



Interim Management's Report
Three-Month and Six-Month Periods Ended
December 31, 2009

Management's Report

1. BASIS OF PRESENTATION

The Management's Report is designed to assist investors in understanding the nature and the importance of the changes and trends, as well as the risks and uncertainties associated with the operations and financial position of Noveko International Inc. (the "Company"). This Management's Report presents an analysis of the Company's operations for the second quarter and six-month period ended December 31, 2009, in comparison with the corresponding periods ended December 31, 2008, as well as an analysis of its balance sheet, cash flows and changes in financial position between those dates. The Management's Report should be read in conjunction with the unaudited consolidated financial statements as at December 31, 2009 and accompanying notes. It should be noted that these financial statements have not been reviewed by the external auditor.

Supplementary information about the Company, including its Annual Information Form for the fiscal year ended June 30, 2009, annual reports, management's reports on previous interim periods and press releases, is available on the websites of the Company (www.noveko.com) 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 direct and indirect subsidiaries, and "Noveko" designates Noveko Inc., a subsidiary of the Company. The Company's other subsidiaries are designated as follows: "ECM" for S.A.S. E.C.M., "Epurair" for Epurair Inc., "Magnum" for Magnum Pharmaceuticals Inc., "Noveko Algérie" for SARL Noveko Algérie, "Noveko Taiwan" for Noveko Taiwan Co., Ltd., "Noveko Trading" for Noveko Trading 2008 LLC, "Purer Life" for Purer Life Technology Co., Ltd. and "BLI" for Bolduc Leroux Inc.

The information contained in this Management's Report accounts for any major event occurring up to February 12, 2010, the date on which the Board of Directors approved the unaudited consolidated financial statements and Management's Report for the second quarter and six-month period ended December 31, 2009. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was written.

Unless otherwise indicated, the financial information presented in this report, including tabular amounts, is expressed in Canadian dollars. The Canadian dollar is also the Company's measurement currency. Unless otherwise indicated, the analysis of results for the reporting period is made in comparison with results for the equivalent period of the previous year.

Compliance with Canadian GAAP

Unless otherwise indicated, the financial information presented in this Management's Report, including tabular amounts, is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The information contained in this Management's Report and certain other sections of this report also includes some figures that are not performance measures consistent with GAAP, such as earnings (loss) before amortization, financial expenses, other non-cash items and income taxes ("EBITDA"). The Company uses EBITDA because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator of a company's ability to repay and assume debt. Investors should not regard it as an alternative to operating revenues or cash flows, or a measure of liquidity. As this measure is not established in accordance with GAAP, it might not be comparable to those of other companies.

Use of Estimates and Forward-Looking Statements

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

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

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

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

2. DESCRIPTION OF THE COMPANY

Profile of the Company

Noveko International Inc. offers innovative solutions in the environmental and medical fields worldwide, with the purpose of improving human and animal health and well-being. Through our subsidiaries, we are engaged primarily in the design, development, manufacture and marketing of: (i) antimicrobial surgical masks and respirators derived from our patented antimicrobial air filtration technologies; (ii) filtration products, including antimicrobial air filters derived from our patented antimicrobial air filtration technology and air quality management systems; (iii) hand sanitizers with antimicrobial properties; and (iv) medical equipment, including ultrasound scanners for use in human and veterinary medicine.

Operational Overview, Second-Quarter Highlights and Subsequent Events

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

Strategy

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

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

Product Development and Marketing

Distribution Agreement with SappTech

On October 15, 2009, we announced the conclusion of an exclusive distribution agreement for our antimicrobial masks and respirators and hand sanitizers with Malaysian-based SappTech Sdn Bhd ("SappTech"). This agreement, which has an initial term of three years, covers the distribution of these products in Malaysia, Singapore, Indonesia, Thailand and the State of Brunei Darussalam. This agreement also covers Epurair's air purifiers. SappTech has undertaken to purchase a minimum of 100 million masks over the term of the agreement for an estimated value of approximately \$25 million. To retain its exclusive distribution rights in the territory over the term of the agreement, SappTech must make annual purchases equivalent to one-third of the minimum purchase. SappTech has taken various initiatives to obtain the authorizations required to market our masks in compliance with the national standards specific to certain countries covered by the agreement.

Launch of Our New Microban® Line of Hand Sanitizers and Access to Several New Points of Sale in Canada

On November 26, 2009, we announced the launch of our new Microban® line of hand sanitizers. The hand sanitizers formerly marketed under the AZURO™ brand are now sold under the Microban® brand name, pursuant to the terms of the August 2009 agreement with Microban International, Ltd. (“Microban”). Production of the various AZURO™ hand sanitizer formats has been replaced by the production of Microban® hand sanitizers. These use the same quality formula as formerly and will gradually replace the AZURO™ products. The new Microban® line of hand sanitizers also includes two new 60 ml and 250 ml formats. The disinfectant sprays for feet and surfaces are still sold under the AZURO™ brand.

We also announced that Microban® hand sanitizers are now sold by several Canadian food and drug retail leaders, such Shoppers Drug Mart/Pharmaprix, Jean Coutu Group (PJC) Inc., Brunet pharmacies, Safeway supermarkets as well as Metro Inc. supermarkets and grocery stores. In addition, McMahan Distributeur Pharmaceutique Inc. and Mc Kesson Canada distribute Microban® hand sanitizers in the retail market.

Noveko’s Antimicrobial Products Offered by Couche-Tard for the Protection of its Customers and Employees

On December 9, 2009, we announced that Couche-Tard convenience stores located in Quebec had made Noveko’s antiseptic products available to all their customers and employees so they may disinfect their hands in-store. Couche-Tard also promotes and markets Noveko’s products across its network.

The Noveko™ 4xEZU antimicrobial masks are now sold in most Couche-Tard convenience stores across Quebec. In addition, Couche-Tard distributes the 25, 125 and 500 ml formats of the Company’s line of hand sanitizers, now marketed under the Microban® brand, along with the AZURO™ surface disinfectants. We are currently taking steps to extend the sale of our products throughout Couche-Tard’s network in Canada.

A First: Complexe Desjardins Equipped with Noveko™ Antimicrobial Filtration Technology

On December 10, 2009, we announced that our subsidiary Epurair had entered into an agreement with Desjardins Gestion Immobilière Inc. (“DGI”) to equip the entire Complexe Desjardins, the largest multi-purpose building in the Montreal metropolitan area, with filters incorporating the Noveko™ antimicrobial filtration technology. Covering a total area of four million square feet, Complexe Desjardins includes three office towers with a total of 99 floors, a commercial gallery with 110 shops and restaurants, several Desjardins Group institutions, numerous governmental services and health services. The three-year agreement covers the supply of the filters and their cleaning.

Distribution Agreement with Israeli-Based Zer Hitech

On January 19, 2010, we announced that Noveko Trading 2008 LLC had concluded an exclusive distribution agreement with Israeli-based Zer Hitech (1976) Ltd. (“Zer Hitech”), a subsidiary of Zer Group, a leading biotechnology company. The agreement covers the distribution of Noveko™ antimicrobial masks and respirators, Microban® hand sanitizers, air filters incorporating the Noveko™ antimicrobial filtration technology to hospitals and commercial buildings, as well as Epurair™ MA-1 HEPA air purifiers. This agreement crystallizes an already existing business relationship and has an initial term of three years.

Following a thorough process, Zer Hitech won from SAREL a contract to supply Noveko™ antimicrobial masks to health establishments throughout Israel. Further to this award, deliveries of masks to the Israeli market have already started. SAREL is Israel's largest privately-owned supplier of goods and services to healthcare and medical institutions, handling over 48,000 healthcare-related products. It also acts as the official purchaser for the Israeli Ministry of Health. Moreover, filters incorporating the Noveko™ antimicrobial filtration technology will soon be installed, through Zer Hitech, in a Tel Aviv hospital where trials will then be conducted.

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

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

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

We are using the net proceeds from the offering to pursue our global growth objectives and to finance our working capital requirements. We believe that obtaining this financing attests to the confidence of the investment community in our Company and its growth potential.

Progress at Operational Level

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

Reinforcement of Management Team

We have further reinforced our management team through the appointment, in December 2009, of Mr. Richard Durocher as President of our subsidiary Noveko, a position until then held by Alain Bolduc, in addition to his responsibilities as the Group's President and Chief Operating Officer, to which he is now dedicated. On February 8, 2010, Mr. Guy Bergevin also joined the team as Noveko's Vice-President, Sales. In addition, we reassigned some of our managers within the Group in order to set up a business structure better suited to our current and future growth needs. In this context, we are focusing special attention on Noveko's activities to consolidate the previously achieved advances at the product and market development level. This subsidiary's activities are undergoing an in-depth assessment to make it more flexible, leaner and further concentrated on its strategic priorities.

New Integrated Management System

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

Steps to Secure Foothold in China

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

Eventual Sale of BLI

While pursuing our efforts to divest BLI, whose operations no longer fit with our growth strategy, we have taken a series of measures to turn around this subsidiary.

Overview by Business Segment

Antimicrobial Masks and Respirators

Demand and Production

In recent months, we have achieved several breakthroughs that pave the way for the production and distribution of our antimicrobial surgical masks and respirators on a wider scale. Although the A (H1N1) influenza pandemic threat that emerged at the end of April 2009 has now abated in the population at large, it has had an accelerator effect on the demand for Noveko™ face masks, the benefits of which should continue to materialize in the coming quarters. However, demand is likely to return to a more stable growth rate.

In order to attempt to meet the growing demand subsequent to the A (H1N1) influenza outbreak, insofar as possible, we have taken the necessary steps to increase the production of masks in recent quarters. However, the small quantity of masks then in stock, the limited working capital at our disposal until the closing of the Offering in late October 2009, and the time then required to mobilize our suppliers, begin and complete the mask production cycles, were all factors that caused delays in the mask deliveries. These delays account in part for the lower than initially forecasted sales during the quarter ended December 31, 2009. We expect to gradually complete the already initiated production in the coming months and to adjust our mask production based on demand. Furthermore, the marketing of our masks was also slowed down by the steps that some of our distributors had to take in order to obtain the additional authorizations pursuant to the regulatory requirements specific to their respective territory.

Due mainly to these various delays, recognition of the revenues from orders in progress will extend over a longer period than forecasted, probably beyond the current fiscal year. In addition, although demand is likely to return to a more stable growth rate following the abatement of the pandemic threat, we remain confident as to the evolution of the volume of orders for upcoming quarters. To that end, the reader is reminded of the October 15, 2009 distribution agreement with SappTech for the purchase of a minimum of 100 million masks and respirators over a three-year period, for an estimated value of approximately \$25 million, as aforementioned in the “Product Development and Marketing” section.

We are still discussing with various suppliers to increase our mask production capacity. We also remain on the lookout for opportunities to expand our production more efficiently and to be closer to our markets.

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

Certifications and Approvals

On November 6, 2009, we announced that we were refocusing our strategy for the marketing of our Noveko™ masks and respirators in North America. In this regard, the initial 510(k) submission for the Noveko™ 3xEZ antibacterial surgical mask to the US Food and Drug Administration (“the FDA”) (“the initial FDA submission”) has been withdrawn. The pandemic context prevailing at the time, and especially the time and cost imperatives associated with the initial FDA submission process – which took longer and proved more complex than initially expected, moreover being limited to the Noveko™ 3xEZ surgical mask which had only an antibacterial claim – led us to refocus our strategy to prioritize the accelerated marketing of our Noveko™ masks and respirators in the United States, outside healthcare institutions, as well as in North America, globally.

To that end, we also announced that we would submit an application to the National Institute for Occupational Safety and Health (“NIOSH”) for the certification of our Noveko™ respirators, which we could not do while the initial FDA submission was underway. Even though Noveko™ masks have built-in antimicrobial ingredients, some markets still seek NIOSH recognition when making their purchasing decisions, although NIOSH standards are only particle filtration standards. We believe that the North American population would benefit from having faster access, as is the case in many other markets worldwide, to our antimicrobial masks and respirators, which have been tested and proven effective not only in filtering out, but also in neutralizing a broad spectrum of viruses and bacteria. During the second quarter of the current fiscal year, we had taken steps to submit an application to the NIOSH. We are currently proceeding to finalize the tests and to obtain the data needed to submit an application for certification complying with NIOSH standards. We have obtained our “Manufacturer’s Code” from the NIOSH, confirming the official opening of our file as a manufacturer. We believe we will be able to proceed with the official filing of our application for the certification of our respirators within the near term. As a general rule, the average time between the official submission of an application for certification to the NIOSH and the receipt of an answer therefrom is 90 days. However, this timeframe can vary depending on several factors beyond our control. Furthermore, NIOSH reserves the right to require supplementary information to complete the file. We also plan to submit the mask product labelling to the US Environmental Protection Agency (“the EPA”) for certification for industrial use.

Refocusing our strategy will also allow us to develop test protocols and to obtain the required performance data to support a future 510(k) submission to the FDA to market our Noveko™ masks and respirators with an antiviral claim to healthcare institutions in the United States.

Air Filtration Products

Antimicrobial Filtration Products

Air Filters for Farm Buildings

The global economic slowdown and the restructuring underway in the swine industry are delaying any prospective increase in pork prices and creating difficult conditions on global swine markets, despite signs of a recovery. Such less favourable conditions for infrastructure spending are delaying the rollout of the marketing of Noveko™ antimicrobial air filters in this segment. We therefore do not expect to achieve significant revenues in this regard for the current fiscal year. However, this swine industry restructuring should shift into a new growth phase during the next fiscal year. Industry leaders recognize that changes are needed in the area of production planning to ensure that a sustainable management model is implemented for 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. Further market development activities are underway in North America, South America, Europe and Asia.

Air Filters for the Transportation Industry

The August 2008 strategic acquisition of Purer Life paved the way for new applications in various promising industrial segments, notably the railway industry and the aeronautics field. In addition to the properties specific to Noveko's antimicrobial technology, Purer Life's membranes incorporate a patented weaving technology featuring a three-dimensional configuration that ensure them of a superior filtration capacity and increased longevity, characteristics that are particularly valued in the transportation industry.

We are in further talks with various railway companies that have shown an interest in our filtration technologies. In the aeronautics segment, Aerosys Technologies has successfully completed several of the necessary tests for the marketing of air filters incorporating Noveko's antimicrobial filtration technology. It is in the final phase of the required tests for the purposes of certifying the filters in accordance with the industry's standards. However, on January 7, 2010, Aerosys Technologies applied for and was granted the opening of a safeguard proceeding in accordance with the provisions of the French Commercial Code. The purpose of a safeguard proceeding is to favour the reorganization of a company experiencing financial difficulties, the continuance of its business activities, the maintenance of jobs and the reduction of its liabilities. Aerosys' management retains the power to manage its business and is pursuing its operations during the procedure. However, the latter temporarily suspends the payment of debts to creditors and prevents lawsuits in that regard. Furthermore, some important decisions are subject to approval under the supervision of various safeguard proceeding bodies. A six-month observation period has started with the aim of developing and approving a safeguard plan. We are currently analyzing the potential impact of these events on our operations and reiterate our intent to pursue our business plan with respect to the marketing of our filtration technology in the aeronautics field. We are also studying all possible opportunities to minimize the consequences and delays that the institution of this proceeding could have on the implementation of our business plan in this business segment.

Airlines have already shown an interest in equipping their aircraft with such air filters, including Air Transat.

Air Filters in the Institutional, Commercial and Residential Markets

Noveko's antimicrobial filtration technology also has the potential to generate several new applications designed for healthcare institutions, commercial buildings, properties and residences. The pooling of the technologies and distribution networks of Epurair increases our development potential in these markets and, in this regard, we achieved a major breakthrough in December 2009 when our subsidiary Epurair entered into an agreement with DGI to equip Complexe Desjardins with filters incorporating the Noveko™ antimicrobial filtration technology. In this regard, the reader is referred to the "Product Development and Marketing" section of this Management's Report. We are pleased that a building as large-scale as Complexe Desjardins is the first client to be equipped with our antimicrobial filtration solution, attesting to the interest in our products in this high-potential market. This agreement is the outcome of a process that began 10 months earlier when we met with DGI's representatives, followed by the development of a customized filter that proved its effectiveness as a filtration solution thanks to a series of tests conducted on-site over a period of more than six months.

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

The distribution agreement concluded with Israeli-based Zer Hitech, referred to in the "Product Development and Marketing" section, is another example of the interest in our technology. Zer Hitech intends to distribute and promote, in Israel – a country enjoying a reputation as an international leader in the medical field, the filters incorporating the Noveko™ technology as a responsible management environmental solution with added distinctive antimicrobial benefits. Zer Hitech also has an international network of distributors who could facilitate our access to other geographic markets.

EPURAIR™ Products

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

Sanitizers

Increased Demand and Production

We continue to achieve breakthroughs in the promising hospital and institutional segments for our hand sanitizers, whereas the retail market is also growing rapidly. The pandemic context that has prevailed over the past quarters, combined with general public health concerns, have raised awareness as to the importance of maintaining good hand hygiene, leading to a major increase in the demand for our sanitizers. Agreements such as those concluded with BLD Distribution, L.L.C., SappTech and Zer Hitech also attest to the growing interest in our sanitizers. In November 2009, concurrently with the launch of new Microban® line of hand sanitizers, we announced that we were intensifying the marketing of our sanitizers to Canadian leaders in the food and drug retail markets. In this regard, the reader is referred to the "Product Development and Marketing" section of this Management's Report.

Over the past quarters, we have taken the necessary steps to increase the production of sanitizers in order to meet growing demand. However, the small quantity of products then in stock, the limited working capital at our disposal until the closing of the Offering in late October 2009, and the time then required to increase production while launching our new Microban® line of sanitizers, were all factors that caused certain delays in deliveries. These delays account in part for the lower than initially forecasted sales during the quarter ended December 31, 2009, although these were up significantly over the corresponding quarter of the previous fiscal year and over the first quarter of fiscal 2010. Due mainly to these various delays, recognition of the revenues associated with orders and agreements in progress will extend over a longer than initially expected period, probably beyond the current fiscal year.

Furthermore, although a certain stabilization of demand is likely following the abatement of the pandemic threat, we remain confident as to the evolution of the volume of orders for upcoming quarters. In this regard, we believe that the launch of our new Microban® line of hand sanitizers represents a strategic milestone in our market development. The reputation of the Microban® brand, used on over 750 products worldwide, combined with the high-performance antimicrobial properties of our hand sanitizers, should enable us to further penetrate the different segments of the hospital, institutional and retail markets on a global scale.

Medical Equipment

Ultrasound Scanners

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

In January 2010, ECM launched the Exago™, another high-end ultrasound scanner that is initially intended for veterinarians, especially in the equine market, and subsequently for the pets market. Once the required approvals are obtained, this device will also be 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 fourth quarter of fiscal 2010.

Noveko Algérie

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

Other

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

3. SELECTED CONSOLIDATED QUARTERLY INFORMATION

Three-Month and Six-Month Periods Ended December 31, 2009 and 2008

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

	Three Months		Six Months	
	2009 ⁽¹⁾	2008	2009 ⁽¹⁾	2008
Revenues from continuing operations	4,979	3,908	9,475	6,180
Gross margin	1,927	1,767	4,130	2,963
Loss before amortization, financial expenses, income taxes and discontinued operations ⁽²⁾	(3,987)	(5,081)	(6,943)	(10,885)
Loss from continuing operations	(4,963)	(6,740)	(8,774)	(13,021)
Loss from discontinued operations ⁽³⁾	(45)	(201)	(374)	(460)
Net loss ⁽⁴⁾	(5,009)	(6,941)	(9,148)	(13,480)
Loss per Class A share (basic and diluted)				
Continuing operations	\$ (0.07)	\$ (0.10)	\$ (0.12)	\$ (0.19)
Discontinued operations ⁽³⁾	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Net loss ⁽⁴⁾	\$ (0.07)	\$ (0.10)	\$ (0.13)	\$ (0.20)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	74,912	66,886	71,094	66,214

Balance Sheet Data	December 31, 2009	June 30, 2009
Total assets	58,704	50,897
Shareholders' equity	47,440	38,487
Total interest-bearing debt ⁽⁵⁾	2,188	4,163
Cash, cash equivalents, short-term investments and deposit in trust	11,170	4,711

(1) The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries as at December 31, 2009.

(2) Including stock-based compensation of \$1,315,057, \$3,207,094, \$2,566,362 and \$6,263,917 for the respective periods of 2009 and 2008, which has no impact on the cash balance.

(3) BLI's results.

(4) Including BLI's results.

(5) Including long-term debt and its current portion, bank loans, and short and long-term convertible debentures; excluding BLI.

4. OPERATING RESULTS

Analysis of Consolidated and Segmented Operating Results for the Second Quarter Ended December 31, 2009 Compared with the Second Quarter Ended December 31, 2008

As indicated in the Annual Management's Report for the fiscal year ended June 30, 2009, we now report segmented information based on the following business segments: medical equipment, sanitizers, antimicrobial surgical masks and respirators, filtration products and other activities consisting primarily of the activities of the parent company, Noveko International, and of Noveko Trading, as well as the marketing management services offered by Magnum to external clients. Furthermore, the results of operations and the assets and liabilities of BLI have been withdrawn from continuing operations to be treated as discontinued operations in the Company's financial statements.

Consolidated and Segmented Revenues from Continuing Operations (unaudited)

	Three Months		Six Months	
	Ended December 31		Ended December 31	
	2009	2008	2009	2008
Medical equipment	\$ 2,496,617	\$ 2,451,061	\$ 4,792,562	\$ 3,999,457
Sanitizers	1,517,033	131,231	2,309,791	197,969
Masks	290,181	7,568	1,084,458	18,468
Filtration	595,263	1,095,252	1,100,592	1,468,268
Other	79,779	223,194	187,616	496,193
Total	\$ 4,978,873	\$ 3,908,306	\$ 9,475,019	\$ 6,180,355

Consolidated revenues for the second quarter grew by \$1.1 million or 27.4% to \$5.0 million. This growth primarily reflects the \$1.4 million increase in sanitizer sales stemming from the commercialization efforts in different markets. Although the masks segment posted a growth of approximately \$0.3 million, it is below the forecasted amount, due primarily to the small quantity of masks in stock at the beginning of the quarter, the production-related delays resulting from the limited working capital at the Company's disposal until the closing of its financing at the end of October 2009, and the time then required to mobilize suppliers, and to begin and complete the production cycles. The initiatives certain distributors had to take in order to obtain the additional authorizations pursuant to the regulatory requirements specific to their respective territories also slowed down the commercialization of the masks. Revenues in the filtration products segment decreased from the second quarter of the previous year due to the difficulties the swine market is experiencing worldwide. Revenues in the medical equipment segment were relatively stable, reflecting the contribution of Noveko Algérie and ECM, which both increased their sales during the quarter; however, the impact of the conversion into Canadian dollars of ECM's revenues recorded in Euros did not permit the recognition of the revenue growth in this segment, due to the depreciation of the Euro against the Canadian dollar since the last fiscal year. It is to be noted that ECM is starting to benefit from solid penetration in the human medicine market, and its ultrasound scanner sales are up in this market as well as in the veterinary medicine market. For the first six months, consolidated revenues grew by \$3.3 million or 53.3%. This growth is due to a \$0.8 million or 19.8% increase in medical equipment sales reflecting the contribution of Noveko Algérie and ECM, as well as an increase of \$2.1 million in sanitizer sales and of \$1.1 million in mask sales, driven by a sharp rise in demand reflecting the population's greater awareness of the importance of maintaining healthy hand hygiene subsequent to the pandemic threat that has prevailed in the past quarters. Conversely, filtration product sales decreased by approximately \$0.4 million due to the business slowdown in the swine market.

The operating profit margin for the second quarter was 39%, compared with 45% for the corresponding quarter of the previous year. This decline was caused primarily by an increase in transportation expenses in various overseas markets and the lower profit margins recorded in the retail market, which the Company started to further penetrate during the quarter. For the first six months, the operating profit margin was 44%, down from 48% for the corresponding period of the previous year. In addition to the previously mentioned factors, this decrease is due to downward price adjustments in the segments of filtration products for breeding farms and medical equipment for use in veterinary medicine.

Selling and administrative expenses for the second quarter and the first six months increased by \$0.4 million and \$0.5 million, respectively, to \$4.2 million and \$8.0 million. In addition to the costs related to product marketing and sales initiatives in the various business segments, this rise is due to the fact that in the second quarter, the Company had to recognize a \$0.3 million provision for doubtful accounts, most of which is related to Aerosys, as explained in further detail in the previously presented “Overview by Business Segment” under “Air Filtration Products”.

Stock-based compensation charge for the second quarter and first six months, which has no impact on the Company’s cash balance, decreased by \$1.9 million from the second quarter of the previous year and by \$3.7 million from the first six months of the previous year. Primarily as part of the acquisitions closed at the beginning of the previous year, the Company had granted stock options to employees and consultants entitling them to purchase a total of 2,950,000 Class A shares at a weighted average exercise price of \$2.76 per share with a vesting period extending over 12 to 30 months. In this regard, it should be noted that the Company uses the fair value based method of accounting for all options granted, whereby a stock-based compensation charge is recognized over the vesting periods of the options with a corresponding increase in contributed surplus. The change in stock-based compensation charge between the first half ended December 31, 2009 and the first half ended December 31, 2008 thus stems from the fact that stock-based compensation is recorded gradually. The fair value of the options was estimated using the Black and Scholes options pricing model based on the assumptions presented in note 9 “Stock Options Plan” accompanying the consolidated financial statements for the second quarter and first six months ended December 31, 2009.

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

	Three Months		Six Months	
	Ended December 31		Ended December 31	
	2009	2008	2009	2008
Medical equipment	\$ 385,511	\$ 401,168	\$ 502,997	\$ 6,612
Sanitizers	(427,640)	(640,575)	(685,316)	(1,164,975)
Masks	(494,813)	(122,014)	(455,399)	(957,042)
Filtration	(534,552)	(862,420)	(1,134,906)	(1,198,065)
Other	(2,915,641)	(3,857,177)	(5,170,758)	(7,571,694)
Total	\$ (3,987,135)	\$ (5,081,018)	\$ (6,943,382)	\$ (10,885,164)

Considering the above mentioned factors, **the loss before amortization, financial expenses, income taxes and discontinued operations** was reduced significantly. It stood at \$4.0 million for the second quarter, down by \$1.1 million from the second quarter of the previous year, and for the first six months, it amounted to \$6.9 million, down by \$3.9 million from the first six months ended December 31, 2008. The following business segments contributed to this significant improvement:

- the medical equipment segment posted earnings before amortization, financial expenses and income taxes of \$0.4 million in the second quarter, relatively equivalent to the corresponding quarter of 2008. For the first six months, these earnings stood at \$0.5 million, compared with an immaterial amount for the corresponding period of 2008, thanks to Noveko Algérie’s contribution and improvement in profitability, and that of ECM in the first quarter;

- the sanitizers segment reduced its loss by \$0.2 million during the second quarter and by \$0.5 million for the first six months due to a strong second-quarter increase in the sales volume and an almost nil stock-based compensation charge;
- the masks segment's loss increased by approximately \$0.4 million in the second quarter as a result of a sales volume that was insufficient to offset the costs related to their commercialization; conversely, for the first six months, its loss was reduced by \$0.5 million, or almost half, thanks to a strong first-quarter increase in sales and the operating margin, as well as the decrease in stock-based compensation charge;
- the filtration products segment lowered its loss by \$0.3 million in the second quarter and by approximately \$0.1 million for the first six months, due notably to better operating cost management;
- as for the other activities, they lowered their loss by \$0.9 million in the second quarter and by \$2.4 million for the first six months, due primarily to the decrease in Noveko International's stock-based compensation charge.

Financial expenses, less investment income, decreased by approximately \$0.5 million for the second quarter and the first six months from the corresponding periods of the previous year. This change is due to the reduction in interest expense resulting from the conversion of debentures and to the fact that in the second quarter of the previous year, the Company had to recognize a \$1.6 million loss on a foreign exchange contract. Furthermore, an exchange loss was recorded in the second quarter of the current fiscal year, as opposed to an exchange gain during the second quarter of the previous year as a result of the more favourable exchange rate at that time.

In its June 30, 2009 financial statements, the Company had recorded a \$3.6 million **goodwill impairment charge** related to the medical equipment segment (ECM), which had no impact on the Company's cash balance. When the step-one analysis of the goodwill assessment was initiated as at June 30, 2009, it was determined that a comprehensive step-two analysis would be required for a business unit included in the medical equipment segment as the net book value of this unit exceeded its estimated fair value. Based on the preliminary assessment, determined using the discounted estimated future cash flows method, management had estimated that as at June 30, 2009, the fair value of goodwill in the medical equipment segment amounted to \$2,454,551. Accordingly, as required by CICA Handbook Section 3062, the Company had recorded a \$3.6 million goodwill impairment charge in its June 30, 2009 financial statements. This impairment reflects the market conditions affecting ECM, primarily the economic slowdown and the restructuring periods the swine and bovine industries are undergoing. With the assistance of an independent valuator, the Company proceeded with a comprehensive assessment, which yielded a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. The Company completed the final calculation of the goodwill impairment charge during the quarter ended December 31, 2009, and the resulting non-cash adjustment yielded a \$69,700 gain in the period's consolidated statement of operations.

Net Earnings (Loss) from Continuing Operations (unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2009	2008	2009	2008
Medical equipment	\$ 267,518	\$ 441,866	\$ 199,025	\$ 69,595
Sanitizers	(636,795)	(661,416)	(919,742)	(1,205,842)
Masks	(571,575)	(107,821)	(580,511)	(957,295)
Filtration	(611,866)	(971,203)	(1,348,062)	(1,421,880)
Other	(3,410,567)	(5,441,590)	(6,124,884)	(9,505,249)
Total	\$ (4,963,285)	\$ (6,740,164)	\$ (8,774,174)	\$ (13,020,671)

Primarily considering the above mentioned factors, the Company reduced its second-quarter **net loss from continuing operations** by \$1.8 million to approximately \$5.0 million. Its net loss from continuing operations for the first six months ended December 31, 2009 was lowered by \$4.3 million to \$8.8 million.

As detailed in note 4 “Discontinued Operations and Assets Held for Sale” accompanying the consolidated financial statements for the three-month period ended December 31, 2009, and in light of the recently undertaken turnaround measures, a \$45,382 loss from discontinued operations (BLI) was recognized in second-quarter results, compared with \$0.2 million for the second quarter of the previous year. Consequently, **the net loss** for the second quarter amounted to \$5.0 million, compared with \$6.9 million for the corresponding quarter of the previous year. For the first six months, a loss of approximately \$0.4 million from discontinued operations (BLI) was recognized in the period’s results, compared with a \$0.5 million loss for the corresponding period of the previous year; consequently, the net loss for the first six months totalled \$9.1 million, down from \$13.5 million for the corresponding period of 2008.

Considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$0.4 million for the second quarter, compared with a change in unrealized gains of \$1.4 million for the corresponding quarter of the previous year, a net loss of \$5.4 million represented **the comprehensive loss** for the quarter ended December 31, 2009, compared with a net loss of \$5.5 million for the corresponding quarter of the previous year. For the first six months, a net loss of \$9.9 million represented the comprehensive loss, considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$0.7 million, compared with a net loss of \$12.5 million for the corresponding six months of the previous year, considering a change in unrealized gains of \$1.0 million for the same period of the previous year.

For the second quarter, **the loss from continuing operations and the net loss** amounted to \$0.07 **per Class A share (basic and diluted)** on a weighted average of 74,911,651 outstanding shares, compared with a loss per share of \$0.10 on a weighted average of 66,886,157 shares for the second quarter of the previous year. The increased weighted average number of outstanding shares is due to the issuance of Class A shares related to the private placement completed in October 2009 and the issuance of Class A shares subsequent to the exercise of stock options and to the conversion right of convertible debentures, as detailed in note 8 accompanying the financial statements for the period ended December 31, 2009.

Principal Quarterly Financial Information

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

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

5. FINANCIAL POSITION

Analysis of Principal Cash Flows for the Second Quarter and Six-Month Period Ended December 31, 2009 (unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Operating activities:				
Net loss	\$ (5,008,667)	\$ (6,941,302)	\$ (9,147,999)	\$ (13,480,432)
Adjustments for loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, amortization, gain on disposal of fixed assets, loss on fair value of short-term investments, unrealized gain on foreign denominated contracts, foreign exchange loss (gain) and adjustments from discontinued operations	(2,890,660)	(3,433,114)	(4,692,201)	(6,692,694)
Net change in non-cash working capital	(1,985,187)	(4,099,930)	(2,239,997)	(4,603,231)
Total	(4,875,847)	(7,533,044)	(6,932,198)	(11,295,925)
Financing activities	14,292,238	(374,162)	14,069,865	3,189,762
Investing activities	(8,385,890)	7,350,257	(5,992,589)	(3,402,804)
Foreign exchange loss on cash in foreign currencies	(71,629)	79,425	(122,024)	54,101
Increase (decrease) in cash and cash equivalents	(958,872)	(477,524)	1,023,054	(11,454,866)
Cash and cash equivalents, end of period	\$ 1,960,373	\$ 139,469	\$ 1,960,373	\$ 139,469

For the second quarter, **operating activities after net change in non-cash balances related to operations** used cash flows of \$4.9 million, compared with \$7.5 million for the second quarter of the previous year. This change is due primarily to the reduction in the net loss, less adjustments for the loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation charge, amortization, gain on disposal of fixed assets, loss on fair value of short-term investments, unrealized gain on foreign denominated contracts, foreign exchange loss (gain) and adjustments from discontinued operations. Net change in non-cash working capital balances represented a cash outflow of \$2.0 million, compared with a cash outflow of \$4.1 million for the corresponding quarter of the previous year. This \$2.1 million change can be explained by the fact that the increase in inventories was financed by the credit of suppliers in 2009, whereas it was financed by way of the Company's cash in 2008. For the first six months, operating activities after net change in non-cash balances related to operations used cash flows of \$6.9 million, compared with \$11.3 million for the first six months of the previous year. Net change in non-cash working capital balances represented a cash outflow of \$2.2 million, compared with a cash outflow of \$4.6 million for the first six months of the previous year. This \$2.4 million change can be explained by the same factors as stated for the second quarter.

Financing activities provided cash flows of \$14.3 million in the second quarter, whereas they used cash flows of \$0.4 million during the second quarter of the previous year. This change primarily reflects the \$14.4 million net proceeds from the issue of Class A shares related to the private placement completed in October 2009. Furthermore, the Company reduced its long-term debt by approximately \$0.2 million and contracted bank advances in the amount of more than \$0.1 million during the second quarter. For the first six months ended December 31, 2009, financing activities provided cash flows of \$14.0 million, compared with \$3.2 million for the first six months of the previous year. This change primarily reflects the \$14.6 million net proceeds from the issue of Class A shares primarily related to the private placement completed in October 2009. Furthermore, the Company reduced its long-term debt by approximately \$0.4 million and contracted bank advances in the amount of more than \$0.1 million during the period.

Investing activities used cash flows of \$8.4 million during the second quarter, whereas they provided cash flows of \$7.4 million in the second quarter of the previous year. This change is due primarily to the fact that the Company acquired short-term investments for a net amount of \$8.0 million subsequent to the private placement closed in October 2009, compared with a net encashment of short-term investments of \$7.9 million in the second quarter of the previous year. For the first six months, investing activities used cash flows of \$6.0 million, compared with \$3.4 million for the first six months of the previous year. This change is due primarily to the fact that the Company acquired short-term investments for a net amount of \$5.5 million subsequent to the private placement closed in October 2009, as indicated previously, compared with a net encashment of short-term investments of \$3.4 million for the first six months of the previous year. In addition, during the first quarter ended September 30, 2008, the Company had paid a cash consideration of \$5.9 million for the acquisition of Noveko Algérie, Micron-Air, Unitam, Purer Life and U-Bond.

Consequently, aggregate cash inflows and outflows for the first six months ended December 31, 2009 provided **net cash flows** of \$1.0 million, whereas they used cash flows of \$11.5 million during the first six months of the previous year. The Company ended the six-month period with **cash and cash equivalents** of \$2.0 million, compared with \$0.1 million as at December 31, 2008.

Balance Sheet Analysis as at December 31, 2009 (unaudited)

Summary Balance Sheet

	December 31, 2009	June 30, 2009
Current assets	\$ 26,633,294	\$ 16,579,552
Current assets held for sale	1,567,249	1,998,371
Long-term assets	26,876,960	28,481,877
Long-term assets held for sale	3,626,566	3,836,738
Total	\$ 58,704,069	\$ 50,896,538
Current liabilities	\$ 4,871,782	\$ 4,434,543
Current liabilities held for sale	1,808,058	2,126,397
Long-term liabilities	2,718,862	3,924,773
Long-term liabilities held for sale	1,864,995	1,924,217
Shareholders' equity	47,440,372	38,486,608
Total	\$ 58,704,069	\$ 50,896,538

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

As at December 31, 2009, **total assets** amounted to \$58.7 million, up by \$7.8 million over June 30, 2009. **Working capital** stood at \$21.5 million for a current ratio of 4.2:1, compared with \$12.0 million and a 2.8:1 ratio as at June 30, 2009.

Shareholders' equity totalled \$47.4 million as at December 31, 2009, compared with \$38.5 million as at June 30, 2009, primarily reflecting the \$15.2 million increase in capital stock subsequent to the Class A share issues during the first six months of the current fiscal year and the \$3.4 million increase in contributed surplus reflecting the stock-based compensation charge, including the consideration of the options granted to brokers upon the issue of Class A shares related to the private placement closed in October 2009 (the reader is referred to note 8, "Capital Stock", accompanying the financial statements), less a \$11.4 million increase in the deficit. It is to be noted that during the first six months ended December 31, 2009, the Company granted 690,000 stock options to new employees and consultants, entitling them to purchase 690,000 Class A shares at a weighted average exercise price of \$2.48 per share with a vesting period extending over 12 to 30 months.

Indebtedness

	December 31, 2009	June 30, 2009
Bank loans	\$ 276,563	\$ 162,970
Current portion of long-term debt	564,850	754,584
Long-term debt	1,261,296	1,455,182
Short and long-term secured convertible debentures	85,313	1,789,827
Total indebtedness	\$ 2,188,022	\$ 4,162,563

Total interest-bearing debt (consisting of bank loans, current portion of long-term debt, long-term debt and short and long-term secured convertible debentures) stood at \$2.2 million as at December 31, 2009, down by \$2.0 million from June 30, 2009. This reduction stemmed primarily from the \$1.7 million decrease in convertible debentures due to the conversion of debentures for a total principal amount of \$1.9 million into 1,574,554 Class A shares during the period, as well as the \$0.4 million decrease in long-term debt including the current portion, whereas bank loans increased by \$0.1 million. It is to be noted that the total interest-bearing debt (consisting of bank advances, current portion of long-term debt and long-term debt) related to BLI, as detailed in note 4 "Discontinued Operations and Assets Held for Sale" accompanying the period's consolidated financial statements, amounted to \$3.2 million as at December 31, 2009.

Capital Stock Information

During the first six months ended December 31, 2009, the Company issued 126,665 Class A shares subsequent to the exercise of stock options for a cash consideration of \$122,166 and a transfer of \$83,332 from contributed surplus. In addition, 1,574,554 Class A shares were issued subsequent to the conversion right of \$1,887,414 of convertible debentures. Amounts of \$1,728,329 and \$348,567 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity. Subsequent to the close of the private placement in October 2009, the Company issued 7,156,000 Class A shares for a total cash consideration of \$15,743,200. Pursuant to this issue, the Company granted 490,571 stock options to brokers entitling them to purchase 490,571 Class A shares and 245,285 warrants at a weighted average exercise price of \$2.58 per unit until October 2012.

Considering these issues, the Company's capital stock consisted of 75,915,912 Class A shares as at December 31, 2009, compared with 67,058,693 Class A shares as at June 30, 2009.

Other Contractual Commitments

As at December 31, 2009, the balance of contractual commitments under the terms of leases for the rental premises maturing in 2014 totalled \$3.3 million. Minimum lease payments over each of the next five years are as follows:

2010: \$1,001,189	2012: \$999,075	2014: \$75,806
2011: \$1,031,127	2013: \$215,038	

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 December 31, 2009, no payments had yet been made under the terms of this agreement.

Finally, the Company is committed to pay a quarterly royalty of 1% of the gross revenues generated by the patent obtained in connection with the acquisition of BLI and any other patent ensuing from this invention. During the quarter ended December 31, 2009, \$10,293 (\$3,734 as at December 31, 2008) was paid under the terms of this agreement.

Sources and Requirements of Funds in 2009-2010

Since its inception, the Company has had recourse to public investments and private placements to finance its growth. As it grows, the Company will also be able to take advantage of debt financing to finance its future projects. Epurair has a credit facility on demand of \$250,000, of which \$120,647 was used as at December 31, 2009. This credit, bearing interest at the prime rate of the financial institution plus 1.5%, is renegotiable annually. According to the covenants of this advance, this loan is limited to a value of accounts receivable and inventories and Epurair must maintain a minimum current ratio, debt-to-equity and net worth of \$400,000. As at December 31, 2009, the subsidiary met all of its ratios. BLI has a credit facility on demand of \$1,350,000, of which \$1,142,157 was used as at December 31, 2009. This credit, bearing interest at the prime rate of the financial institution plus 1.25%, is secured by a movable hypothec on the universality of BLI's receivables, 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.

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

We have been listed on the Toronto Stock Exchange since July 28, 2008. Prior to being listed on the Toronto Stock Exchange, the Company was a venture issuer pursuant to National Instrument 51-102 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). As such, in contrast to the certificate required under NI 52-109, the Company's Venture Issuer Basic Certificate did not include any representations relating to the establishment and maintenance of a system of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing the certificate were not making any representations relating to the establishment and maintenance of: (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its reports filed or submitted under applicable securities legislation were recorded, processed, summarized and reported within the time periods specified in securities legislation; and (ii) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. However, our certifying officers were responsible for ensuring that processes were in place to provide them with sufficient knowledge to support the representations they were making in their certificate.

Disclosure Controls and Procedures

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

As at December 31, 2009, an evaluation was carried out, under the supervision of and with the participation of our management, including the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures as defined under NI 52-109. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Upon such review, the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer determined that there were material weaknesses in the design of our DC&P. However, the DC&P deficiencies we identified did not result in adjustments to our interim consolidated financial statements for the periods ended December 31, 2009 and 2008. We have identified the following material weaknesses:

Entity Level Controls

We did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in our internal control over financial reporting. To mitigate the risk, management relies heavily on manual procedures and detection controls, management meetings, quarterly reviews of financial statements by our subsidiaries and by the Audit Committee. These manual procedures were performed during the interim periods ended December 31, 2009 and 2008.

Recent Acquisitions

We also carried out an evaluation of the material weaknesses relating to the design of our DC&P as of December 31, 2009 for Noveko Algérie and Purer Life, acquired on July 17 and August 1, 2008 respectively. We determined that risks exist with respect to these two acquired entities that could reasonably result in a material misstatement in their interim filings. Since the end of the previous fiscal year, the certifying officers no longer limit the scope of the design of the DC&P with respect to Noveko Algérie and Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are no longer excluded from the management's evaluation of the design of the Company's DC&P.

Internal Controls over Financial Reporting

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

We carried out an evaluation of our ICFR, under the supervision of and with the participation of our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of December 31, 2009. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the COSO. The evaluation considered the procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the applicable securities legislation and communicated to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chairman of the Board and Chief Executive Officer

and Chief Financial Officer have determined that there existed material weaknesses in the design of our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim consolidated financial statements for the periods ended December 31, 2009 and 2008. Following our assessment, we identified the following material weaknesses:

Information Technology General Controls

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

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

Inventory Management and Control

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

Segregation of Duties

We have deficient controls within our accounting department over segregation of duties inherent to the department's size. Specifically, as a result of the limited number of personnel in the accounting department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, weekly management meetings, reviews of our subsidiaries' financial statements and quarterly reviews of financial statements by the Audit Committee. These manual procedures were performed for the interim periods ended December 31, 2009 and 2008.

Unusual Transactions

We have detected unusual transactions in our subsidiary BLI that could have gone undetected. These transactions could have had a material impact on the Company's interim consolidated financial statements as at September 30, 2009. A management employee involved in these unusual transactions has since been dismissed. The Company had already recorded provisions with respect to the client involved during the previous fiscal year ended June 30, 2009. It is also to be noted that BLI's operations were discontinued as of June 30, 2009 and are treated as such as at December 31, 2009.

Recent Acquisitions

We also carried out an evaluation of the material weaknesses of our ICFR as of December 31, 2009 for Noveko Algérie and Purer Life. We determined that risks exist with respect to these two acquired entities that could reasonably result in a material misstatement in their interim filings. Since the end of the previous fiscal year, the certifying officers no longer limit the scope of their design of ICFR for Noveko Algérie and Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are no longer excluded from management's evaluation of the design of the Company's ICFR.

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

We have initiated the following actions to address the material weaknesses in our DC&P and ICFR identified as of December 31, 2009.

Entity Level Controls

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

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 quarter. We have also hired additional personnel with the appropriate training to remedy this weakness.

Inadequate Segregation of Duties

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

Unusual Transactions

In addition to dismissing the BLI management employee involved in the said transactions, during the previous year, the Company has hired a new controller at BLI with the specific mandate of tightening controls within this subsidiary. An internal investigation continued with respect to these transactions during the interim period ended December 31, 2009.

Recent Acquisitions

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

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous DC&P and ICFF. It will take time to put in place the rigorous controls and procedures desired by our management and Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with our Audit Committee, Chairman of the Board and Chief Executive Officer and Chief Financial Officer, think necessary. Again, the control deficiencies which we identified did not result in adjustments to our interim consolidated financial statements for the interim period ended December 31, 2009 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 December 31, 2009 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.

7. RISKS AND UNCERTAINTIES

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

8. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

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

Future Changes in Accounting Policies

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

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

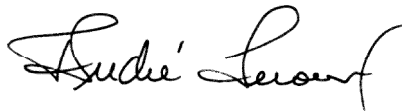
In January 2009, the CICA issued Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements", and 1602 "Non-Controlling Interests".

Section 1582 will be converged with IFRS 3 “Business Combinations”. Section 1601 carries forward the requirements of Section 1600 “Consolidated Financial Statements”, other than those relating to non-controlling interests. Section 1602 will be converged with the requirements of the International Accounting Standards 27 “Consolidated and Separate Financial Statements”, for non-controlling interests.

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

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

The new standards, under Sections 1582, 1601 and 1602, will become effective to interim and annual financial statements relating to fiscal years beginning on or after January 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

February 12, 2010



ÉRIC FAVREAU
Vice-President and
and Chief Financial Officer