networks with Noveko's air filtration technology will allow us to develop promising new products, as explained in the previous paragraph.

Sanitizers

Increased Demand and Production

Our hand sanitizers have achieved breakthroughs in the promising hospital and institutional segments. The current context of a pandemic and public health concerns have raised people's awareness of the importance of proper hand hygiene, leading to a sharp increase in the demand for sanitizers. Agreements such as those concluded with BLD, Microban and SappTech, also attest to the growing interest in these products. In this regard, the reader is referred to the "Product Development and Marketing" section of this Management's Report. On September 23, 2009, we announced that the value of our firm orders for our hand sanitizers, for the period beginning July 1st, 2009, totalled \$6 million. Negotiations are under way with respect to several more orders. In recent months, we have taken the measures needed to ensure the required capacity is available to meet the growing demand for our sanitizers.

Agreement with Microban

The conclusion of an agreement with Microban granting us the right to sell our line of hand sanitizers under the Microban® brand represents a strategic step in developing the sanitizers market. We believe that the expertise and reputation associated with the Microban® brand will enable us to accelerate our penetration of the global hand sanitizers market in all business segments.

Medical Equipment

Ultrasound Scanners

Despite the difficulties encountered by the swine and bovine industries, ECM is maintaining its market share in ultrasound scanners for use in veterinary medicine, which market is now showing signs of a recovery. The commercialization of the Imagyne™ ultrasound scanner for use in human medicine, although initially held up by the additional delays encountered in obtaining the product approvals in each of the countries where it was launched, is going well. ECM plans to finalize the setting-up of an exclusive distributors network for the human medicine market in the current fiscal year. The Imagyne™ ultrasound scanner will also be designed for use in veterinary medicine, but to a lesser extent.

ECM is currently finalizing the development of another high-end ultrasound scanner that it intends to bring to market during the third quarter of the current fiscal year. This scanner will first be intended for veterinarians, the newly targeted pets market and the equine market, and secondly, once the required approvals are obtained, it will be designed for use in human medicine, especially for emergency, anesthesia and army needs.

Noveko Algérie

Noveko Algérie continues to reap the benefits of the supply of various medical devices to the Algerian National Office of Equipment and Accessories for Handicapped People. 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 our medical equipment import activities.

Other

This business segment includes primarily the marketing management services Magnum provides for manufacturers and distributors of pharmaceuticals, over-the-counter drugs and medical devices. Magnum offers its expertise in sales, marketing, quality assurance and regulatory and scientific aspects to companies seeking to market their products in Canada, North America and overseas. Magnum continues to build upon its business model.

3. SELECTED CONSOLIDATED QUATERLY INFORMATION

Three-Month Periods Ended September 30, 2009 and 2008

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

	2009 ⁽¹⁾	2008
Revenues from continuing operations	4,496	2,272
Gross margin	2,203	1,196
Loss before amortization, financial expenses, income taxes and discontinued operations ⁽²⁾	(2,956)	(5,804)
Loss from continuing operations	(3,811)	(6,280)
Loss from discontinued operations ⁽³⁾	(328)	(259)
Net loss ⁽⁴⁾	(4,139)	(6,539)
Loss per Class A share (basic and diluted)		
Continuing operations	\$(0.06)	\$(0.10)
Discontinued operations ⁽³⁾	\$(0.00)	\$(0.00)
Net loss ⁽⁴⁾	\$(0.06)	\$(0.10)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	67,277	65,542

Balance Sheet Data	September 30, 2009	June 30, 2009
Total assets	48,703	50,897
Shareholders' equity	36,298	38,487
Total interest-bearing debt ⁽⁵⁾	3,087	4,163
Cash, cash equivalents, short-term investments and deposit in trust	2,215	4,711

- (1) The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as at September 30, 2009.
- (2) Including stock-based compensation charge of \$1,251,305 and \$3,056,823 for the respective periods of 2009 and 2008, 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 First Quarter Ended September 30, 2009 Compared with the First Quarter Ended September 30, 2008

As indicated in the Annual Management's Report for the fiscal year ended June 30, 2009, we now report segmented information 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 Noveko Trading, as well as the marketing management services offered by Magnum to external clients.

Furthermore, as BLI's activities no longer fit with our growth strategy, we are actively continuing our efforts to divest this subsidiary. Accordingly, BLI's results of operations and assets and liabilities have been withdrawn from continuing operations to be treated as discontinued operations in the Company's financial statements.

Consolidated and Segmented Revenues from Continuing Operations

(in dollars)

Three Months Ended September 30,	2009	2008
Medical equipment	2,295,945	1,548,396
Sanitizers	792,758	66,738
Masks	794,277	10,900
Filtration	505,329	373,016
Other	107,837	272,999
Total	4,496,146	2,272,049

Consolidated revenues for the first quarter ended September 30, 2009 grew by \$2.2 million or 97.9% to \$4.5 million. This growth came primarily from:

- the medical equipment segment, whose revenues increased by \$0.7 million, reflecting the contribution of Noveko Algérie — acquired in July 2008 — and the increase in its sales, and of ECM, which started to benefit from the launch of its new Imagyne™ for use in human medicine and the gradual recovery in the bovine and swine markets; and
- the sanitizers and masks segments, which posted revenue increases of \$0.7 million and \$0.8 million respectively, driven by the sharp rise in demand in the context of the A (H1N1) influenza pandemic threat.

The operating profit margin was 49.0% for the quarter ended September 30, 2009, compared with 52.6% for the quarter ended September 30, 2008. This decline is due primarily to the different product mix resulting from the acquisitions closed during the previous year and downward adjustments in the prices of filtration products for livestock farms and medical equipment for use in veterinary medicine.

Selling and administrative expenses increased by approximately \$0.2 million to \$3.8 million. This slight rise stemmed primarily from the costs related to product marketing and selling initiatives in the various business segments.

Stock-based compensation charge, which has no impact on the Company's cash balance, decreased by \$1.8 million from the first quarter of the previous year to \$1.3 million. 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 quarter ended September 30, 2009 and the first quarter ended September 30, 2008 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 first quarter ended September 30, 2009.

Earnings (Loss) Before Amortization, Financial Expenses, Income Taxes and Discontinued Operations

(in dollars)

Quarters Ended September 30,	2009	2008
Medical equipment	117,486	(394,556)
Sanitizers	(257,676)	(524,400)
Masks	39,414	(835,028)
Filtration	(600,354)	(335,645)
Other	(2,255,117)	(3,714,517)
Total	(2,956,247)	(5,804,146)

Considering the aforementioned factors, **the loss before amortization, financial expenses, income taxes and discontinued operations** amounted to approximately \$3.0 million, down by \$2.8 million from the first quarter ended September 30, 2008. The following business segments contributed to this significant improvement:

- the medical equipment segment posted earnings before amortization, financial expenses and income taxes (EBITDA) of \$0.1 million, compared with a loss of \$0.4 million for the corresponding quarter of the previous year. This variation reflects Noveko Algérie's contribution and improvement in profitability, as well as that of ECM;
- the sanitizers segment lowered its loss by approximately \$0.3 million thanks to a strong increase in the AZURO™ products sales volume and an almost nil stock-based compensation charge for the quarter;
- the masks segment recorded EBITDA of \$39,414, up from a loss of \$0.8 million for the corresponding quarter of the previous year, thanks to a significant increase in sales and operating profit margin and a decrease in stock-based compensation charge;
- conversely, the filtration products segment increased its loss by approximately \$0.3 million due notably to the higher administrative expenses and stock-based compensation charge of Noveko Taiwan, which was only in its start-up phase during the first quarter of the previous year; and
- as for the other activities, they lowered their loss by \$1.5 million, due primarily to the decrease in Noveko International's stock-based compensation charge.

Amortization expenses increased by \$0.2 million to \$0.6 million. This rise is primarily attributable to intangible assets, notably patents in the filtration products segment and the purchase of software for the Company's new ERP management system.

Net Loss from Continuing Operations

(in dollars)

Quarters Ended September 30,	2009	2008
Medical equipment	(68,493)	(372,271)
Sanitizers	(282,947)	(544,426)
Masks	(8,936)	(849,474)
Filtration	(736,196)	(450,677)
Other	(2,714,317)	(4,063,659)
Total	(3,810,889)	(6,280,507)

Considering the aforementioned factors, the Company substantially reduced its **net loss from continuing operations**, which decreased to \$3.8 million for the quarter ended September 30, 2009, down by \$2.5 million from the first quarter of the previous year.

As detailed in note 4 "Discontinued Operations and Assets Held for Sale" accompanying the consolidated financial statements for the three-month period ended September 30, 2009, a \$0.3 million loss from discontinued operations (BLI) was recorded in first-quarter results; consequently, **the net loss** amounted to \$4.1 million for the first quarter, compared with \$6.5 million for the corresponding quarter of the previous year.

Considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$0.3 million for the first quarter, compared with an unrealized loss of \$0.4 million for the corresponding quarter of the previous year, a net loss of \$4.4 million represented **comprehensive loss** for the quarter ended September 30, 2009, compared with a net loss of \$7.0 million for the corresponding quarter of the previous year.

The loss from continuing operations and the net loss amounted to \$0.06 **per Class A share (basic and diluted)** on a weighted average of 67,276,665 outstanding shares, compared with a loss per share of \$0.10 on a weighted average of 65,542,241 shares for the first quarter of the previous year. The increased weighted average number of outstanding shares is due to 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 September 30, 2009.

Principal Quarterly Financial Information (Unaudited)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2010				
Revenues	4,496			
Loss from continuing operations	(3,811)			
Comprehensive loss	(4,417)			
Loss per Class A share from continuing operations (basic and diluted)	(0.06)			
Fiscal 2009				
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)
Fiscal 2008				
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 First Quarter Ended September 30, 2009

(in dollars)

Three Months Ended September 30,	2009	2008
Operating activities		
Net loss	(4,139,332)	(6,539,130)
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 and foreign exchange gain	2,134,203	3,763,484
Net change in non-cash working capital	(254,810)	(503,301)
Total	(2,259,939)	(3,278,947)
Financing activities	(109,271)	3,343,729
Investing activities	2,393,301	(10,744,306)
Foreign exchange loss on cash in foreign currencies	(50,395)	(25,324)
Increase (decrease) in cash and cash equivalents	64,182	(10,977,342)
Cash and cash equivalents, end of period	1,001,501	616,993

For the first quarter ended September 30, 2009, **operating activities after net change in non-cash balances related to operations** used cash flows of \$2.3 million, compared with a cash outflow of \$3.3 million for the first 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 and foreign exchange gain. Net change in non-cash working capital balances represented a cash outflow of \$0.3 million, compared with a cash outflow of \$0.5 million for the corresponding quarter of the previous year.

Financing activities used cash flows of \$0.1 million for the period, whereas they provided cash flows of \$3.3 million for the first quarter of the previous year. This change is due mainly to the fact that during the first quarter of the previous year, the Company had issued 1.1 million Class A shares in connection with the acquisition of U-Bond Inc., for an amount of close to \$3.4 million. Finally, the Company lowered its long-term debt by approximately \$0.2 million during the first quarter ended September 30, 2009.

Investing activities provided cash flows of \$2.4 million, whereas they used cash flows of \$10.7 million during the first quarter of the previous year. This change is due primarily to the fact that the Company acquired short-term investments for \$0.1 million, compared with \$24.7 million in the first quarter of the previous year – and cashed short-term investments of \$2.6 million in the quarter ended September 30, 2009, compared with \$20.2 million in the corresponding quarter of the previous year. Whereas the first quarter of the previous year had yielded several acquisitions, the Company is now focused on increasing the sales in its various segments during the current fiscal year.

Consequently, aggregate cash inflows and outflows provided **net cash flows** of \$0.1 million, whereas they used cash flows of \$11.0 million during the first quarter of the previous year. The Company ended the quarter with **cash and cash equivalents** of \$1.0 million, compared with \$0.6 million as at September 30, 2008.

Balance Sheet Analysis as at September 30, 2009

Summary Balance Sheet

(in dollars)

	As at September 30, 2009	As at June 30, 2009
Current assets	15,719,601	16,579,552
Current assets held for sale	1,717,686	1,998,371
Long-term assets	27,551,353	28,481,877
Long-term assets held for sale	3,714,625	3,836,738
Total	48,703,265	50,896,538
Current liabilities	5,007,166	4,434,543
Current liabilities held for sale	2,152,205	2,126,397
Long-term liabilities	3,343,510	3,924,773
Long-term liabilities held for sale	1,902,746	1,924,217
Shareholders' equity	36,297,638	38,486,608
Total	48,703,265	50,896,538

The changes in the Company's financial position between June 30, 2009 and September 30, 2009 notably reflect the period's results and the use of short-term investments, as explained previously.

As at September 30, 2009, **total assets** amounted to \$48.7 million, down by \$2.2 million from June 30, 2009. **Working capital** stood at \$10.3 million (for a current ratio of 2.4:1), compared with \$12.0 million (for a current ratio of 2.8:1) as at June 30, 2009.

Shareholders' equity totalled \$36.3 million, compared with \$38.5 million as at June 30, 2009, primarily reflecting the \$1.2 million increase in capital stock subsequent to the Class A share issues and the \$1.2 million increase in contributed surplus reflecting the stock-based compensation charge, less a \$4.1 million increase in the deficit.

Indebtedness

(in dollars)

	As at September 30, 2009	As at June 30, 2009
Bank loans	156,860	162,970
Current portion of long-term debt	602,539	754,584
Long-term debt	1,418,790	1,455,182
Short and long-term secured convertible debentures	908,325	1,789,827
Total debt	3,086,514	4,162,563

Total interest-bearing debt (consisting of bank loans, current portion of long-term debt, long-term debt and short and long-term secured convertible debentures) stood at \$3.1 million as at September 30, 2009, down by \$1.1 million from June 30, 2009. This reduction stemmed primarily from the \$0.9 million decrease in convertible debentures due to the conversion of debentures for a total principal amount of \$1.0 million into 823,510 Class A shares during the period, as well as the \$0.2 million decrease in bank loans and long-term debt including the current portion. It is to be noted that the total interest-bearing debt (consisting of 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 \$3.4 million as at September 30, 2009.

Capital Stock Information

During the first quarter ended September 30, 2009, the Company issued 83,331 Class A shares subsequent to the exercise of stock options for a cash consideration of \$72,498 and a transfer of \$50,832 from contributed surplus. In addition, 823,510 Class A shares were issued subsequent to the conversion right of \$933,708 of convertible debentures. Amounts of \$903,800 and \$186,231 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity.

Considering these share issuances, the Company's capital stock consisted of 67,965,534 Class A shares as at September 30, 2009, compared with 67,058,693 Class A shares as at June 30, 2009.

Other Contractual Commitments

As at September 30, 2009, the balance of contractual commitments under the terms of leases for the rental premises maturing in 2014 totalled \$2.2 million. Minimum lease payments over each of the next five years are as follows:

2010: \$805,857	2012: \$391,021	2014: \$67,425
2011: \$576,370	2013: \$353,521	

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 September 30, 2009, 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. For the quarter ended September 30, 2009, \$7,222 (\$109 as at September 30, 2008) had been paid under the terms of this agreement.

Financial Instruments

The fair value of cash and cash equivalents, deposit in trust, trade receivables, advances to shareholders, other receivables, interest receivable, bank loans, and accounts payable and accrued liabilities corresponds to their book value given their short-term maturities.

The fair value of the term loans that bear interest at prime rate plus 1.0% to 3.0% with a carrying value of \$733,232 corresponds to their book values as a result of the variable interest rates associated with these loans.

The book value and the fair value of other financial assets and liabilities as at September 30, 2009 were broken down as follows:

	September 30, 2009		June 30, 2009	
	Book Value	Fair Value	Book Value	Fair Value
Short-term investments	\$1,146,600	\$1,146,600	\$3,702,958	\$3,702,958
Long-term debt ⁽¹⁾	\$2,021,329	\$1,929,615	\$2,209,766	\$2,213,422
Convertible debentures	\$908,325	\$908,325	\$1,789,827	\$1,789,827
Long-term debt held for sale ⁽¹⁾	\$2,127,034	\$2,127,034	\$2,149,363	\$2,149,363

(1) Includes long-term debt and its current portion.

To calculate the variation in the fair value attributable to financial instruments, the Company used the same methods as those described in the annual financial statements for the fiscal year ended June 30, 2009.

Sources and Requirements of Funds in 2009-2010

Since its inception, the Company has had recourse to public investments and private placements to finance its growth. As it grows, the Company will also be able to take advantage of debt financing to finance its future projects. ECM has a credit facility on demand of 150,000 €, of which 112,500 € (or \$176,468) was used as at September 30, 2009. This credit bears interest at the prime rate of the financial institution plus 1.2%. Epurair has a credit facility on demand of \$250,000, of which \$103,841 was used as at September 30, 2009. 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 Epurair's accounts receivable and inventories and Epurair must maintain a minimum current ratio, debt-to-equity and net worth of \$400,000. As at September 30, 2009, this subsidiary did not meet all of its ratios. BLI has a credit facility on demand of \$1,350,000, of which \$1,250,698 was used as at September 30, 2009. 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, by 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.

Events Subsequent to Balance Sheet Date

On October 8 and 27, 2009, the Company issued 7,156,000 units by way of a best efforts private placement for total gross proceeds of \$15,743,200. Each unit consisted of one Class A share and one-half of Class A share warrant. Each whole warrant entitles the holder to purchase one Class A Share at a price of \$3.00 per share for a period of 36 months. Accordingly, a total 7,156,000 Class A shares were issued and an additional 3,578,000 Class A shares may be issued upon due exercise of the warrants. On October 9, 2009, an amount of \$893,706 of convertible debentures was converted into 751,044 Class A shares.

6. 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 of September 30, 2009, an evaluation was carried out, under the supervision of and with the participation of our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, of the design 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 and Chief Executive Officer and Chief Financial Officer determined that there were material weaknesses in some aspects of our DC&P. However, the DC&P deficiencies that we identified did not result in adjustments to our interim consolidated financial statements for the period ended September 30, 2009 and 2008. 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 September 30, 2009 and 2008.

Recent Acquisitions

We also carried out an evaluation of the material weaknesses relating to the design of our DC&P as of September 30, 2009 for Noveko Algérie and Purer Life, acquired on July 17 and August 1st, 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. For the interim period ended September 30, 2009, and those subsequent thereto, 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 and Chief Executive Officer and Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of September 30, 2009. 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 and Chief Executive Officer and Chief Financial Officer have determined that there existed material weaknesses in our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim consolidated financial statements for the periods ended September 30, 2009 and 2008. 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, quarterly reviews of financial statements by our subsidiaries and by the Audit Committee. These manual procedures were performed for the interim periods ended September 30, 2009 and 2008.

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 BLI management employee involved in these unusual transactions has since been dismissed. During the previous period, the Company had already recorded provisions with respect to the accounts receivable related to these transactions. In addition, it is to be noted that BLI's operations were discontinued as of June 30, 2009 and are treated as such as at September 30, 2009.

Recent Acquisitions

We also carried out an evaluation of the material weaknesses of our ICFR as of September 30, 2009 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. For the interim period ended September 30, 2009 and those subsequent thereto, 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

Subsequent to September 30, 2009, we have taken, or we are planning to do so, the following actions to address the material weaknesses in DC&P and our ICFR identified as of September 30, 2009.

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.

General Information Technology Controls

We are implementing enhanced information technology policies and procedures with regards to system's change management, program development, IT operations and related monitoring. The implementation of the new accounting system during this fiscal year shall overcome the accounting system inventory controls and access deficiencies. We will 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/or 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, the Company has hired a new controller at BLI with the specific mandate of tightening controls within this subsidiary. An internal investigation is also underway with respect to these transactions.

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 ICFR. 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 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 period ended September 30, 2009 or in any previous years.

Other than the remediation efforts discussed above and the implementation of the Company's ICFR, there was no changes in our ICFR during the period ended September 30, 2009 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chairman 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.

7. 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.

8. CHANGES IN ACCOUNTING POLICIES

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

Effective July 1st, 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 11 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 1st, 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”, amend and improve reporting obligations, while carrying forward the content thereof relating to disclosure requirements (see note 12 accompanying the 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 1st, 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 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 1st, 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 Chief Financial Officer

November 13, 2009