

Consolidated interim financial statements of

NOVEKO INTERNATIONAL INC.

Three-month periods ended September 30, 2010 and 2009
(unaudited)

NOVEKO INTERNATIONAL INC.

Consolidated interim financial statements

Three-month periods ended September 30, 2010 and 2009

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NOVEKO INTERNATIONAL INC.

Consolidated balance sheets

As at September 30, 2010 and June 30, 2010

	September 30	June 30
	2010	2010
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,382,093	\$ 639,543
Deposit in trust	58,932	87,787
Short-term investments	2,646,050	2,145,631
Accounts receivable	2,936,087	3,026,436
Inventories	11,170,257	11,259,316
Prepaid expenses	595,889	627,644
Current portion of assets held for sale (note 6)	1,263,337	1,231,858
	22,052,645	19,018,215
Fixed assets	1,633,079	1,592,999
Intangible assets	7,770,253	7,782,150
Other assets	893,970	945,653
Future income taxes	19,424	19,424
Goodwill (note 9)	7,640,513	7,420,012
Non-current portion of assets held for sale (note 6)	5,899,858	5,896,657
	\$ 45,909,742	\$ 42,675,110
Liabilities and shareholders' equity		
Current liabilities:		
Bank loans	182,078	167,011
Accounts payable and accrued liabilities	4,860,560	3,801,984
Current portion of long-term debt	484,562	475,432
Current portion of liabilities held for sale (note 6)	1,991,259	1,780,589
	7,518,459	6,225,016
Long-term debt	736,572	803,647
Future income taxes	872,194	830,291
Non-current portion of liabilities held for sales (note 6)	1,697,406	1,753,146
Shareholders' equity:		
Capital stock (note 10)	100,060,532	95,620,532
Warrants (note 12)	3,348,000	3,348,000
Contributed surplus	23,116,464	22,874,810
Accumulated other comprehensive loss (note 13)	(1,013,936)	(1,285,522)
Deficit	(90,425,949)	(87,494,810)
	35,085,111	33,063,010
Contingency (note 17)		
Subsequent event (note 18)		
	\$ 45,909,742	\$ 42,675,110

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD,

(signed) *André Leroux*, Director

(signed) *Léon Assayag*, Director

NOVEKO INTERNATIONAL INC.

Consolidated statements of operations

Three-month periods ended September 30, 2010 and 2009
(unaudited)

	September 30 2010	September 30 2009
Revenues	\$ 2,746,928	\$ 4,388,309
Cost of sales	1,524,118	2,293,210
	1,222,810	2,095,099
Operating expenses:		
Administrative and selling expenses	3,157,270	3,545,067
Stock-based compensation	241,690	1,179,524
Research and development	335,942	243,070
Research and development tax credits	(77,993)	(108,577)
	3,656,909	4,859,084
Loss before amortization, financial fees, income taxes and discontinued operations	(2,434,099)	(2,763,985)
Amortization (note 7)	704,246	420,692
Financial expenses less investment revenues (note 7)	(346,856)	340,518
	357,390	761,210
Loss before income taxes	(2,791,489)	(3,525,195)
Income taxes:		
Current	43,030	52,930
Future	3,786	(74,964)
	46,816	(22,034)
Net loss from continuing operations	(2,838,305)	(3,503,161)
Net loss from discontinued operations (note 6)	(87,584)	(636,171)
Net loss	\$ (2,925,889)	\$ (4,139,332)
Basic and diluted loss per share:		
From continuing operations	\$ (0.04)	\$ (0.05)
From discontinued operations	\$ (0.00)	\$ (0.01)
Net loss	\$ (0.04)	\$ (0.06)
Weighted average number of outstanding shares, basic and diluted	76,006,347	67,276,665

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Three-month periods ended September 30, 2010 and 2009
(unaudited)

	September 30 2010	September 30 2009
Net loss	\$ (2,925,889)	\$ (4,139,332)
Other comprehensive income, net of income taxes:		
Change in unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	271,586	(277,241)
Comprehensive loss	\$ (2,654,303)	\$ (4,416,573)

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Three-month periods ended September 30, 2010 and 2009
(unaudited)

	September 30 2010	September 30 2009
DEFICIT		
Deficit, beginning of period	\$ (87,494,810)	\$ (61,205,942)
Net loss	(2,925,889)	(4,139,332)
Share issuance fees	(5,250)	-
Deficit, end of period	\$ (90,425,949)	\$ (65,345,274)
CONTRIBUTED SURPLUS		
Contributed surplus, beginning of period	\$ 22,874,810	\$ 18,718,376
Fair value of stock options granted	241,654	1,251,305
Fair value of stock options exercised	-	(50,832)
Contributed surplus, end of period	\$ 23,116,464	\$ 19,918,849

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of cash flows

Three-month periods ended September 30, 2010 and 2009
(unaudited)

	September 30 2010	September 30 2009
Cash flows from operating activities:		
Net loss	\$ (2,925,889)	\$ (4,139,332)
Adjustments for:		
Loss from discontinued operations	87,584	636,171
Future income taxes	3,786	(74,964)
Accreted interest on secured convertible debentures	-	55,421
Stock-based compensation	241,690	1,179,524
Loss on disposal of fixed assets	723	7,283
Amortization (note 7)	704,246	420,692
Loss on fair value of short-term investments	-	11,676
Foreign exchange gain	(335)	(854)
Adjustments related to discontinued operations (note 6)	(47,063)	250,359
	(1,935,258)	(1,654,024)
Net change in non-cash working capital	1,131,754	(402,327)
	(803,504)	(2,056,351)
Cash flows from financing activities:		
Net changes in bank loan	2,626	-
Repayment of long-term debt	(97,595)	(178,646)
Interest paid on secured convertible debentures	-	(33,123)
Proceeds from Class A shares and warrants issued	4,440,000	72,498
Class A shares issue expenses	(5,250)	-
Cash flows related to discontinued operations (note 6)	67,460	(83,102)
	4,407,241	(222,373)
Cash flows from investing activities:		
Acquisition of short-term investments	(1,590,000)	-
Proceeds from disposal of short-term investments	1,090,000	2,634,425
Acquisition of fixed assets	(135,870)	(50,241)
Proceeds from disposal of fixed assets	-	12,166
Acquisition of intangible assets	(141,759)	(37,778)
Acquisition of other assets	-	4,615
Deposit in trust	287	3,980
Deferred development costs, net of related research tax credits received	(87,165)	(83,866)
Cash flows related to discontinued operations (note 6)	(3,200)	(90,000)
	(867,707)	2,393,301
Foreign exchange gain (loss) on cash in foreign currencies	6,520	(50,395)
Increase in cash and cash equivalents	2,742,550	64,182
Cash and cash equivalents, beginning of period	639,543	937,319
Cash and cash equivalents, end of period	\$ 3,382,093	\$ 1,001,501

Cash flows related to continuing operating activities include interest paid of \$46,626 (\$71,273 as at September 30, 2009) and income taxes paid of \$15,586 (received for \$265,902 as at September 30, 2009).

For non-cash activities, see note 8.

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

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

- Noveko™ **antimicrobial surgical masks and respirators** derived from its patented antimicrobial air filtration technology targeted to the healthcare sector, institutions and general public ("masks");
- **Air filtration products** including Noveko™ filters derived from its patented antimicrobial air filtration technology targeted to the agricultural market, the transportation industry, the institutional market, and commercial and residential buildings, as well as EPURAIR™ air quality systems ("filtration");
- **Sanitizers** with antimicrobial properties, geared to the same markets as the antimicrobial masks ("sanitizers");
- **Medical equipment**, primarily real-time ultrasound scanners for use in human and veterinary medicine, along with medical equipment import and distribution activities ("medical equipments") and
- **Other activities**, essentially the activities of the parent company, Noveko International Inc. and of Noveko Trading 2008 LLC ("other").

1. Basis of presentation and consolidation:

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries, Noveko Inc., S.A.S. E.C.M., Bolduc Leroux Inc., Noveko Trading 2008 LLC, SARL Noveko Algérie, Epurair Inc., Purer Life Technology Co., Ltd, Noveko Taiwan Co., Ltd, and Noveko (Beijing) Hi-Tech Development Limited.

We are currently proceeding with a private placement, as described in note 18, for a minimum amount of \$4,000,000 and a maximum amount of \$10,000,000. Since our inception, we have incurred significant operating losses. Our capacity to generate profits and positive cash working capital in the future is dependent upon numerous factors, namely, our capacity to develop new technologies and new products, quickness of market penetration of our products in their targeted markets, intensity of competition that we face and the availability of additional capital to pursue our business plan. An inability to generate funds from our operations will greatly affect our business, our operating results and financial situation.

Even if we complete the aforementioned private placement, we will need to raise supplementary funds in the future to sustain our growth. Our capacity to raise such 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 would have to delay or revise downward our current commercialization or development programs.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
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2. Significant accounting policies:

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial information was prepared in accordance with the same accounting policies and methods as the audited annual financial statements for the year ended June 30, 2010. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements and accompanying notes. The results of operations for the interim period presented do not necessarily reflect results for the full year.

3. Changes in accounting policies:

a) For the three-month period ended September 30, 2010:

Effective July 1st, 2010, the Company adopted by anticipation new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".

Section 1582 converges 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 converges with the requirements of International Accounting Standards ("IAS") 27 "Consolidated and Separate Financial Statements", for non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the previous standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, are 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. This new recommendation had no significant impact on the Company's financial statements.

Under Section 1602, any non-controlling interest is recognized as a separate component of shareholders' equity. Net income is calculated without deduction for the non-controlling interest. Rather, net income is allocated between the controlling and non-controlling interests. This new recommendation had no significant impact on the Company's financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
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3. Changes in accounting policies (cont'd):

b) For the year ended June 30, 2010:

Effective July 1st, 2009, the Company adopted new accounting recommendations from the 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 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 in the financial statements ended June 30, 2010. 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 Inc., which used first in, first out method to value its raw materials is now using the average cost method. Also, Noveko Inc. and Epurair Inc., 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 change was not applied retroactively and comparatives figures were not restated.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
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4. Future changes in accounting policies:

In 2006, Canada's Accounting Standards Board confirmed 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 with these rules and will closely monitor changes arising from this convergence.

In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after July 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, which notably includes external consultants, to develop a changeover plan. 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: accounting policies and financial statements, information technology and data systems, internal controls, training and business activities. The Company is in the process of making its accounting policy decisions. The determination of material differences between our accounting policies and IFRS and the selection and approval of the related alternatives have not been completed.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

5. Business acquisition:

Transactions during the year ended June 30, 2010:

On April 2, 2010, the Company acquired 100% of the outstanding shares of Beijing Oasis International Business Development Limited (renamed Noveko (Beijing) Hi-Tech Development Limited), a company located in China. Its operations were grouped in the segment "filtration". The acquisition was settled by a cash consideration of 224,426 renminbis (or the Canadian equivalent of \$32,968). Advances of \$108,905 and acquisition fees of \$16,802 are also included in the acquisition price. The acquisition was accounted for under the purchase method, and the operating results of the subsidiary are included in the consolidated financial statements from the acquisition date.

The fair value of the net assets acquired is attributed as follows:

Assets acquired:	
Cash	\$ 13,509
Prepaid expenses	13,786
Fixed assets	7,190
Goodwill	135,011
	<hr/> 169,496
Liabilities assumed:	
Accounts payable and accrued liabilities	10,821
	<hr/> 10,821
Net assets acquired at fair value	\$ 158,675
<hr/>	
Consideration:	
Cash, including acquisition fees	\$ 99,770
Cash, paid in previous fiscal year	\$ 58,905
	<hr/> \$ 158,675

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

6. Discontinued operations and assets held for sale:

- a) On June 2, 2010, Magnum Pharmaceuticals Inc., a subsidiary of the Company included until then in the segment « other », availed itself of the provisions of the *Bankruptcy and Insolvency Act* (Canada) in order to proceed with the voluntary assignment of its assets. On this date, the Company concluded that it no longer had control over this subsidiary. Consequently, the investment of the Company in this subsidiary is no longer consolidated since June 2, 2010 and its net book value was written-down to zero. Moreover, the activities of this subsidiary have been classified as discontinued operations in the consolidated financial statements of the Company. Thus, the operating results and cash flows of this subsidiary have been restated and presented distinctively in the discontinued operations and the assets and liabilities of this subsidiary as at September 30, 2009 were reclassified and presented distinctly in the balance sheet. The Company recorded a loss on deconsolidation of \$2,644,461 as at June 30, 2010.
- b) At the end of the year ended June 30, 2010, the Company decided to put up for sale two of its buildings. Thus, at this date, the buildings ceased to be amortized and are now distinctly presented with the non-current assets held for sale.
- c) During the year ended June 30, 2009, the Company committed to pursue the sale of its subsidiary Bolduc Leroux Inc. and discontinued this segment of business since it is no longer in the Company's commercial objectives. Consequently, the operating results, cash flows, assets and liabilities of this segment have been presented distinctly. The Company recorded a loss of \$935,395 on the prospective sale of this subsidiary as at June 30, 2009. The Company continues to operate the subsidiary.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

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

The following tables summarize the additional financial information related to the discontinued operations as at September 30, 2010 and September 30, 2009:

Condensed statement of operations, including the accounts of Magnum Pharmaceuticals Inc. and of Bolduc Leroux Inc. for the three-month period ended September 30, 2009 and including solely the accounts of Bolduc Leroux Inc. for the three-month period ended September 30, 2010:

	September 30 2010	September 30 2009
Revenues	\$ 805,105	\$ 975,864
Costs of sales	654,194	840,663
	150,911	135,201
Operating costs	180,245	379,162
Stock based compensation	-	71,781
Amortization	-	268,064
Financial fees	58,250	59,345
Income taxes	-	(6,980)
	238,495	771,372
Loss from discontinued operations	\$ (87,584)	\$ (636,171)

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

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

Condensed balance sheet of assets and liabilities held for sale, including Bolduc Leroux Inc. and the buildings held for sale:

	September 30 2010	June 30 2010
Assets held for sale:		
Accounts receivable	\$ 713,223	\$ 658,049
Inventories	507,377	542,812
Prepaid expenses	42,737	30,997
Current assets held for sale	1,263,337	1,231,858
Fixed assets	3,578,591	3,575,390
Buildings held for sale	1,963,017	1,963,017
Intangible assets	358,250	358,250
Non-current assets held for sale	\$ 5,899,858	\$ 5,896,657
Liabilities held for sale:		
Bank advances	\$ 1,243,877	\$ 1,118,899
Accounts payable and accrued liabilities	525,042	437,572
Current portion of long-term debt	222,340	224,118
Current liabilities held for sale	1,991,259	1,780,589
Long-term debt	1,697,406	1,753,146
Non-current liabilities held for sale	\$ 1,697,406	\$ 1,753,146
Net assets held for sale	\$ 3,474,530	\$ 3,594,780

Condensed cash flows:

	September 30 2010	September 30 2009
Cash flows from operating activities	\$ (47,063)	\$ 250,359
Cash flows from financing activities	67,460	(83,102)
Cash flows from investing activities	(3,200)	(90,000)
	\$ 17,197	\$ 77,257

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

7. Information on operations:

	September 30 2010	September 30 2009
a) Amortization:		
Amortization of fixed assets	\$ 128,591	\$ 125,155
Amortization of intangible assets	436,807	224,365
Amortization of deferred development costs	138,848	70,881
Amortization of deferred costs	-	291
	\$ 704,246	\$ 420,692
b) Financial expenses:		
Interest on long-term debt	\$ 13,486	\$ 25,076
Accreted interests on secured convertible debentures	-	55,421
Interest on bank loan and bank charges	37,976	25,424
Foreign exchange loss (gain)	(395,659)	255,346
Investment revenues	(2,659)	(20,749)
	\$ (346,856)	\$ 340,518

8. Non-cash activities:

	September 30 2010	September 30 2009
Conversion of convertible debentures into Class A shares	\$ -	\$ 1,090,031

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
(unaudited)

9. Goodwill:

	September 30 2010			
	Filtration	Sanitizers	Medical equipments	Total
Balance, beginning of period	\$2,545,350	\$2,821,559	\$2,053,103	\$7,420,012
Business acquisitions	-	-	-	-
Goodwill impairment charges	-	-	-	-
Foreign currency translation adjustments	87,528	-	132,973	220,501
Balance, end of period	\$2,632,878	\$2,821,559	\$2,186,076	\$7,640,513

	June 30 2010			
	Filtration	Sanitizers	Medical equipments	Total
Balance, beginning of year	\$2,635,207	\$5,196,559	\$2,454,551	\$10,286,317
Business acquisitions	135,011	-	-	135,011
Goodwill impairment charges	-	(2,375,000)	69,700	(2,305,300)
Foreign currency translation adjustments	(224,868)	-	(471,148)	(696,016)
Balance, end of year	\$2,545,350	\$2,821,559	\$2,053,103	\$7,420,012

When the Company initiated its step-one analysis as at June 30, 2010, it was determined that a comprehensive step-two analysis of goodwill for a business unit included in the sanitizers segment would be required. With the assistance of an independent valuator, the Company is in the process of completing this comprehensive assessment including a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. The Company was not able to complete this comprehensive assessment before the disclosure date of the financial statements because of missing information.

Based on a preliminary assessment of the estimated fair value of the net asset of the business unit under review, management estimated that as at June 30, 2010, the fair value of goodwill in the sanitizers segment amounted to \$2,821,559. Accordingly, as required by CICA Handbook Section 3062, in anticipation of completing the comprehensive step-two analysis of goodwill, the Company recorded a goodwill impairment charge of \$2,375,000 in its financial statements at June 30, 2010. This impairment reflects market conditions in this segment, primarily the slowdown of the commercialization of the sanitizers following the rapid end of the influenza A (H1N1) epidemic and the termination of a significant distribution agreement.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

September 30, 2010
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9. Goodwill (cont'd):

The final impairment calculation is expected to be completed in fiscal year 2011 and the resulting final adjustments, if any, would result in a non-cash adjustment to the consolidated statement of operations.

10. Capital stock:

a) Authorized:

On September 30, 2010, the authorized capital stock includes the following:

Unlimited number of Class A shares, voting, participating, without par value;

Unlimited number of Class B shares, non-voting, non-participating, dividends at the Bank of Canada's prime rate plus a percentage varying from 0% to 5% of issuance value, cumulative or non-cumulative, at Board of Directors' discretion, dividend with priority rank to Class A and C shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

Unlimited number of Class C shares, non-voting, non-participating dividends at the Bank of Canada's prime rate plus a percentage varying from 0% to 5% of issuance value, cumulative or non-cumulative, at Board of Directors' discretion, dividend with priority rank to Class A shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

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September 30, 2010
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10. Capital stock (cont'd):

b) Issued:

	September 30 2010	June 30 2010
83,325,912 Class A shares (75,925,912 as at June 30, 2010)	\$ 100,060,532	\$ 95,620,532

c) Transactions during the period ended September 30, 2010:

Issuance of 7,400,000 Class A shares for a cash consideration of \$4,440,000.

d) Transactions during the year ended June 30, 2010:

- i) Issuance of 136,665 Class A shares following the exercise of 136,665 stock options for a cash consideration of \$130,866 and a transfer of \$89,941 from contributed surplus.
- ii) Issuance of 1,574,554 Class A shares following the exercise of conversion right of \$1,887,414 of convertible debentures. Amounts of \$1,728,329 and of \$348,567 were respectively transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity.
- iii) Issuance of 7,156,000 units for a total amount of \$15,743,200 in cash. Each unit includes one Class A share and one half of a warrant, each complete warrant allowing for the purchase of a single Class A share of the Company at a price of \$3.00 per share, for a period of 36 months following its issuance. A value of \$3,189,000 was attributed to the warrants granted, and the difference of \$12,554,200 was recorded in the capital stock.

Simultaneously with the issuance of the 7,156,000 units, the Company granted 490,571 agent's options to the brokers allowing the purchase of 490,571 Class A shares and 245,285 warrants at a weighted average price of \$2.58 per unit until October 2012. A value of \$732,000 was attributed to the share issuance fees and the difference was recorded to the contributed surplus.

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10. Capital stock (cont'd):

d) Transactions during the year ended June 30, 2010 (cont'd):

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

	June 30 2010
Weighted average expected dividend rate	Nil
Weighted average expected volatility	104 %
Weighted average risk-free interest rate	2.09 %
Weighted average expected life of options	36 months

As of September 30, 2010, no agent's options had been exercised.

11. Stock option plan:

The Company instituted stock option plans for which options can be granted to its officers, directors, employees and to persons providing services on a continuous basis to the Company. Under those plans, 10,698,780 Class A shares were reserved. The exercise price of the options is equal to the Company's quoted share price at the preceding date on which the options are granted except, under the 2008 stock option plan, if less than 100,000 Class A shares were traded on that date, in which case, the exercise price is equal to the weighted average closing trading price over a period of five business days in which Class A shares have been traded preceding the date of the grant. The term of the stock options is five years and the vesting period extends from 12 to 30 months, as the case may be.

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11. Stock option plan (cont'd):

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

	September 30 2010		June 30 2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	8,104,932	\$ 2.92	7,791,597	\$ 3.47
Granted	-	-	1,960,000	1.52
Exercised	-	-	(136,665)	0.96
Cancelled	(1,193,000)	4.26	(1,510,000)	4.13
Balance, end of period	6,911,932	\$ 2.70	8,104,932	\$ 2.92
Options that can be exercised at period-end	5,456,265	\$ 3.09	6,430,932	\$ 3.35
Weighted average fair value of options granted during the period		\$ -		\$ 1.02

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11. Stock option plan (cont'd):

The following table summarizes the information on the outstanding stock options as at September 30, 2010:

		Outstanding options		Exercisable options	
Exercise price	Number	Weighted average outstanding maturity period (year)		Number	
0.87 \$	1,542,998	1.25		1,542,998	
1.31 \$	241,934	1.50		241,934	
2.75 \$	250,000	1.67		250,000	
6.80 \$	1,100,000	2.08		1,100,000	
4.85 \$	10,000	2.75		10,000	
3.95 \$	200,000	2.75		200,000	
3.98 \$	200,000	2.83		200,000	
3.82 \$	200,000	2.83		200,000	
3.85 \$	200,000	2.83		200,000	
3.52 \$	300,000	2.83		300,000	
3.05 \$	200,000	2.92		200,000	
2.49 \$	200,000	2.92		200,000	
3.98 \$	200,000	3.00		200,000	
1.80 \$	10,000	3.08		10,000	
1.18 \$	50,000	3.17		50,000	
0.60 \$	200,000	3.25		120,000	
0.87 \$	90,000	3.42		74,000	
2.06 \$	25,000	3.58		10,000	
2.14 \$	75,000	3.83		69,000	
2.58 \$	215,000	4.17		136,333	
2.20 \$	200,000	4.25		40,000	
1.11 \$	2,000	4.42		2,000	
1.00 \$	1,200,000	4.67		100,000	
	6,911,932	2.72		5,456,265	

a) Transactions during the year ended June 30, 2010:

The Company has granted 1,960,000 stock options allowing the acquisition of 1,960,000 Class A shares at a weighted average exercise price of \$1.52 with a vesting period extending over from 12 to 30 months.

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11. Stock option plan (cont'd):

b) Compensation costs:

For the period ended September 30, 2010, compensation costs related to the stock option plans amount to \$241,654, of which \$103,085 for employees (\$1,251,305 of which \$943,915 for employees, for the period ended September 30, 2009).

d) Fair value of the options:

The fair value was estimated as at the date on which the options were granted by using the Black-Scholes' options pricing model with the following assumptions:

	September 30 2010	June 30 2010
Weighted average expected dividend rate	-	Nil
Weighted average expected volatility	-	101%
Weighted average risk-free interest rate	-	2.67%
Weighted average expected life of options	-	60 months

12. Warrants:

The following table summarizes the changes in the warrants position between June 30, 2010 and September 30, 2010:

	September 30, 2010		June 30, 2010	
	Warrant Number	Amount	Warrant Number	Amount
Balance, beginning of period	3,878,000	\$ 3,348,000	-	\$ -
Granted	-	-	3,878,000	3,348,000
Balance, end of period	3,878,000	\$ 3,348,000	3,878,000	\$ 3,348,000

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12. Warrants (cont'd):

The following table summarizes the outstanding warrants as at September 30, 2010:

Exercise Price	Number	Weighted average outstanding maturity period (month)
\$3.00	3,578,000	25
\$1.00	300,000	32
	3,878,000	

a) Transactions during the year 2010:

- i) Issuance, simultaneously with the issuance of 7,156,000 Class A shares, of 3,578,000 warrants allowing the purchase of 3,578,000 Class A shares at a price of \$3.00 per share until October 2012. A value of \$3,189,000 was attributed to these warrants. They include a clause for early exercise corresponding to 30 days, at the Company's discretion, if the average price of Class A shares is or exceeds \$4.50 for a period of 20 consecutive business days.
- ii) The Company issued 300,000 warrants allowing the purchase of 300,000 Class A shares at a price of \$1.00 per share until May 2013. A value of \$159,000 was attributed at the date on which the options were granted by using the Black-Scholes' options pricing model.

13. Accumulated other comprehensive loss:

The changes that occurred during the period were as follows:

	September 30 2010	September 30 2009
Balance, beginning of period	\$ (1,285,522)	\$ (166,928)
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	271,586	(277,241)
Balance, end of period	\$ (1,013,936)	\$ (444,169)

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14. Commitments:

- a) As at September 30, 2010, the balance of the commitments included under the terms of leases for the rental of its business premises, maturing in 2020, totals \$7,828,040. Rent payments of \$142,494 were recorded during the three-month period ended September 30, 2010 (\$168,609 for the three-month period ended September 30, 2009). Minimum lease payments over the next five years are as follows:

2011	\$	1,443,168
2012	\$	1,401,318
2013	\$	995,755
2014	\$	749,738
2015	\$	715,540

- b) The Company is committed to pay to a company 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 \$6,000,000. Under the terms of the agreement, the Company will continue to pay the royalties up to a maximum of \$520,000. As at September 30, 2010, no payments have been made under the terms of this agreement.
- c) The Company is committed to pay a quarterly royalty of 1% of the gross revenues to be generated by the patent acquired in connection with the acquisition of Bolduc Leroux Inc. and any other patent ensuing from this invention. For the three-month period ended September 30, 2010, \$ - (\$10,045 for the three-month period ended September 30, 2009) was paid under the terms of this agreement.

15. Related party transactions:

- a) For the three-month period ended September 30, 2010:

During the three-month period ended September 30, 2010, the Company granted a mandate for the sale of its two buildings held for sale to a corporation of which one of its officers exercises a significant influence on the Company. This mandate will entail a 5% commission on the selling price upon the disposal of the buildings.

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15. Related party transactions (cont'd):

- b) For the year ended June 30, 2010:
 - i) During the year ended June 30, 2010, the Company purchased a fixed asset from a shareholder exercising significant influence for a cash consideration of \$11,500. This transaction was concluded in the normal course of operations and is measured at the exchange value, which is the amount of consideration established and agreed by the related parties.
 - ii) During the year ended June 30, 2010, a mandate to represent the Company to relocate its offices was granted to a company of which one of its officers exercises a significant influence on the Company. This mandate will not generate any cash outflow from the Company.

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16. Segmented information:

Following the discontinued operations of the subsidiary Bolduc Leroux Inc., management has determined that the Company exercise its activities in five significant segments, which are masks, filtration, sanitizers, medical equipment and the segment "others", as previously described.

These segments are managed separately and are assessed individually based on operating income before depreciation, amortization, financial expenses and income taxes. Most of the businesses were acquired as an operating unit, and management at the time of the acquisition was retained.

The accounting policies of each segment are identical to the policies used for the consolidated financial statements.

Information on the results and the assets of each segment:

	September 30 2010		September 30 2009
Revenues from external clients:			
Medical equipment	\$ 2,274,980	\$	2,295,945
Sanitizers	(127,923)		792,758
Masks	14,603		794,277
Filtration	585,268		505,329
	\$ 2,746,928	\$	4,388,309
Earnings (loss) before amortization, financial fees and income taxes:			
Medical equipment	\$ 443,109	\$	117,486
Sanitizers	(781,564)		(257,676)
Masks	(205,572)		39,414
Filtration	(595,965)		(600,354)
Others	(1,294,107)		(2,062,855)
	\$ (2,434,099)	\$	(2,763,985)

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16. Segmented information (cont'd):

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

	September 30 2010	September 30 2009
Depreciation and amortization:		
Medical equipment	\$ 211,928	\$ 131,414
Sanitizers	143,549	24,690
Masks	17,501	18,601
Filtration	63,026	78,978
Others	268,242	167,009
	\$ 704,246	\$ 420,692
Interest expenses:		
Medical equipment	\$ 11,840	\$ 11,883
Sanitizers	16,087	9
Masks	4,358	9,433
Filtration	13,734	14,116
Others	5,443	70,480
	\$ 51,462	\$ 105,921
Income taxes:		
Medical equipment	\$ 77,635	\$ 131
Sanitizers	-	356
Masks	-	1,422
Filtration	(14,004)	1,028
Others	(16,815)	(24,971)
	\$ 46,816	\$ (22,034)
Net earnings (losses) from continuing operations:		
Medical equipment	\$ 175,839	\$ (68,493)
Sanitizers	(912,529)	(282,947)
Masks	(163,723)	(8,936)
Filtration	(609,843)	(736,196)
Others	(1,328,049)	(2,406,589)
	\$ (2,838,305)	\$ (3,503,161)
Assets:		
Medical equipment	\$ 9,838,612	\$ 11,371,215
Sanitizers	5,980,318	7,416,610
Masks	5,843,150	3,332,263
Filtration	7,149,733	7,523,876
Others	9,934,734	8,512,510
Assets held for sale	7,163,195	5,328,459
Assets related to discontinued operations	-	5,218,332
	\$ 45,909,742	\$ 48,703,265

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16. Segmented information (cont'd):

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

	September 30 2010	September 30 2009
Fixed asset expenditures:		
Medical equipment	\$ 180,622	\$ 130,787
Sanitizers	4,971	-
Masks	8,641	-
Filtration	200	198
Others	170,360	36,285
	\$ 364,794	\$ 167,270

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

	September 30 2010	June 30 2010
Canada	\$ 5,039,036	\$ 5,053,309
France	2,611,610	2,398,505
Algeria	326,746	340,228
Luxembourg	571,078	516,034
Taiwan	576,718	577,893
China	148,404	127,042
	\$ 9,273,592	\$ 9,013,011

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

	September 30 2010	September 30 2009
Canada	\$ 622,605	\$ 889,169
Latin America	154,780	81,234
United States	43,082	380,133
Europe	1,034,802	1,838,803
Africa and Asia	891,659	1,198,970
Total revenues	\$ 2,746,928	\$ 4,388,309

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17. Contingency:

During the year ended June 30, 2010, a lawsuit was initiated against the Company and two of its subsidiaries by a former employee. The Company and its subsidiaries are disputing the claim, which is without merit in the opinion of their legal advisors. The outcome of this lawsuit is impossible to determine with certainty, as is the amount that the Company would have to pay, if any. No provision was recorded in the financial statements.

18. Subsequent event:

On October 29, 2010, as part of its private placement of a minimum amount of \$4,000,000 and of a maximum amount of \$10,000,000, the Company issued 1,500,000 Class A shares at a price of \$0.60 per share for a cash consideration of \$900,000.

19. Comparative figures:

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