



Management's Report
Fiscal Year Ended June 30, 2010

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 fiscal year and fourth quarter ended June 30, 2010 ("fiscal 2010" and the "fourth quarter of 2010", respectively), in comparison with the corresponding periods ended June 30, 2009 ("fiscal 2009" and the "fourth quarter of 2009", respectively), 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 audited consolidated financial statements and accompanying notes for fiscal 2010.

Supplementary information about the Company, including its Annual Information Form for fiscal 2010, annual reports, management's reports on previous interim periods and press releases, is available on the websites of the Company (www.noveko.com) and 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 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 Beijing" for Noveko (Beijing) Hi-Tech Development Limited, "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 September 27, 2010, the date on which the Board of Directors approved the audited consolidated financial statements and Management's Report for the fourth quarter and fiscal 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, the reported amounts of revenue and expenses and the disclosure of contingent assets and liabilities.

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, the assumptions used for testing the impairment of long-lived assets, intangible 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.

This Management's Report contains forward-looking statements which may involve, but are not limited to, statements with respect to our objectives, targets, goals, priorities and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business conditions outlooks, prospects and trends in the industries in which we are involved; expected growth in demand for products and services; product development, including planned design, characteristics, capacity and performance; expected and or scheduled entry into service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; our competitive position and the expected impact of the legislative and regulatory environment and legal proceedings on our Group's business and operations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider these assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as the financial condition of the economic sectors in which we are involved), operational risks (such as those involved in researching and developing new products and services, risks associated with doing business with partners, product warranty and product liability, risks from regulatory and legal proceedings, risks relating to our dependence on certain key customers and suppliers, human resources, risks resulting from fixed-term commitments and risks associated with production and project execution), financing risks (such as risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants) and market risks (including foreign currency fluctuations, changing interest rate and commodity pricing risk). For further details, the reader is referred to the *Risks and Uncertainties* section of the Management's Report. Readers are cautioned that foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed upon forward-looking statements. The forward-looking statements set forth herein reflect the Company's expectations as of the date of this Management's Report and are subject to modifications after this date. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements contained in this Management's Report are provided expressly under this warning.

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 air filtration technologies, specifically air filters, antimicrobial surgical masks and respirators, as well as hand sanitizers with antimicrobial properties and medical equipment, mainly ultrasound scanners for use in human and veterinary medicine.

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 solutions and patented air filtration technologies intended for the air filters and antimicrobial masks and respirators segments, and the design of innovative applications derived therefrom. Moreover, we are 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.

To achieve these growth objectives, we continue to build upon the following two-tiered strategy:

- the establishment of partnerships aimed at driving the development, production and marketing of our technologies and products, in particular our portfolio of solutions with antimicrobial properties. In this regard, our business model for the manufacture and distribution of our patented technologies remains focused on entering into licence agreements with partners who are market leaders; and
- the optimization of synergies with our subsidiaries to enhance our operational efficiency and intensify our market and product offering development.

Patented Air Filtration Technologies

Our antimicrobial air filtration technologies are applied to both our *masks and respirators segment* and our *air filters segment*. Antimicrobial masks and respirators as well as air filters incorporating our technologies not only block the spreading of pathogens by filtration, but also *neutralize* them thanks to the antimicrobial agents directly incorporated into the fibres of the filtering membranes. These technologies are protected by patents granted by several countries, including Canada and the United States, and the rights arising from the patent applications filed in various other jurisdictions. Furthermore, our patents provide extensive protection as they embrace any type of impregnated, incorporated or molecularly fibre-bound antimicrobial agent.

In addition to these technologies, the membranes used in our *air filters segment* also incorporate a patented weaving technology featuring a three-dimensional configuration.

Operational Overview

To drive our growth based on our strategic priorities, we conducted an evaluation of our business during fiscal 2010; in this regard, the operations of our subsidiary Noveko were the focus of special attention. We also pursued the measures implemented over the last year to ensure a higher level of vigilance in regard to our operating efficiency and better operating cost control in each of our business segments.

The highlights with regard to the operations of the Group and its business segments are presented below in the light of our strategic priorities:

Business Structure: We continued to further streamline the Group's structure and management and further reinforced our executive team, notably through the appointment, in December 2009, of a new President of our subsidiary Noveko. We also reassigned some of our managers and consolidated certain work teams within the Group in order to set up a leaner business structure better aligned with our growth objectives.

Regrouping of Head Office and Noveko: To optimize the Group's operations, we decided to consolidate our head office and Noveko activities under one roof. Hence, the Terrebonne building has been put up for sale and we plan to move into new downtown Montreal offices in December 2010.

Expansion of Epurair: Epurair's filtration activities will move from its McMasterville, Quebec building into larger premises located in Boucherville, Québec, thereby increasing its production capacity. The marketing and cleaning of the washable antimicrobial filters will also be consolidated in Boucherville. The McMasterville building has been put up for sale.

Optimization of Logistics Services: We reorganized our supply management services, mostly warehousing and inventory management, based on our specific needs, so as to be closer to some target markets and to reduce certain related logistics services costs.

New Integrated Management System: We have completed the deployment of a new integrated enterprise resource planning system (ERP) providing improved management and financial reporting controls and procedures.

Securing of Foothold in China: We established our presence in China through our subsidiary Noveko Beijing, after acquiring all its outstanding shares in April 2010.

Eventual Sale of BLI: We recently retained the services of an agent to more actively pursue the process of divesting BLI, whose operations no longer fit with our growth strategy.

Voluntary Assignment of Magnum: Magnum has availed itself of the provisions of the *Bankruptcy and Insolvency Act* (Canada) in order to proceed with the voluntary assignment of its assets. Since its acquisition by the Company, Magnum has generated considerable losses and debt due to its incapacity to carry out its business plan. As Magnum's financial position was not expected to improve in the near future, we decided not to inject any additional funds in this business entity. Rather, we will focus our resources on achieving our main growth objectives, in the interests of our shareholders.

Financing: In October 2009, we closed a private placement (the "2009 private placement") that generated total gross proceeds of \$15.7 million. Each unit was offered at \$2.20 and consisted of one Class A share of the Company and one-half warrant (each whole warrant, "one warrant"). Each warrant entitles its holder to purchase one Class A share at a price of \$3.00 per share for a period of 36 months ending October 8, 2012, subject to acceleration of the exercise period. Accordingly, a total of 7,156,000 Class A shares and 3,578,000 warrants were issued in connection with this private placement.

In June 2010, our subsidiary Noveko closed credit facilities for a total amount of \$4.5 million, enabling it to finance its working capital requirements in the near term. Provided by the Bank of Montreal, these facilities consist of a receivable purchase facility, a facility to allow for the issuance of standby letters of credit to secure payment of raw material purchases and a line of credit.

On September 23, 2010, we announced we intended to proceed with a private placement of Class A shares, for a minimum amount of \$4 million and a maximum amount of \$10 million, at a price of \$0.60 per share (the "2010 private placement"), subject to the Toronto Stock Exchange's acceptance. Subscriptions shall be made for a minimal amount of \$150,000. The net proceeds of this placement will be used to pursue our growth objectives, mainly in the filtration segment, as well as for general working capital purposes. A first closing is expected to occur on or about September 30, 2010.

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 livestock 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 office buildings, healthcare facilities and multi-purpose buildings. In addition to the properties specific to Noveko's patented antimicrobial technologies, 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. The major breakthroughs achieved during fiscal 2010 in these high-potential markets attest to the keen interest in our filtration technologies in the air filters segment, which segment will likely be our primary growth driver over the medium and long term.

Air Filters for Farm Buildings

The global economic slowdown and the subsequent restructuring period in the swine industry during 2009 created difficult conditions in global swine markets. As expected, these rather unfavourable conditions for infrastructure investments delayed the rollout of the marketing of Noveko™ air filters in this segment. There have been signs of a recovery however, especially in the second half of fiscal 2010. We believe this industry restructuring period should enable us to shift into a new growth phase within the next fiscal year.

In fact, several early signs allow us to look forward to a certain improvement in business in the swine market. 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 filter that is installed directly on air diffusers in farm buildings. This new filter configuration developed by our filtration team offers a filtration solution further adapted to the needs of many hog farmers and also features 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 also 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 initiatives, especially in North America. In this regard, we now directly exercise our North American marketing activities. In fact, Noveko and Monitrol Inc. have jointly agreed to cancel the exclusive distribution agreement binding them, given that it no longer matched their respective business strategies and objectives. However, the parties are currently looking into a way of collaborating on specific projects in the future. We also expect our business to pick up in Europe and Asia.

Air Filters for the Transportation Industry

On May 6, 2010, we announced the conclusion of an agreement with Bombardier Transportation, a world leader in rail technology. Pursuant to this agreement, we will work jointly with Bombardier Transportation to develop air filtration solutions that will be offered to all its clients. With operations in more than 60 countries, Bombardier Transportation is the global leader in the manufacture and maintenance of rail transportation equipment. It features one of the most extensive 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, along with those for which it provides maintenance.

We believe that this collaboration, which reflects the keen interest in our technologies, will represent a strategic advantage for the marketing of our filters and the key to success in order to develop the full potential of our air filtration solutions. It showcases the recognition that the energy and cost savings associated with the use of our green air filtration solutions are particularly valued characteristics by the transportation industry. Noveko™ filters offer greater filtration effectiveness and durability, while placing less restriction on the ventilation, thereby requiring less power from the ventilation systems motors. They are also washable and recyclable, which considerably reduces the number of filters used, the costs associated with their replacement and the elimination of waste. What makes our filters washable and so durable is notably the incorporation of antimicrobial agents into the fibres of our filters, thereby protecting them against deterioration due to the action of micro-organisms. Our air filters are currently undergoing tests with various transportation bodies interested in our technologies. We expect the first benefits of the agreement with Bombardier Transportation to gradually materialize during fiscal 2011.

In the aeronautics segment, we are pursuing the required tests to obtain “STC” certification for our filters from Transport Canada. Despite certain execution delays due notably to the opening of a safeguard proceeding period by the French firm Aerosys Technologies on January 7, 2010, we are continuing to implement our business plan for the commercialization of our filtration technologies in the aeronautics

field. Various airlines, including Air Transat, have already shown an interest in equipping their aircraft with such filters. However, we do not expect any significant revenues in this regard for fiscal 2011. The reader is reminded that in April 2009, we signed an exclusive distribution agreement with Aerosys Technologies for an initial term of two years which notably covered the marketing of filters incorporating our filtration technologies in the aeronautics industry. On 8 September 8, 2010, due to the particular prevailing circumstances and after studying the ways we might minimize the consequences and delays related to the aforementioned safeguard proceeding, we notified Aerosys that the agreement binding us would not be renewed upon expiry of its initial term and that we consider the exclusive distribution rights arising therefrom to be terminated, given Aerosys' failure to comply with its terms and conditions.

Air Filters for Buildings – Institutional and Commercial Markets

During fiscal 2010, Noveko's filtration solutions were also shown to have the potential to generate new applications designed for the real estate sector, including office properties, healthcare institutions and multi-purpose buildings. The pooling of Epurair's technologies and distribution networks increases our development potential in these markets and, in this regard, we proved that we offer an effective, cost-efficient and eco-friendly solution ideal for any building as part of a sustainable development strategy. In fact, our filters incorporating our patented filtration technologies designed for the institutional and commercial markets consist of four layers of synthetic fibre that are fully leak-proof and resistant to variations in temperature and humidity. Like the filtration solutions designed for the transportation industry, they stand apart through their effectiveness and durability and by the fact that they are washable and recyclable. Antimicrobial agents are also incorporated into the fibres of our filters, thereby protecting them against deterioration due to the action of micro-organisms. The energy savings and the reduction in filtration waste arising from the use of our filtration solutions make them particularly important advantages for building owners seeking to obtain the certifications recognizing responsible environmental management and the design and construction of sustainable buildings, such as the LEED (*Leadership in Energy and Environmental Design*), ISO 14001 and BOMA BEST (*Building Environmental Standards*) certifications. It should be noted in this regard that we are a newly recognized member of BOMA Québec (*Association des propriétaires et administrateurs d'immeubles du Québec/Building Owners and Managers Association of Quebec*), whose mission is to train, inform and represent property owners and managers in order to foster management efficiency.

We achieved an initial breakthrough in December 2009 in the marketing of our air filters in the real estate sector 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 Greater Montreal area, with Noveko™ filters incorporating our filtration technologies. This three-year agreement covers the supply of the filters and their cleaning. We are pleased that a building as large-scale as Complexe Desjardins was the first client to be equipped with our air filters, attesting to the interest in our products in this high-potential market. This agreement was 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 major 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 our filtration technologies. Located in Montreal, the Jewish General Hospital is one of the largest and busiest hospitals in Quebec. The 30-month agreement also covers the supply of the filters and their cleaning. We are proud of the fact that the Jewish General Hospital, a teaching hospital affiliated with McGill University and recognized for the excellence of its healthcare services and calibre of its medical staff, was the first hospital to use our air filtration solutions. We believe this agreement will further stimulate the commercialization of our filters in various institutional settings, a high-potential market.

In June 2010, we announced the conclusion of an agreement under which the entire Bell Centre, a multi-purpose building recognized as the most outstanding entertainment venue in Montreal, was to be equipped with Noveko™ filters. The six-year agreement also covers the cleaning of the washable filters. Located in downtown Montreal and having a 21,273-seat capacity, the Bell Centre is the largest hockey arena in North America and the home of the legendary Montreal Canadiens Hockey Club. It is also one of

the technologically advanced and versatile performance venues worldwide. More than 1.5 million spectators attend the hockey games and some 120 shows staged there each year. We once again demonstrated we offer an ideal solution for any sustainable building project. In fact, after more than a year of use at the Bell Centre, our filters' degree of effectiveness and durability proved to be unmatched and beyond all expectations in a quite complex technical environment. This new breakthrough sets the stage for us to equip other sports and cultural arenas and amphitheatres.

We are confident that the marketing of our air filters in the buildings segment will accelerate during fiscal 2011 as we are in further talks with various real estate groups interested in our filtration solutions. We are also continuing negotiations with Israeli-based Zer Hitech (1976) Ltd., with whom we signed a distribution agreement in January 2010, to install filters incorporating our filtration technologies for test purposes in healthcare institutions and commercial buildings in the Tel Aviv region during fiscal 2011.

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 the Epurair and Noveko technologies also allows us to develop promising new products, as explained in the previous section. Furthermore, Epurair plans to launch a new model of filters featuring antimicrobial agents that will be targeted to the residential market.

Antimicrobial Masks and Respirators Markets

The A (H1N1) influenza pandemic threat that emerged at the end of April 2009 initially had a significant accelerator effect on the demand for our masks and respirators. The growth in mask and respirator sales during fiscal 2010 – over the previous year when their marketing was only at the start-up stage – reflects the acceleration of this demand during the first half of fiscal 2010. It also resulted in intensified Noveko™ branding and increased visibility of our products. However, the rapid end to the A (H1N1) influenza epidemic at the outset of the third quarter ended March 31, 2010 subsequently had an adverse impact on demand. In fact, this disappearance of an emergency situation led to the deferral and cancellation of a number of expected orders. The financial problems encountered by some of our distributors also led to the cancellation of various orders. To these were added the delivery delays initially caused by: (i) the small quantity of products in stock when the pandemic threat emerged; (ii) the limited working capital then at our disposal; (iii) the time required to complete the production cycles; and (iv) the delays related to the steps to obtain the marketing authorizations and certifications pursuant to the regulatory requirements specific to the different targeted territories (in this regard, the reader is referred to the *Certification Processes* section below).

All these factors slowed down the marketing of our masks and respirators and account for the lower-than-forecast sales, despite their major increase over the previous year. Furthermore, certain agreements have not yet yielded the hoped-for results, notably the distribution agreement with SappTech Sdn Bhd (“SappTech”) providing for a minimum of 100 million masks and respirators over a three-year period. SappTech is continuing the process of obtaining the various required authorizations for the marketing of our masks pursuant to the national standards specific to the territories covered by the agreement. We are currently looking into the different avenues with respect to the materialization of this agreement. Also, the deliveries that had started in Thailand had to be suspended due to its political problems.

These production and execution delays and challenges, caused notably by the hazards of pandemic threats as well as numerous regulatory obstacles (in this regard, the reader is referred to the *Certification Processes* section below) inherent to products considered as medical equipment and also incorporating antimicrobial properties, made us reconsider our strategic priorities for the marketing of our masks and respirators. In this regard, we reiterate that the conclusion of licence agreements or partnerships is our preferred business model for the marketing of our antimicrobial filtration technologies. Accordingly, rather than continuing to assume the risks inherent to production and distribution, further efforts are now being focused on the search for partners in order to grant them manufacturing and commercialization licences to our intellectual property. We are confident that this is a sustainable marketing strategy that is also better aligned with our corporate mission and should also allow more efficient use of our capital resources. To that end, we are still in talks with various parties and thereby hope to further stimulate our market

development and the commercialization of our technologies in this segment over the medium and long term.

Certification Processes

In July 2010, our new model of Noveko™ RD2 antimicrobial respirators obtained FFP2 classification. The grant of this regulatory certification allows us to market these respirators in all countries throughout the European Union. It also confirms that these respirators, considered personal protection equipment (PPE) pursuant to European Directive 89/686/CEE, comply with the Directive's various health, safety and protection requirements and have been designed and tested in compliance with the EN 149:2001+A1:2009 standard. This certification will also facilitate the marketing of respirators in several other territories that recognize these European standards *de facto*. Standard EN 149:2001+A1:2009 applies exclusively to respirators, whereas surgical masks are not subject thereto. We had already been authorized to affix CE Marking on our surgical masks in July 2008.

In November 2009, 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"). The pandemic context then prevailing, but especially the time and costs 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. We then undertook to submit to the US National Institute for Occupational Safety and Health ("NIOSH") an application for certification of our Noveko™ respirators, which we could not do while the initial FDA submission process was still underway, pursuant to an agreement between the two bodies. Although NIOSH certification only includes particle filtration standards and thus does not cover the antimicrobial features of our respirators, several markets not subject to any specific filtration standards recognize it *de facto*. Furthermore, many buyers seek it when making their purchasing decision.

We obtained our Manufacturer's Code in December 2009, confirming the official opening of our file with the NIOSH. During the quarter ended March 31, 2010, we carried out the tests and obtained the data needed to comply with NIOSH standards, which in the fourth quarter enabled us to submit an application for certification to the NIOSH. We have since held various discussions with NIOSH representatives, subsequent to which we were informed that due to the presence of antimicrobial agents in our respirators and pursuant to an agreement with the FDA, our application could not be considered until FDA certification is obtained for these respirators, even though our application to the NIOSH did not include any antimicrobial claim. In the meantime, we have withdrawn the first application filed with the NIOSH for our antimicrobial respirators in order to replace it with a new application for certification. This new application will cover a respirator model whose design and particle filtration features are identical to those of the antimicrobial respirators covered by the first application, but without any antimicrobial agent. We are currently finalizing the tests on this new respirator model in accordance with NIOSH standards in order to shortly submit the new application for certification to the NIOSH. Through this process, we hope to show buyers seeking NIOSH recognition in their purchasing decision that our respirators – with or without antimicrobial agents – meet the NIOSH's filtration criteria, even though their marketing in the United States remains subject to obtaining FDA certification.

Concurrently with this process, we have been working for several months on the tests and on obtaining the required performance data to draw up the file in order to support a future 510(k) submission that would meet both the FDA's requirements and our marketing imperatives. In our opinion, the complexity and length of the initial FDA submission process is largely explained by the multiple specific requirements developed in the course of its review by the FDA, in relation to obtaining a 4-log reduction bio-efficacy. In this context, and in line with our strategy of teaming up with partners in order to stimulate the development and marketing of our technologies, we are continuing talks with certain large-scale corporations. We are looking into various partnership opportunities that would facilitate the development of antimicrobial masks and respirators meeting all these requirements.

Sanitizers

We continue to prioritize the most promising hospital and institutional segments for our hand sanitizers, whereas the retail market has also undergone some growth. The pandemic threat that emerged in late April 2009, combined with general public health concerns, led to a major increase in the demand for our sanitizers, as attested to by the sales growth seen in the first half of fiscal 2010.

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 and cancellation of a number of sanitizer order deliveries. This adds to the delivery delays initially caused by the small quantity of sanitizers in stock when the pandemic threat emerged, combined with the limited working capital at our disposal at that time, and the time then required to complete the production while launching our Microban® line of hand sanitizers.

All these factors slowed down the marketing of our sanitizers and account for our much lower-than-forecast sales, despite their major increase over the previous year. 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. Furthermore, some agreements have not yielded the expected objectives and reviews are in progress. In this regard, the agreement binding us to a U.S. corporation for the distribution of our hand sanitizers has been terminated.

Despite these execution delays and even though the growth in demand has now somewhat stabilized, we remain confident as to our sales trend in this segment in upcoming quarters. In fact, the increased awareness of governments, institutions and the general population as to the importance of maintaining good hand hygiene, as well as the efforts to reduce infections and the spread of viruses and bacteria, will continue to have a positive impact on the demand for sanitizers over the long term. The agreements referred to below attest to the interest in our sanitizers.

- In August 2009, through a licence agreement with Microban International, Ltd., the global leader in built-in antimicrobial product protection, we were granted the right to sell our line of hand sanitizers under the Microban® brand name until December 31, 2012.
- Since December 2009, several types of Microban® hand sanitizers, along with our Noveko™ 4xEZU antimicrobial masks, are sold in most Couche-Tard stores in Quebec. In North America, Couche-Tard is the largest independent convenience store operator in terms of number of stores.
- In March 2010, we concluded a distribution agreement with AMD-Ritmed Inc., 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.
- In September 2010, we signed a distribution agreement with Benjamin News Inc. ("Benjamin News"), a Quebec company specializing in the distribution of magazines and complementary products to the retail segment. This agreement, which has an initial term of three years, covers the sale and promotion of Microban® hand sanitizers in Quebec, New Brunswick and Eastern Ontario. We believe that the experience and extensive network of exclusive distributors of Benjamin News will enable us to step up the marketing of our sanitizers in the retail segment, notably by enhancing their positioning, showcasing and constant monitoring in-store. The distribution channels of Benjamin News reach some 9,000 points of sale, including more than 8,000 in Quebec, both leaders in the pharmaceuticals and food industries as well as independent retailers.

We are also still in talks with various other 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.

Medical Equipment

Ultrasound Scanners

Although the swine and bovine industries remained fragile during fiscal 2010, ECM was able to maintain its dominant market share in ultrasound scanners for use in veterinary medicine and even strengthened its leadership worldwide, thanks to the fact that a major Norwegian company specializing in swine genetics opted to equip several of its livestock farms, primarily located in Scandinavia but also in the United States, with Agrosan™ ultrasound scanners.

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, whereas a major breakthrough in China considerably reinforced ECM's market positioning in ultrasound scanning for use in human medicine. In this regard, ECM recently obtained authorization from the State Food and Drug Administration of the People's Republic of China (SFDA) to sell its Imagyne™ ultrasound scanner in China, and consequently concluded an exclusive distribution agreement with Ningbo Xingaoyi Magnetism Co. Ltd ("NXM"), a leading Chinese high-tech firm specializing in the manufacturing of magnetic resonance equipment. Under this agreement, which has an initial term of three years, NXM has committed to purchase Imagyne™ scanners for use in human medicine in China, all for a minimum value of 5.7 million Euros, of which 900,000 Euros the first year. The Imagyne™ ultrasound scanner will also be designed for use in veterinary medicine, but to a lesser extent.

ECM also achieved major breakthroughs in commercializing its Exago™ ultrasound scanner in the equine market, a new niche for ECM, within a few months of its launch. In fact, it was recently awarded contracts representing more than \$4 million over a three-year period by key players in the North American veterinary medicine field. The Exago™, another high-end ultrasound scanner, 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 designed for use 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 second quarter of fiscal 2011. Once the Exagyne™ (as it were the portable version of the Imagyne™) 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. A network of exclusive distributors for the human medicine market has now been set up and extends to some 30 countries.

Noveko Algérie

Noveko Algérie continues to reap the benefits of supplying 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 our Algerian subsidiary's medical equipment import activities.

3. SELECTED CONSOLIDATED ANNUAL INFORMATION

Fiscal Years Ended June 30

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

	2010 ⁽¹⁾	2009	2008
Revenues from continuing operations	15,111	11,412	7,368
Gross margin	5,703	4,730	3,590
Loss before amortization, financial expenses, income taxes, other items and discontinued operations ⁽²⁾	(14,436)	(20,594)	(13,937)
Goodwill impairment charge	(2,305)	(3,600)	-
Loss from continuing operations	(20,363)	(27,802)	(14,023)
Loss from discontinued operations ⁽³⁾	(3,856)	(4,073)	(2,591)
Net loss	(24,219)	(31,876)	(16,614)
Loss per Class A share (basic and diluted)			
Continuing operations	\$ (0.28)	\$ (0.42)	\$ (0.25)
Discontinued operations ⁽³⁾	\$ (0.05)	\$ (0.06)	\$ (0.05)
Net loss	\$ (0.33)	\$ (0.48)	\$ (0.30)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	73,488	66,611	54,767

Balance Sheet Data as at June 30	2010	2009	2008
Total assets	42,675	50,897	62,858
Shareholders' equity	33,063	38,487	49,773
Total interest-bearing debt ⁽⁴⁾	1,446	4,043	4,547
Non-current liabilities held for sale ⁽⁵⁾	1,753	1,924	2,621
Non-current liabilities related to discontinued operations ⁽⁶⁾	-	200	-
Cash, cash equivalents, short-term investments and deposit in trust	2,873	4,711	25,386

- 1) The consolidated financial statements include the accounts of the Company and its subsidiaries, all wholly-owned as at June 30, 2010.
- 2) Including stock-based compensation of \$3,413,576, \$10,556,660 and \$7,188,252 respectively for fiscal 2010, 2009 and 2008, which has no impact on the cash balance.
- 3) Related to BLI's and Magnum's results.
- 4) Including long-term debt and its current portion, bank loans, and short and long-term convertible debentures; excluding BLI and Magnum.
- 5) Related to BLI.
- 6) Related to Magnum.

4. OPERATING RESULTS

Analysis of Consolidated and Segmented Operating Results for the Fiscal Year Ended June 30, 2010 Compared with the Fiscal Year Ended June 30, 2009

Our segmented information is reported based on the following business segments: medical equipment (“medical equipment”), sanitizers (“sanitizers”), antimicrobial surgical masks and respirators (“masks”), filtration products (“filtration”) and other activities consisting primarily of the activities of the parent company, Noveko International, and of Noveko Trading (“other”). Furthermore, the results of operations and the assets and liabilities of BLI and Magnum have been withdrawn from continuing operations to be treated as discontinued operations in the Company’s financial statements. Accordingly, the assets and liabilities related to BLI have been reclassified as assets and liabilities held for sale, the assets and liabilities related to Magnum have been reclassified as assets and liabilities related to discontinued operations, and their results of operations are presented as losses from discontinued operations for fiscal 2010, as well as for fiscal 2009 for comparative purposes.

Consolidated and Segmented Revenues from Continuing Operations

Fiscal Years Ended June 30,		
	2010	2009
Medical equipment	\$ 8,834,220	\$ 7,558,144
Sanitizers	2,551,461	540,779
Masks	1,390,295	602,947
Filtration	2,331,974	2,692,726
Other	2,704	16,909
Total	\$ 15,110,654	\$ 11,411,505

Consolidated revenues for fiscal 2010 grew by \$3.7 million or 32.4% to \$15.1 million. This growth is due primarily to:

- a major increase of \$2.0 million or 371.8% in sales of sanitizers and of \$0.8 million or 130.6% in sales of masks, reflecting the accelerated demand during the first two quarters of the year in the context of the pandemic threat then prevailing. Although these two segments posted significant growth, it was not as strong as expected, due notably to the rapid end to the A (H1N1) influenza epidemic at the outset of the third quarter which led to the deferral and cancellation of a number of orders, the financial problems encountered by some of our distributors and the delays related to the process of obtaining the required authorizations and certifications in order to market our products, all combined with the other factors set forth in further detail under *Description of the Company – Operational Overview – Antimicrobial Masks and Respirators Markets and Sanitizers*;
- the \$1.3 million or 16.9% increase in sales of medical equipment resulting from Noveko Algérie’s and ECM’s marketing efforts. In fact, whereas Noveko Algérie achieved a 31% growth, ECM increased its sales by 10% during the year. In ECM’s case, this increase would have been higher – at 20% in Euros – were it not for the impact of the conversion into Canadian dollars of ECM’s revenues in Euros in the context of the major depreciation of the Euro. ECM’s sales growth reflects both its breakthroughs in human medicine and its ongoing penetration of the veterinary medicine market, as set forth in further detail under *Description of the Company – Operational Overview – Medical Equipment*; and
- conversely, sales of filtration products posted a \$0.4 million or 13.4% decrease caused mainly to the slowdown in the swine market from the previous year that could not be offset by the \$0.2 million increase in sales of filtration products recorded by the subsidiary Epurair, mostly in the residential market but also in the institutional and commercial markets.

The operating profit margin for the fiscal year was 37.7%, compared with 41.5% for the previous year. This decline was caused by an increase in logistics services and transportation expenses in various overseas markets, the lower profit margins – primarily in the case of sanitizers – and the higher raw material supply costs that could not be reflected in selling prices due to exchange rate fluctuations. In addition to the previously mentioned factors, this decrease is also due to downward price adjustments at the beginning of the year in the segments of filtration products for livestock farms and medical equipment for use in veterinary medicine.

Selling and administrative expenses increased by \$1.4 million or 9.8% to \$15.4 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 year. In addition, the Company had to recognize an allowance for doubtful accounts of \$0.8 million for the year, most of which related to the financial problems encountered by some of our distributors.

Stock-based compensation charge for the year, which has no impact on the Company's cash balance, decreased by \$7.1 million from the previous year to \$3.4 million. This reduction is notably explained by the lower number of options granted during fiscal 2010 and the gradual recognition of the compensation charge. Remember that at the beginning of the previous year, and primarily in connection with acquisitions, stock options vesting over a period of 12 to 30 months had been granted.

Research and development expenses increased by \$0.6 million over the previous year to \$1.8 million, due primarily to the development costs and cost of tests related to the various certification processes in the masks segment. **Research and development tax credits** remained relatively stable.

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

Fiscal Years Ended June 30,		
	2010	2009
Medical equipment	\$ 251,250	\$ (238,542)
Sanitizers	(2,740,748)	(1,686,310)
Masks	(2,266,232)	(2,286,884)
Filtration	(1,685,215)	(3,722,963)
Other	(7,995,480)	(12,659,795)
Total	\$ (14,436,425)	\$ (20,594,494)

The **loss before amortization, financial expenses, income taxes, other items and discontinued operations** was lowered to \$14.4 million for fiscal 2010, down by \$6.2 million or 29.9% from the previous year. This substantial reduction stemmed primarily from the following factors:

- a significant decline in stock-based compensation charge of the parent company Noveko International (in the “other” segment), for the previously mentioned reasons;
- a \$2.0 million reduction in the filtration products segment's loss thanks to a decrease in operating costs, development expenses and stock-based compensation charge;
- the earnings before amortization, financial expenses and income taxes of \$0.3 million achieved by the medical equipment segment, as opposed to a loss of \$0.2 million for fiscal 2009, thanks mainly to ECM's contribution and the improvement in its profitability during fiscal 2010;
- the masks segment's rather stable loss, reflecting the decrease in stock-based compensation charge and the increase in sales during the year, all offset by an increase in marketing and development expenses, including the required tests for various certification processes;
- finally, the sanitizers segment increased its loss by \$1.1 million, due mainly to a decrease in the profit margin and 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 \$0.5 million or 24.1% during the fiscal year. This increase is primarily attributable to the amortization of the expenses related to the Exago™ (veterinary medicine) subsequent to its market launch at the beginning of the second half of the current fiscal year, along with the expenses related to our new integrated management system, the implementation of which was completed during the third quarter of the year.

Financial expenses less investment revenues decreased by \$0.6 million to \$1.6 million during the year. This decline is due to the reduction in interest on long-term debt and the conversion of debentures, but mostly due to the fact that a loss on currency contracts of approximately \$2.2 million had been recognized during the previous year. Furthermore, the year's investment revenues decreased by \$0.9 million and the year's exchange loss increased by \$0.9 million on account of less favourable exchange rates. It is to be noted that a major portion of the year's exchange loss is unrealized.

The goodwill impairment charge amounted to \$2.3 million for fiscal 2010, compared with \$3.6 million for fiscal 2009, which impairment is without impact on the Company's cash balance and can be explained as follows. At the time of the step-one analysis as at June 30, 2010 (preliminary assessment), it was determined that a comprehensive step-two analysis (comprehensive assessment) of the goodwill for a business unit related to the sanitizers segment exceeded its estimated fair value. Based on the preliminary assessment, it was estimated that as at June 30, 2010, the fair value of goodwill in the sanitizers segment amounted to \$2,821,559. Accordingly, a \$2,375,000 goodwill impairment charge was recognized as at June 30, 2010. This impairment reflects the market conditions affecting this segment, primarily the slowdown of the marketing of the sanitizers following the rapid end of the A (H1N1) influenza epidemic at the outset of the third quarter of the year and the termination of a significant distribution agreement, as set forth in further detail under *Description of the Company – Operational Overview – Sanitizers*. With the assistance of an independent valuator, the Company is currently carrying out this comprehensive assessment including a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. The final impairment calculation is expected to be completed during fiscal 2011 and the resulting final adjustments, if any, would result in a non-cash adjustment to the consolidated statement of operations. The reader is reminded that for fiscal 2009, a \$3.6 million goodwill impairment charge related to the medical equipment (ECM) had been recognized following a preliminary assessment. This impairment reflected the market conditions affecting ECM, primarily the economic slowdown and the restructuring periods the swine and bovine industries were undergoing. The subsequent comprehensive assessment allowed the Company to complete the final calculation of the goodwill impairment charge and the resulting non-cash adjustment and yielded a \$69,700 gain in the consolidated statement of earnings for the second quarter of the year.

Net Earnings (Loss) from Continuing Operations

Fiscal Years Ended June 30,		
	2010	2009
Medical equipment	\$ (555,879)	\$ (4,284,262)
Sanitizers	(4,441,996)	(1,765,542)
Masks	(2,510,416)	(2,294,519)
Filtration	(1,980,110)	(3,963,997)
Other	(10,874,190)	(15,493,954)
Total	\$ (20,362,591)	\$ (27,802,274)

Considering mainly the aforementioned factors, **the net loss from continuing operations** for fiscal 2010 stood at approximately \$20.4 million, a significant reduction of \$7.4 million.

As detailed in note 5, "Discontinued Operations and Assets Held for Sale" accompanying the fiscal 2010 consolidated financial statements, a \$3.9 million loss from discontinued operations (BLI and Magnum) was recognized, compared with a \$4.1 million loss for the previous year. Consequently, the current fiscal year's **net loss** totalled \$24.2 million, down from \$31.9 million for the previous year.

Considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$1.1 million for the current fiscal year, compared with a net change in unrealized losses of \$0.5 million for the previous year, a net loss of \$25.3 million represented **comprehensive income** for fiscal 2010, compared with a net loss of \$32.4 million a year earlier.

The loss from continuing operations and the net loss amounted to \$0.28 and \$0.33 **per Class A share (basic and diluted)**, respectively, on a weighted average of 73,487,740 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.42 and \$0.48 per share, respectively, on a weighted average of 66,610,725 shares for the previous year. The increased weighted average number of outstanding shares is due to the issue of Class A shares related to the private placement closed in October 2009 and the issue of Class A shares subsequent to the exercise of stock options and of the conversion right of convertible debentures, as described in detail in note 21 accompanying the fiscal 2010 financial statements.

Principal Quarterly Financial Information

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2010				
Revenues	4,388	4,892	2,935	2,896
Loss from continuing operations	(3,503)	(4,562)	(4,560)	(7,737)
Comprehensive loss	(4,417)	(5,449)	(5,859)	(9,612)
Loss per Class A share from continuing operations (basic and diluted)	(0.05)	(0.06)	(0.07)	(0.10)
Fiscal 2009				
Revenues	2,014	3,687	2,454	3,257
Loss from continuing operations	(6,057)	(6,526)	(5,216)	(10,003)
Comprehensive loss	(6,957)	(5,506)	(7,062)	(12,865)
Loss per Class A share from continuing operations (basic and diluted)	(0.09)	(0.10)	(0.08)	(0.15)

Analysis of Consolidated and Segmented Operating Results for the Quarter Ended June 30, 2010 Compared with the Fourth Quarter Ended June 30, 2009

Consolidated and Segmented Revenues from Continuing Operations

	Quarters Ended June 30,	
	2010	2009
Medical equipment	\$ 2,090,023	\$ 1,880,108
Sanitizers	66,138	151,702
Masks	51,034	261,822
Filtration	685,901	962,782
Other	2,704	-
Total	\$ 2,895,800	\$ 3,256,414

Consolidated revenues for the fourth quarter of fiscal 2010 decreased by \$0.4 million or 11.1% to \$2.9 million. This reduction primarily reflects:

- a respective sales decrease in the masks and sanitizers segments of \$0.2 million or 80.5% and of \$85,564 or 56.4%. This decline is due notably to the rapid end to the A (H1N1) influenza epidemic in the second quarter of 2010 and the other factors set forth in further detail under *Overview by Business Segment – Antimicrobial Masks and Respirators and Sanitizers*, whereas the corresponding period of fiscal 2009 had shown a strong increase in these segments following the appearance of this same pandemic threat at the end of April 2009;

- a decrease in filtration product sales of approximately \$0.3 million or 28.8% caused mainly by the slowdown in the swine market from the same quarter of the previous year;
- whereas sales of medical equipment increased by \$0.2 million or 11.2% thanks to ECM's marketing efforts during the quarter, which offset the decline in Noveko Algérie's sales. It is to be noted that ECM's sales grew by 29.8% during the quarter. This increase would have been higher – at 58.2% in Euros – were it not for the impact of the conversion into Canadian dollars of the revenues recorded in Euros in the context of a major depreciation of this currency since the previous year.

The operating profit margin for the fourth quarter was 23.5%, down from 30.2% for the corresponding quarter of the previous year. This decline notably reflects the weighting of certain fixed costs, including logistics services expenses in the context of a sales decrease in the masks and sanitizers segments, as well as an increase in the allowance for inventory obsolescence.

Selling and administrative expenses increased slightly to \$4.1 million for the fourth quarter and mainly reflect the fixed cost structure at the level of operating expenses.

Stock-based compensation charge, which has no impact on the Company's cash balance, decreased by \$1.3 million from the corresponding quarter of the previous year, to \$0.3 million. This variation is due to the smaller number of options granted and gradual recognition of the stock-based compensation charge.

Research and development expenses increased by some \$0.3 million over the corresponding quarter of the previous year to \$0.6 million, due primarily to development costs and the cost of tests related to the masks segment.

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

Quarters Ended June 30,		
	2010	2009
Medical equipment	\$ (17,223)	\$ (232,346)
Sanitizers	(1,157,740)	(60,748)
Masks	(981,674)	(722,912)
Filtration	(393,394)	(1,374,845)
Other	(1,652,047)	(2,366,437)
Total	\$ (4,202,078)	\$ (4,757,288)

Considering the aforementioned factors, the Company reduced its **loss before amortization, financial expenses, income taxes, other items and discontinued operations** to \$4.2 million for the fourth quarter, down by \$0.6 million or 11.7% from the corresponding quarter of the previous year. Segmented changes reflect the following factors:

- a reduction of approximately \$1.0 million in the filtration products segment's loss, thanks to a decrease in operating expenses and stock-based compensation charge;
- a significant reduction of some \$0.7 million in the "other" segment's loss due to a decrease in the stock-based compensation charge of the parent company Noveko International;
- a \$0.2 million decline in the medical equipment segment's loss thanks mainly to ECM's improved profitability;
- an increase of some \$0.3 million in the masks segment's loss reflecting, in a context of lower sales than in the same quarter of the previous year, an increase in marketing and development expenses, and that, despite the decrease in stock-based compensation charge;

- a \$1.1 million increase in the sanitizers segment's loss, primarily in a context of lower sales, as a result of 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, and as a result of a decline in the profit margin.

Amortization expenses increased by \$0.4 million in the fourth quarter, reflecting the amortization of the expenses related to the Exago™ (veterinary medicine) since its market launch, as well as the expenses related to our new integrated management system.

Net Earnings (Loss) from Continuing Operations

Quarters Ended June 30,		
	2010	2009
Medical equipment	\$ (169,060)	\$ (3,539,670)
Sanitizers	(3,660,402)	(76,366)
Masks	(1,039,261)	(715,256)
Filtration	(379,690)	(1,185,548)
Other	(2,488,271)	(4,487,037)
Total	\$ (7,736,684)	\$ (10,003,877)

The net loss from continuing operations totalled \$7.7 million for the fourth quarter of fiscal 2010, compared with \$10.0 million for the corresponding quarter of the previous year, in light mainly of the aforementioned factors, including the goodwill impairment charge of some \$2.4 million attributable to the sanitizers segment, compared with \$3.6 million attributable to ECM during fiscal 2009.

A \$1.7 million loss from continuing operations was recognized in fourth-quarter results, compared with a \$2.7 million loss for the corresponding quarter of the previous year. Consequently, the quarter's net loss amounted to \$9.4 million, compared with \$12.7 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 \$0.2 million for the quarter, versus a net change in unrealized losses of \$0.2 million for the corresponding quarter of the previous year, a net loss of \$9.6 million represented comprehensive income for the fourth quarter, compared with \$12.9 million for the same quarter of the previous year.

The fourth-quarter loss from continuing operations and net loss stood at \$0.10 and \$0.12 per Class A share (basic and diluted), respectively, on a weighted average of 75,915,912 outstanding shares, compared with a loss from continuing operations and a net loss of 0.15 and \$0.19 per share, respectively, on a weighted average of 67,028,785 shares for the corresponding quarter of the previous year.

5. FINANCIAL POSITION

Analysis of Principal Cash Flows for the Fiscal Year Ended June 30, 2010

Fiscal Years Ended June 30,		
	2010	2009
Operating activities:		
Net loss	\$ (24,218,551)	\$ (31,875,614)
Adjustments for loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, amortization, loss (gain) on disposal of fixed assets, goodwill impairment charge, loss (gain) on fair value of short-term investments, unrealized loss (gain) on foreign denominated contracts, foreign exchange loss (gain) and adjustments from discontinued operations	12,311,957	18,507,034
Net change in non-cash balances related to operations	(2,148,838)	(1,490,546)
Total	(14,055,432)	(14,859,126)
Financing activities	13,518,344	3,201,434
Investing activities	433,183	1,014,187
Foreign exchange loss (gain) on cash in foreign currencies	(193,871)	(13,511)
Increase (decrease) in cash and cash equivalents	(297,776)	(10,657,016)
Cash and cash equivalents, end of period	\$ 639,543	\$ 937,319

For fiscal 2010, **operating activities after net change in non-cash balances related to operations** used cash flows of \$14.1 million, compared with a cash outflow of \$14.9 million for 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, loss (gain) on disposal of fixed assets, goodwill impairment charge, loss (gain) 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 \$2.1 million, compared with a cash outflow of \$1.5 million for the previous year. This change is due primarily to the increase in inventories.

Financing activities provided cash flows of \$13.5 million, up from \$3.2 million for the previous year. This change primarily reflects the \$14.5 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 \$0.6 million and made a \$0.1 million repayment of convertible debentures.

Investing activities provided cash flows of \$0.4 million, compared with \$1.0 million for 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 \$16.6 million on such investments, representing an actual encashment of \$1.5 million, whereas during the previous year, it had acquired short-term investments for \$61.6 million and encashed \$70.0 million on such investments, representing an actual encashment of \$8.4 million. In addition, it 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, now collectively Epurair), Unitam International Management Corporation Inc., Purer Life and U-Bond Inc.

Consequently, aggregate cash inflows and outflows used **net cash flows** of \$0.3 million, compared with a cash outflow of \$10.7 million for the previous year. The Company ended the fiscal year with **cash and cash equivalents** of \$0.6 million, compared with \$0.9 million as at June 30, 2009.

Balance Sheet Analysis as at June 30, 2010

Summary Balance Sheet

	June 30 2010	June 30 2009
Current assets	\$ 17,786,357	\$ 16,411,446
Current assets held for sale ⁽¹⁾	1,231,858	1,998,371
Current assets related to discontinued operations ⁽²⁾	-	168,106
Long-term assets	17,760,238	25,380,993
Long-term assets held for sale ⁽³⁾	5,896,657	3,836,738
Long-term assets related to discontinued operations ⁽²⁾	-	3,100,884
Total	\$ 42,675,110	\$ 50,896,538
Current liabilities	\$ 4,444,427	\$ 4,291,363
Current liabilities held for sale ⁽¹⁾	1,780,589	2,126,397
Current liabilities related to discontinued operations ⁽²⁾	-	143,180
Long-term liabilities	1,633,938	3,724,704
Long-term liabilities held for sale ⁽¹⁾	1,753,146	1,924,217
Long-term liabilities related to discontinued operations ⁽²⁾	-	200,069
Shareholders' equity	33,063,010	38,486,608
Total	\$ 42,675,110	\$ 50,896,538

1) Related to BLI.

2) Related to Magnum.

3) Related to BLI and buildings held for sale.

The changes in the Company's financial position since June 30, 2009 notably reflect the period's results, including the effects of the deconsolidation of Magnum, the goodwill impairment charge, the increase in product inventories in all segments and the decrease in short-term investments.

As at June 30, 2010, **total assets** amounted to \$42.7 million, down by \$8.2 million from June 30, 2009. **Working capital** stood at \$12.8 million for a current ratio of 3.1:1, compared with \$12.0 million and a 2.8:1 ratio as at June 30, 2009.

Shareholders' equity totalled \$33.1 million as at June 30, 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 year and the \$4.2 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 21, "Capital Stock" accompanying the financial statements), less a \$26.3 million increase in the deficit. It is to be noted that during fiscal 2010, the Company granted 1,960,000 stock options to employees, directors and consultants, entitling them to purchase 1,960,000 Class A shares at a weighted average exercise price of \$1.52 per share, of which the rights vest gradually over 12 to 30 months following their grant.

Indebtedness

	June 30 2010	June 30 2009
Bank loans	\$ 167,011	\$ 162,970
Current portion of long-term debt	475,432	724,584
Long-term debt	803,647	1,365,182
Short and long-term secured convertible debentures	-	1,789,827
Total indebtedness⁽¹⁾	\$ 1,446,090	\$ 4,042,563

1) Excluding BLI and Magnum.

Total interest-bearing debt (bank loans, current portion of long-term debt, long-term debt and short and long-term secured convertible debentures) amounted to \$1.4 million as at June 30, 2010, down by \$2.6 million from June 30, 2009. This reduction stemmed mainly from the \$1.8 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 fiscal year, as well as the \$0.8 million reduction in long-term debt including the current portion, whereas bank loans remained stable. It is to be noted that the total interest-bearing debt related to BLI, as detailed in note 5, "Discontinued Operations and Assets Held for Sale" accompanying the period's consolidated financial statements, amounted to \$3.1 million as at June 30, 2010.

Capital Stock Information

During fiscal 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, respectively, were transferred from the secured convertible debentures and from the portion of secured convertible debentures included in equity and allocated to capital stock. Subsequent to the closing of the private placement in October 2009, the Company issued 7,156,000 Class A shares for a cash consideration of \$15,743,200 and 3,578,000 warrants, each of which entitled the holder to purchase one Class A share at a price of \$3.00 until October 2012. A value of \$3,189,000 was allocated to the warrants and the \$12,554,200 difference was allocated to capital stock. 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 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 June 30, 2010 – as well as at the date of this Management's Report – compared with 67,058,693 Class A shares as at June 30, 2009.

Contractual Commitments

As at June 30, 2010, the balance of all the Company's contractual commitments, including leases, contractual obligations and other contractual obligations (other long-term liabilities) from continuing operations maturing in 2015 totalled \$6.6 million. Minimum lease payments over each of the next five years are as follows:

	2011	2012	2013	2014	2015	Thereafter
Leases	\$ 679,011	\$ 856,148	\$ 859,557	\$ 736,784	\$ 688,142	\$ 2,605,558
Contractual obligations	\$ 637,724	\$ 588,427	\$ 386,732	\$ 58,659	\$ 56,659	\$ 56,659
Other long-term obligations	\$ 475,432	\$ 345,566	\$ 124,750	\$ 40,000	\$ 40,000	\$ 253,332
Total	\$ 1,792,167	\$ 1,790,141	\$ 1,371,039	\$ 835,443	\$ 784,801	\$ 2,915,549

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 June 30, 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 the same invention. During fiscal 2010, \$11,726 was paid under the terms of this agreement.

Related-Party Transactions

During fiscal 2010, the Company purchased a fixed asset from a shareholder exercising significant influence for a cash consideration of \$11,500. This transaction was concluded in the normal course of business and is measured at the exchange value. The Company also granted a representation mandate for the relocation of its offices to a company of which one of the officers is also a director of the Company. This mandate does not entail any cash outflow by the Company.

Financial Instruments

The Company has exposure to interest rate, currency, counterparty credit, and liquidity risks. The Company's primary risk management objective is to protect the Company's balance sheet, earnings and cash flows in support of achieving return on equity.

The Company's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, authorization levels, and financial reporting.

Interest Rate Risk

Interest rate risk is the risk the fair value or the future cash flows of a financial instrument fluctuate due to change in market interest rates. As at June 30, 2010, a 0.5% decrease or increase in the interest rates and assuming that all other variables remain constant, would not had a significant impact on the Company's loss and comprehensive loss for the fiscal year ended June 30, 2010 and the fiscal year ended June 30, 2009.

The Company has long-term debts with fluctuating interest rates. These financial instruments represent a risk for the Company should the base interest rate fluctuate in the next years. However, the Company has the option to secure a fixed interest rate with its financial institution.

Currency Risk

Currency risk is the risk that the future cash flows of foreign currency financial instruments will fluctuate due to changes in the foreign exchange rate of the Canadian dollar against the foreign currencies. The Company is exposed to exchange risk due to its exports of goods manufactured in Canada and sold into the United States, Europe, Asia, Latin America and the Middle East. These risks are partly offset by its purchases of goods in U.S. dollars. The Company has not subscribed for any forward exchange contracts since the expiry of the contract that it held during fiscal 2009.

The Company is exposed to currency on its financial instruments denominated in either the U.S. dollar or Euro, as shown in the following table:

	<u>US</u> June 30 2010	<u>US</u> June 30 2009	<u>Euro</u> June 30 2010	<u>Euro</u> June 30 2009
Cash	\$ 60,267	\$ 345,919	\$ 16,835	\$ 30,268
Accounts receivable	450,257	-	511,309	475,125
Accounts payable	510,635	138,983	6,929	-

Based on the above exposures as at June 30, 2010, and assuming that all other variables remain constant, a 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar and Euro would result in a decrease or increase in the Company's net loss and comprehensive loss of approximately \$34,000.

Counterparty Credit Risk

The Company invests surplus cash in short-term investments, sells its products to clients on standard market credit terms and purchases derivative instruments where needed. These activities expose the Company to counterparty credit risk should the counterparty fail to meet its obligations in accordance with

the terms and conditions of its contracts with the Company. As at June 30, 2010, the Company had not purchased any derivative instruments.

Accounts receivable credit risk is mitigated through established credit management techniques, including conducting financial and other assessments to establish and monitor a customer's creditworthiness, setting customer limits and monitoring exposures against these limits. The Company establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts related to continuing operations amounted to \$893,232 as at June 30, 2010 (\$207,365 as at June 30, 2009).

Surplus cash is only invested with counterparties meeting minimum credit quality requirements and issuer and concentration limits. Derivative transactions are executed only with approved high-quality counterparties under master netting agreements. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company's maximum counterparty credit exposure at period end consists of the carrying amount of cash, accounts receivable and derivative instruments.

Liquidity Risk

The Company strives to maintain sufficient financial liquidity at all times in order to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities, cash-in short-term investments and access to capital markets.

The following are the undiscounted contractual obligation maturities of financial liabilities as at June 30, 2010:

	Total	Maturities		
		Less than 1 year	2 years	More than 2 years
Bank advances	\$ 167,011	\$ 167,011	\$ -	\$ -
Accounts payable and accrued liabilities	3,801,984	3 801,984	-	-
Long-term debt	1,279,079	475,432	345,566	458,081

Fair Value

The fair value of cash and cash equivalents, deposit in trust, short-term investments, trade receivables, advances to shareholders, other receivables, interest receivable, bank advances and 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 the prime rate plus rate between 1.0% and 3.0% with a carrying value of \$559,500 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 at year-end are summarized as follows:

	Book value	June 30 2010		June 30 2009	
		Book value	Fair value	Book value	Fair value
Short-term investments	\$ 2,145,631	\$ 2,145,631	\$ 3,702,958	\$ 3,702,958	
Long-term debt ⁽¹⁾	\$ 1,279,080	\$ 1,245,006	\$ 2,209,766	\$ 2,213,422	
Convertible débetures	\$ -	\$ -	\$ 1,789,827	\$ 1,789,827	
Non-current portion of liabilities held for sale ⁽¹⁾	\$ 1,977,264	\$ 1,977,264	\$ 2,149,363	\$ 2,149,363	

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

Sources and Requirements of Funds

Since our inception, we have incurred several operating losses related mainly to our product development and commercialization-related expenses. As at June 30, 2010, our deficit amounted to \$87.5 million and we had \$2.9 million in cash, cash equivalents, deposit in trust and short-term investments. 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. On September 23, 2010, we announced we were proceeding with a private placement of Class A shares, for a minimum amount of \$4 million and a maximum amount of \$10 million, at a price of \$0.60 per share. A first closing is expected to occur on or about September 30, 2010. We closely monitor our capital and financial position and, as and when we pursue our growth, we will also be able to take more advantage of debt financing to finance our future projects.

As at June 30, 2010, Noveko had a credit facility on demand of \$500,000 that was unused. This credit, bearing interest at the prime rate of the financial institution plus 2.0%, is secured by an immovable hypothec on a building held by the Company that had a net book value of \$1,317,052 as at June 30, 2010. Noveko also had a receivable purchase facility of \$3,000,000. Epurair had a credit facility on demand of \$250,000, of which \$139,755 was used as at June 30, 2010. 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 ratio and net worth of \$400,000. As at June 30, 2010, the subsidiary did not meet the minimum current ratio and debt-to-equity ratio. These defaults do not affect Epurair's long-term debt. As of the date hereof, they have not been remedied and the lending conditions have not been renegotiated. ECM had a credit facility on demand of 50,000 € that was unused as at June 30, 2010. This credit bears interest at the prime rate of the financial institution plus 1.2%. For its part, BLI had a credit facility on demand of \$1,350,000, of which \$1,160,284 was used as at June 30, 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.

Our capacity to generate profits and positive working capital in the future depends on a number of factors, including our ability to develop new technologies and new products, the pace of penetration of our products in their respective target markets, the intensity of the competition and the availability of additional capital to pursue our business plan. An incapacity to generate funds from our operations would have a material impact on our business, our operating results and our financial position.

Based on our expected cash flows and cash position, and in light of the risks and uncertainties to which we are regularly exposed, as set forth in our continuous disclosure filings, we will need to raise supplementary funds in the future to continue our product development and marketing. In this regard, the reader is also referred to Section 6, *Outlook*, of this Management's Report. Our capacity to raise supplementary funds will depend not only on our performance, but also on market conditions. Should we be unable to raise additional capital, or should it become too costly to do so, we would be unable to maintain our activities at their current level, or we might have to delay or revise downward our commercialization or development programs in progress.

Event Subsequent to Balance Sheet Date

On September 23, 2010, we announced we intended to proceed with a private placement of Class A shares, for a minimum amount of \$4 million and a maximum amount of \$10 million, at a price of \$0.60 per share. Subscriptions shall be made for a minimal amount of \$150,000. The net proceeds of this placement will be used to pursue our global growth objectives, mainly in the filtration segment, as well as for working capital purposes. The offering will be made pursuant to applicable exemptions from prospectus requirements and is subject to the usual conditions and the receipt of all required regulatory approvals, including the Toronto Stock Exchange's acceptance. The securities issued pursuant to this private placement will be subject to a four-month hold period. A first closing is expected to occur on or about September 30, 2010.

6. OUTLOOK

Pursuant to our corporate vision, we will continue to prioritize the development and commercialization of our products with antimicrobial properties. 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.

Given the major breakthroughs achieved during the year by our *filtration solutions*, we expect air filters to represent our principal growth driver over the medium and long term. For fiscal 2011, we also foresee that promising advances will be realized in the commercialization of our new applications in the buildings and railway transportation fields.

In the buildings segment, especially the *institutional and commercial markets*, we believe there is great potential, within the near term, for us to win other contracts similar to those concluded during fiscal 2010 and for which we proved we offer an effective, cost-efficient and eco-friendly solution ideal for any building as part of a sustainable development strategy. This outlook is notably based on the 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 as attested to, notably, by the agreement with Bombardier Transportation. This agreement sets the stage for the development of a highly promising market, although the benefits of this agreement will only gradually materialize. Marketing efforts in this field will focus initially on the North American market. In the aeronautics segment, despite certain execution delays, we are continuing the required tests for the purposes of obtaining “STC” certification for our filters from Transport Canada. However, we do not anticipate any significant revenues in this regard for fiscal 2011.

In *air filters for farm buildings*, several signs allow us to look forward to an improvement in our business within the near term. 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.

With regard to the commercialization of our *surgical masks and respirators*, we are confident that by deploying further efforts to team up with partners in order to drive the development and distribution of our patented antimicrobial filtration technologies, either through licence agreements or business partnerships, we will implement a more sustainable marketing strategy that is better aligned with our corporate mission. That will also reduce our exposure to the risks and hazards related to production, fluctuations in demand in the event of pandemic threats and regulatory approvals. Given the grant of a European certification for our new model of antimicrobial respirators and the increased visibility from which our products benefited over the past year, we also look forward to advances with regard to the commercialization of our technologies. In addition, we are focusing further efforts on formalizing existing distribution agreements. This outlook is based on the indications from the various parties interested in our technologies with whom we are in talks. However, in North America, we remain subject to obtaining the certifications required or sought in practice by buyers and cannot guarantee the outcome of our initiatives to that end. Also in this regard, we are looking into various partnership opportunities.

With regard to the commercialization of our *hand sanitizers*, we believe that marketing activities will shortly improve, despite the delays in executing our business plan during fiscal 2010. This outlook is based notably on the recently concluded agreements and the interest expressed by several parties interested in our products.

We expect that our *medical equipment* segment will further improve its sales and profitability. ECM is completing the required approval processes and setting up its distribution network for the human market. Following the market launch of Exago™ and Exagyne™ during fiscal 2011, the subsidiary will offer a full range of ultrasound scanners for use in human medicine. It also continues to enhance its already enviable

positioning in ultrasound scanners for use in veterinary medicine, notably with its Agrosan™ ultrasound scanners and its new-generation ultrasound scanners. Finally, Noveko Algérie should reap the benefits of the supply of medical equipment to Algeria.

We will continue to focus particular attention on improving our operational efficiency and on developing products and markets driving our growth based on our strategic priorities. We maintain our objective of reaching the break-even point during fiscal 2011. However, the achievement of this objective will depend notably on our success in formalizing existing agreements and 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 other risks and uncertainties to which we are regularly exposed, as set forth in our continuous disclosure filings.

Considering the various factors previously mentioned in this Management's Report, we estimate we have to raise additional funds in order to pursue our product development and marketing. To that end, on September 23, 2010, we announced we intended to proceed with a private placement of Class A shares, for a minimum amount of \$4 million and a maximum amount of \$10 million, at a price of \$0.60 per share. Subscriptions shall be made for a minimal amount of \$150,000.

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

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures ("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 June 30, 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 and annual consolidated financial statements for the fiscal 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 and annual periods ended June 30, 2010 and 2009.

Acquisitions over the Previous Two Fiscal Years

We also carried out an evaluation of the material weaknesses relating to the design of our DC&P as of June 30, 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 fiscal 2009, 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 Control over Financial Reporting

Our internal control over financial reporting ("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 June 30, 2010. This evaluation was based on the 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 and annual consolidated financial statements for fiscal 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 periods ended June 30, 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 fiscal 2009. It is also to be noted that BLI's activities have been treated as discontinued operations since June 30, 2009.

Acquisitions over the Previous Two Fiscal Years

We also carried out an evaluation of the material weaknesses of our ICFR as of June 30, 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 fiscal 2009, 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 June 30, 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 are completing 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 fiscal year. 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, the Company has hired a new controller at BLI with the specific mandate of tightening controls within this subsidiary. An internal investigation with respect to these transactions was completed during the interim period ended June 30, 2010. This investigation revealed the nature and value of the amounts associated with the unusual transactions. However, given the precarious financial position of the former BLI employee involved in these transactions, it is doubtful that these amounts will be recovered.

Acquisitions over the Previous Two Fiscal Years

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 started during the interim period ended June 30, 2010. Further visits will also be needed and 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 and annual consolidated financial statements for fiscal 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 June 30, 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. You should carefully consider the risks and uncertainties described below before making any decision to purchase or to sell any of our securities. The risks and uncertainties below are not the only ones we may face. Additional risks and uncertainties not presently known to us or that we believe immaterial could turn out to be material and may adversely affect our business. If any of the following risks occur, our business, financial condition and results of operations could be seriously harmed and you could lose all or part of your investment. Further, if we fail to meet the expectations of the public market in any given period, the market price of our Class A Shares could decline. The analysis provided below contains looking forward statements that may differ materially from future actual results.

Risks Related to Our Financial Condition

We have no record of profit

To date, we have not recorded a profit from operations. Our working capital is coming essentially from the sale of our securities. In fact, we have incurred significant losses to date and there can be no assurances that our future business activities will be profitable. Our ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including, our ability to further develop our technologies and products, the pace of entry of our products into their respective target markets, the intensity of the competition we will experience, and the availability of additional capital to pursue our business plan). An inability to generate sufficient funds from operations will have a materially adverse effect on the Corporation's business, results of operations and financial condition.

We will require additional financing

On September 23, 2010, we announced that we were proceeding with the 2010 Private Placement described under *Description of the Company – Operational Review*. Even if we succeed in completing this private placement, we will likely, in the future, need to raise additional funding from lenders or the financial markets to sustain our growth. We may be unable to raise such additional funds on commercially reasonable terms. Our ability to arrange such financing in the future will depend on our business performance as well as prevailing capital markets conditions. If we are unable to raise additional funds when needed, the survival of our business will be jeopardized. Any equity financing may also be dilutive to existing shareholders.

Economic Risks

Economic Conditions

An economic slowdown could result in a decrease in demand for our products. Growth in our customers' businesses is affected by the economic environment and could therefore impact the Corporation's results. During an economic slowdown, existing and potential customers may reduce or delay purchases or projects or defer contracts underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Increased competitive pressures during an economic downturn could also result in sales price decreases. Such factors may affect negatively our profitability.

Foreign Exchange Risk

We anticipate earning a significant portion of our revenues from operations outside Canada. Accordingly, a substantial portion of our revenues is earned in foreign currencies (mostly US dollars and Euro) while a substantial portion of our operating expenses is incurred in Canadian dollars. Fluctuations in the exchange rate between those foreign currencies and the Canadian dollar may have a material adverse effect on our results. In addition, we are exposed to unrealized exchange gains and losses with respect to the translation of monetary assets and liabilities held in currencies other than the Canadian dollar. Our actual largest exposure is with respect to the U.S. dollar.

We are doing business internationally

Our subsidiaries are located in Canada, Europe, North Africa, China and Taiwan. We market a large proportion of our products outside Canada and expect our sales in foreign markets to increase in the near future. These foreign operations require significant management attention and financial resources while additionally subjecting us to risks inherent in doing business internationally. International business activities entail inherent risks such as trade barriers, political risks, uncertainty as to the protection and use of intellectual property in foreign countries, increase in taxes (including value added taxes) and changes in law and policies affecting our operations. Our failure to properly comply or address any of the above factors could greatly mitigate the success of our international operations and have a material adverse effect on our operating performance and financial condition.

Members of our Group are doing intercorporate transactions

We conduct business operations between members of our group and, sometimes, in various jurisdictions. Certain members of our Group provide products and services to, and may from time to time undertake

certain significant transactions with, other members. Our future income and cash may be adversely affected if any of the taxation authorities in these various jurisdictions were successful in challenging our transfer pricing policies.

Other Tax Issues

Although we are of the view that all expenses and tax credits claimed by us, including research and development expenses and tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian or foreign taxation authorities will be in agreement with us. If these taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected. We may, directly or indirectly, through our subsidiaries, be subject to taxes with respect to our operations in foreign jurisdictions. Although we are of the view that our books and registers as well as our financial statements reflect adequately our liabilities with respect to such foreign taxes, these foreign jurisdictions could however challenge our liabilities for such foreign taxes, which could adversely affect our operating results.

Business Risks

Disclosure controls and procedures and internal controls over financial reporting

The Corporation's management is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). In this Management Report, under section 6 *Disclosure Controls and Procedures and Internal Control over Financial Reporting*, the management identified material weaknesses in connection with its DC&P and ICFR and concluded that such DC&P and ICFR are not efficient. However, even if the DC&P and ICFR material weaknesses that the management identified did not result in adjustments to our annual or any interim consolidated financial statements for fiscal 2010 and 2009, the weaknesses so identified constitute risk factors the reader should be aware of.

Risks Related to the Ability to Meet Demand for Antimicrobial Masks and Respirators and Air Filters Products

The global market for antimicrobial surgical masks and respirators, and air filters holds significant potential that we intend to further develop considering the advantages related to our products' antimicrobial properties in a context of epidemic and pandemic threat. We have entered into different strategic alliances for the production and marketing of our products. We are actively pursuing initiatives to build up a reliable antimicrobial surgical mask and respirators and air filters production and distribution capacity in order to meet demand. However, we have just started operating in this field and there are risks that we could be unable to meet the entire demand due, in case of epidemic or pandemic, to a lack of production or distribution capacity, or due to regulatory issues.

Our capacity to protect our intellectual property

The success of our group will depend, to a certain extent, upon our ability to protect our core technologies and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, trademarks, and copyrights, as well as customary contractual protections. A list of our various patents and pending patents are included in the *Fiscal 2010 Annual Information Form*. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow or amend our claims. Any patents granted to us may be contested, circumvented or invalidated over the course of our business, and we may not be able to prevent third parties from infringing these patents. Enforcing our intellectual property rights could cause us to incur substantial legal costs, distract our management from running our business, cause significant delays in the commercialization of our products. The outcome of any litigation or negotiation is unpredictable. Infringements may occur in jurisdictions where intellectual property rights are not protected as well as in North America. Therefore, the exact effect of the protection of these patents cannot be predicted with certainty. We could also face competition in jurisdictions where patents have not been yet granted to us.

We may also become subject to claims by third parties that we infringe their intellectual property rights. Any such claim of infringement, even those without merit, could involve the same consequences than those occasioned to protect our own intellectual property.

We also rely on trade secrets and know-how, which are not protected by patents. We try to protect this information by entering into confidentiality undertakings with parties that have access to it, such as our current and prospective third party product manufacturers, distributors, employees and consultants. Any of these parties may breach the undertakings and disclose our confidential information. Enforcing a claim that a third party illegally obtained our trade secrets or is using them, is difficult, expensive, time consuming and the outcome is unpredictable.

We believe that our antimicrobial filtration technology used in our antimicrobial surgical masks and respirators, and in some of our air filter products, have unique features. Our antimicrobial filtration technology is protected by various patents and pending patents applications. One of our patents has already been revised by the USPTO further to an anonymous request for an Ex Parte Reexamination. Our patent has been maintained but we cannot guarantee that such patent (or our other patents and pending patents) will not be contested again at the administrative level or before the Courts.

There are currently a few other manufacturing processes to make masks antibacterial, like soaking of masks into, or coating with, an antibacterial solution. However, we believe that our manufacturing process is more efficient and less costly than these other processes. In Noveko's proprietary manufacturing process, the chemical agents that inactivate bacteria and viruses are impregnated or molecularly bounded into the fibers. Other manufacturing processes for which chemical agents are not impregnated or molecularly bounded could be hazardous if the chemical agents are released in the air or immediate environment and could have a shorter lifespan than our products if the chemical compounds evaporate.

Several of our products are strictly regulated

Several of our products are regulated as medical devices (masks, ultrasound scanners), as natural health products, cosmetic or as drug (sanitizer products, depending upon the jurisdiction) or otherwise regulated because some of them contain antimicrobial or chemical agents. Therefore, you should be aware of the risks, problems, delays, expenses and difficulties we may encounter in light of the extensive regulatory environment within which our business is carried out. Regulations are not the same in the several jurisdictions where we market or intend to market our products, which constitutes a further difficulty. Such regulations govern, among others, approval of manufacturing facilities, conditions applicable to the manufacturing processes, the procedures that may be required for testing the effectiveness or the safety of our products, or labelling and promotional materials requirements. This regulatory oversight also requires a strict adherence to applicable GMP (good manufacturing practices) and ISO standards. To obtain the required regulatory approvals is a lengthy, expensive and uncertain process. Any failure or delay in obtaining regulatory approvals could have a material adverse effect on our business, results and financial condition. Furthermore, product approvals may be withdrawn or not renewed if compliance with regulatory standards is not maintained or if conditions attached to these approvals are not fulfilled.

Our products integrating antimicrobial agents may not be accepted by the potential customers

Our antimicrobial surgical masks and respirators and air filters are new to the market. While we believe that our products provide significant advantages over the competition, there can be no assurance that we will be successful in commercializing them, especially as many competitors have substantially greater financial resources than ours. Potential lack of customers or delays in product acceptance would have a material adverse effect on our business, results and financial condition.

Supplier dependency for chemical compounds

We depend on a few numbers of suppliers to provide us with the various components entering into our products. It is particularly important to maintain consistency in the chemical compounds used in our mask and respirator manufacturing. Changing the chemical compounds could require re-validation of their properties.

Raw Material Costs

Raw materials represent a significant input into our manufacturing process. Although a wide variety of raw materials is used by our subsidiaries, polypropylene, polyethylene and some chemical additives are the main raw materials with respect to our surgical masks, respirators and filters. Polypropylene prices are correlated, among other things, to crude oil prices and polymer manufacturing capacity and demand. Significant increases in raw material prices could have a material adverse effect on our results and financial condition although our competitors will be affected similarly.

Air Filtration Products

Even if we consider that the combination of our antimicrobial filtration technology to Purer's 3-D weaving technology allows us to offer a market proposal with significant advantages over the competition, our air filtration products are new on the market, and we are competing with corporations having substantially more resources than ours to commercialize their products. In order to penetrate this huge market, our strategy consists of developing and commercializing air filters designed for specific applications, as the air filters intended for the swine market or our filtration solutions intended for office buildings, healthcare institution and multifunctional buildings. However, we cannot guarantee that we will be able to penetrate these markets in a significant way.

There are many air quality products for the residential market similar to those produced by Epurair. Some of those similar products are manufactured by large corporations with substantially more resources than ours. Epurair holds no patents for its products.

Sanitizer products

There are manufacturers of sanitizer products similar to those commercialized by Noveko, some of which are multinationals with substantially more resources than ours. No patent has been granted to Noveko for its sanitizing products.

Risks related to Ultrasound Scanners

Worldwide, there are numerous manufacturers of ultrasound scanners, some of which are multinationals with substantially more resources than ours. However, in the animal sector, these large corporations do not currently operate in ECM's niches and their products do not offer the same features as ECM's scanners, such as portability, individual standby power supply and competitive prices. That situation may change in the future. Several smaller-scale entities offer products with similar features to ECM's, particularly Chinese companies, and, as such, represent potential competitors in the various markets in which ECM is present. In the human sector, a new market for ECM, we are facing fierce competition from multinationals. In response to that competitive environment, we have adopted a highly selective market strategy, steadily improving our products' properties, minimizing manufacturing costs to offer competitively priced products. The market has not yet recognized the full potential of portable ultrasound scanners, mainly for the equine and pets sector. Our capacity to make known their features will be crucial for the growth of that sector.

Risks related to Steel Product Processing Operations

Our subsidiary BLI is involved in the steel industry, which is subject to regular price fluctuations caused by supply and demand trends and to the economic situation in general.

BLI occupies a small niche in Canada, being the custom processing and distribution of steel products based on client specifications and designs. BLI has numerous competitors in that field. But, few others Canadian companies are as equipped as BLI to transform steel in a finished product, or are as self-sufficient in regard with steel cutting and machining. However, the reader should be aware that as BLI's activities are no longer strategic to our group's growth, we are pursuing our efforts to divest BLI. Consequently, BLI's operations have been treated as discontinued in our 2010 and 2009 financial statements. No guarantee can be provided that the sale of BLI will be completed on a short time basis or at favorable conditions for the Corporation.

We depend upon senior management and key personnel

The management of the group is assured by a small number of key employees and the departure of any one of these employees could have an adverse impact on our activities. However, we partially offset such risk by recruiting several employees with experience in our various business components.

To ensure our success, management and key personnel must have sound knowledge of our products, our customers and of the markets where we are involved in. Given the current economic background, we must be able to retain our key personnel and attract new employees in order to continue growing. Our personnel are currently spread across the world through our subsidiaries. Such decentralization of human capital presents advantages but also disadvantages. Such disadvantages constitute additional risks, especially in connection with the successful operations of our business when concerted efforts are necessary.

The labor market being highly competitive, we may not be able to hire and retain the required employees, which could have a material adverse effect on our business, results and financial condition.

Risk of Legal Proceedings

In the normal course of business, the Corporation could be subject to lawsuits, claims and litigation for amounts superior to our liability insurance. As of June 30, 2010, an ex-employee of Noveko was suing the Corporation, Noveko and Magnum claiming an amount of \$101,539, plus \$10,000 as exemplary damages, for illegal termination of his employment. Even though the Corporation considers this suit as being unfounded, no guarantee can be provided that a judge will not decide otherwise. No date of hearing has been determined yet.

Capacity to identify and complete strategic acquisitions that will contribute to future growth

Even though the Corporation does not consider, in the short term, to proceed with an acquisition, in the long term or even before if the appropriate circumstances are met, we might have to proceed with strategic acquisitions to ensure our future growth. However, we may be unable to: (i) identify suitable acquisition targets available for sale at reasonable prices; (ii) properly evaluate the fair value of the target businesses or; (iii) complete any acquisition in a given timeframe. In addition, if we proceed with acquisitions, available cash may be used to complete such transactions, diminishing our liquidity and capital resources, or share may be issued which could cause significant dilution to our existing shareholders. Furthermore, identifying acquisitions and the completion of acquisitions per se, could divert management's attention and use significant financial resources that may negatively affect our business, operating results and financial situation.

Conflict of Interests

Our directors and executive officers as a group, beneficially own, directly or indirectly, or exercise control or direction over 23,980,350 Class A Shares or approximately 31.6% of the issued and outstanding Class A Shares of the Corporation. Conflicts may arise between such individual interests as members of the Board of Directors or as members of the management team and their respective interests as shareholders. Such conflicts could arise, for instance, with respect to the setting of their respective remuneration, the granting of options and similar matters. However, our directors and officers have the legal duty to act in the best interests of the Corporation.

Risks Related to Our Securities**There may be volatility in our Class A Shares**

The market price for our Class A Shares have been and could be subject to wide fluctuations. For instance, for fiscal 2010, the market price of our Class A Shares fluctuated from a high of \$2.09 to a low of \$0.45 (closing trading price on June 30, 2010: \$0.76). Factors such as announcements of our annual and quarterly results and financial position, delays incurred in the approval of our regulated products, difficulty to penetrate certain markets, or failure to meet market expectations may adversely affect the market price of our Class A Shares. The stock market has from time to time experienced extreme price and volume fluctuations, which were unrelated to any specific corporate operating performance.

There may be dilution in our Class A Shares

There are currently several outstanding types of securities convertible into Class A Shares, namely: stock options granted under the Corporation's Stock Option Plans, warrants and options granted to the Agents to purchase Units in connection with the 2009 Private Placement and warrants granted to Maxim pursuant to a Service Agreement. During the life of these convertible securities, their respective holders are given the opportunity to exercise those securities and to profit from a rise in the market price of the Class A Shares with a resulting dilution in the interest of existing shareholders. In addition, as referred to before, we may need to raise additional funds through public or private equity financing. Any equity financing may also be dilutive to existing shareholders.

The increase in the number of Class A Shares in the market resulting from the exercise of convertible securities, the possibility of sale of such shares, and the possibility of public or private equity financings may have a depressive effect on the market price of the Class A Shares. In addition, as a result of additional Class A Shares being issued, voting power of the Corporation's existing shareholders will decrease proportionately.

9. 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 replaced the Section 3062, "Goodwill and Other Intangible Assets", had no significant impact on the Company's financial statements.

Effective July 1st, 2009, the Company adopted the amendments of CICA Handbook Section 3862 "Financial Instruments – Disclosure". This section has been amended to improve the communication of information related to the fair value evaluation of financial instruments. All the new financial disclosure requirements related to this section are presented in note 1 b) Accounting policies – Financial instruments and note 28 Financial Instruments accompanying the financial statements. These amendments did not affect the consolidated financial results.

Effective July 1st, 2009, in connection with the implementation of the new accounting software and in an effort to harmonize its accounting policies for all of its subsidiaries, the Company changed its costing method for raw materials, work in process and finished goods for certain subsidiaries. Thus, Epurair, which used first in, first out method to value its raw materials is now using the average cost method. Also, Noveko and Epurair, which used the standard cost method to value their finished goods and work in process are now using the average cost method. Since financial data were not readily available at a reasonable effort, the changes were not applied retroactively and comparative figures were not restated.

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

Amendments to Section 1400 "General standards of financial statement presentation", were amended to require from management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern. Any material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern must be disclosed.

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 27 of the accompanying financial statements on Capital Management).

Section 3031 "Inventories", provides more extensive guidance on the recognition and measurement of inventories, and related disclosures. In accordance with the transition rules of this new section, the Company has adjusted opening retained earnings as if the new rules had always been applied in the past,

without restating comparative figures for prior years. Accordingly, the following adjustments were recorded in the consolidated financial statements as of July 1st, 2008:

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

Section 3862 and Section 3863 replace Section 3861 “Financial Instruments – Disclosure and Presentation”. These new recommendations relate only to disclosure requirements and had no impact on the Company’s financial statements (see note 28 of the accompanying financial statements).

Future Changes in Accounting Policies

Transition to International Financial Reporting Standards

In February 2008, Canada’s Accounting Standards Board confirmed that GAAP, as used by publicly accountable enterprises, will be superseded, for fiscal years beginning on or after January 1, 2001 (the “changeover”), by International Financial Reporting Standards (“IFRS”).

For the Company, the changeover to IFRS will be required for interim and annual financial statements for periods beginning July 1, 2011 (the “changeover date”). In the Company’s financial statements presented during periods prior to the changeover date, the Company will be required to present comparative data for the equivalent periods of the previous year and at the transition date, being July 1, 2010. Accordingly, the Company will be required to restate the corresponding figures for fiscal 2011 and the opening balance sheet.

IFRS use a conceptual framework similar to GAAP, but involve major differences in regard to recognition, measurement, presentation and disclosure. The Company must apply the same accounting practices in to its opening balance sheet and for all periods presented in its first IFRS financial statements. However, readers are cautioned that IFRS at the date of the first IFRS financial statements may differ from current IFRS due to new IFRS standards and pronouncements that could come into effect between now and then.

Pursuant to Canadian Securities Administrators Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS*, we present the following information regarding our IFRS changeover plan (the “changeover plan”). This information is provided to allow investors and others to obtain a better understanding of our changeover plan and its impact on our financial statements. However, readers are cautioned that it may not be appropriate to use this information for other purposes. Although this information also reflects our most recent assumptions and expectations, circumstances such as changes in IFRS, regulations or economic conditions may arise which could change these assumptions and expectations.

As part of our changeover plan, we have set up a dedicated IFRS team that notably includes external consultants. A detailed analysis of the differences between the accounting policies applied by the Company and IFRS is in progress and will give rise to an impact assessment report on the Company. Our plan incorporates the following key items: (i) accounting policies and financial statements, including selection of policies permitted under IFRS, and implementation of decisions, such as whether certain changes will be applied on a retrospective or prospective basis; (ii) information technology and data systems; (iii) internal control over financial reporting (ICFR) and disclosure controls and procedures (DC&P); (iv) financial reporting and disclosure expertise and training, including investor relations and external communications plans; and (v) business activities.

The Company is in the process of making its accounting policy decisions. While the determination of material differences between our accounting policies and IFRS and the selection and approval of the related alternatives have not been completed, the Company estimates that material differences will arise or are likely to arise in the following accounting areas:

- **IFRS 1**, *First-Time Adoption of International Financial Reporting Standards*
- **IFRS 2**, *Share-Based Payment*
- **IFRS 3**, *Business Combinations*
- **IAS 21**, *Effects of Changes in Foreign Exchange Rates*
- **IAS 36**, *Impairment of Assets*
- **IAS 37**, *Provisions, Contingent Liabilities and Contingent Assets*

Throughout fiscal 2011, we will continue to review the standards for their application to our operations, carry out impact assessments and provide the required targeted training. We will also make accounting policy decisions and prepare our accounting systems accordingly, to allow preparation of our opening balance sheet under IFRS as at July 1, 2010. Although we continue to assess the impact of IFRS, further progress will be required before we can specifically issue a statement on the impact of adopting IFRS. As yet, we can therefore not quantify their impact on our financial statements and operational performance measures. Additional information will be provided as we move toward the changeover date. Summarized hereafter is a description of our progress toward completion of selected key activities of our changeover plan.

	Key Activities	Milestones and Deadlines	Progress to Date
Accounting policies and financial statements	Identify and analyze the differences between IFRS and our accounting policies	Assessment and quantification of the significant effects to be completed during fiscal 2011	Preliminary identification of differences completed by third-party experts; review by management underway
	Quantify such differences	Final selection of accounting policy alternatives before the changeover date – during fiscal 2011	Assessment and selection of accounting policy alternatives underway
	Design and implement solutions; benchmarking with peer corporations		External consultants are assisting us in the transition
	Select the IFRS accounting policies and exemptions allowed under IFRS 1		Expected changes in IFRS being monitored
	Develop an IFRS financial statements and accompanying notes model		
	Prepare the opening balance sheet and compile the financial information for the preparation of comparative IFRS financial statements	During fiscal 2011	Underway
Information technology and data systems	Assess the impact of IFRS changes on data systems and processes	Changes to data systems and dual record-keeping during fiscal 2011	Impact on data systems and processes assessed concurrently with the analysis of accounting policy differences
	Selection methods to address need for dual record-keeping (under GAAP and IFRS) during fiscal 2011		Dual record-keeping solution design is underway
Internal control	Assess the impact of IFRS changes on internal control over financial reporting (ICFR) and disclosure controls and procedures (DC&P)	Management assessment of new or revised controls throughout fiscal 2011	Impact on controls assessed, and design, review and implementation of internal controls to address IFRS differences concurrently with the analysis of accounting policy differences
	Design and implementation of internal controls to address significant changes and non-recurring adjustments	Implementation of required changes and of the Chief Executive Officer/Chief Financial Officer certification process by the fourth quarter of 2011	
Financial reporting and disclosure expertise and training	Determine training needs and provide such training to affected employees and management	Timely training provided to align with work under the changeover during 2010 and 2011	Selected training for resources directly engaged in the changeover and general awareness to broader group of finance employees
		Regular communications on the effects of the changeover during fiscal 2010 and 2011	Periodic communications on the advancement of the work
			External experts are assisting us in the transition
Business activities	Assess the impact of the changeover on contractual agreements, including financial covenants and employee compensation plans	Changes to be completed by the fourth quarter of fiscal 2011	Impact on data systems and processes assessed concurrently with the analysis of accounting policy differences
	Make any required changes to agreements		No potential impact identified to date

Other Future Changes in Accounting Policies

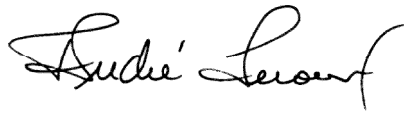
In January 2009, the CICA issued Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements”, and 1602 “Non-controlling Interests”.

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 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 revalued 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.

These new standards 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

September 28, 2010



ÉRIC FAVREAU
Vice-President and
Chief Financial Officer