

Consolidated interim financial statements of
(unaudited)

NOVEKO INTERNATIONAL INC.

Periods ended March 31, 2011 and 2010

NOVEKO INTERNATIONAL INC.

Consolidated interim financial statements
(unaudited)

Periods ended March 31, 2011 and 2010

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NOVEKO INTERNATIONAL INC.

Consolidated balance sheets

As at March 31, 2011 and June 30, 2010

	March 31, 2011 (unaudited)	June 30, 2010 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 503,306	\$ 639,543
Deposit in trust	1,225,123	87,787
Short-term investments	1,145,954	2,145,631
Accounts receivable	4,246,607	3,026,436
Inventories	11,921,893	11,259,316
Prepaid expenses	667,323	627,644
Current portion of assets held for sale (note 6)	1,096,100	1,231,858
	20,806,306	19,018,215
Fixed assets	2,141,911	1,592,999
Intangible assets	6,997,268	7,782,150
Other assets	785,947	945,653
Future income taxes	47,406	19,424
Goodwill (note 9)	7,585,498	7,420,012
Non-current portion of assets held for sale (note 6)	3,936,839	5,896,657
	\$ 42,301,175	\$ 42,675,110
Liabilities and shareholders' equity		
Current liabilities:		
Bank loans	\$ -	\$ 167,011
Accounts payable and accrued liabilities	4,305,820	3,801,984
Current portion of long-term debt	396,552	475,432
Current portion of liabilities held for sales (note 6)	1,996,967	1,780,589
	6,699,339	6,225,016
Long-term debt	109,110	803,647
Future income taxes	854,766	830,291
Non-current portion of liabilities held for sales (note 6)	1,588,519	1,753,146
Shareholders' equity:		
Capital stock (note 10)	103,003,764	95,620,532
Warrants (note 12)	3,811,801	3,348,000
Contributed surplus	23,440,849	22,874,810
Accumulated other comprehensive loss (note 13)	(1,042,670)	(1,285,522)
Deficit	(96,164,303)	(87,494,810)
	33,049,441	33,063,010
Contingencies (note 17)		
Subsequents events (note 18)		
	\$ 42,301,175	\$ 42,675,110

See accompanying notes to unaudited consolidated financial statements.

ON BEHALF OF THE BOARD,

(signed) *André Leroux*, Director

(signed) *Léon Assayag*, Director

NOVEKO INTERNATIONAL INC.

Consolidated statements of operations

Nine and three month periods ended March 31, 2011 and 2010
(unaudited)

	Three months		Nine months	
	2011	2010	2011	2010
Revenues	\$ 3,414,831	\$ 2,927,450	\$ 11,187,310	\$ 12,214,853
Cost of sales	2,038,520	1,846,560	6,642,675	7,191,751
	1,376,311	1,080,890	4,544,635	5,023,102
Operating expenses:				
Administrative and selling expenses	3,170,705	3,847,798	9,718,177	11,352,164
Stock-based compensation	110,158	599,139	547,909	3,049,927
Research and development	262,055	466,357	963,113	1,261,782
Research and development tax credits	(115,097)	(116,447)	(337,476)	(414,860)
	3,427,821	4,796,847	10,891,723	15,249,013
Loss before amortization, financial fees, income taxes, other item and discontinued operations	(2,051,510)	(3,715,957)	(6,347,088)	(10,225,911)
Amortization (note 7)	709,703	655,065	2,103,671	1,736,970
Financial expenses less investment revenues (note 7)	(129,201)	500,480	(227,691)	1,325,898
Goodwill impairment charge adjustment (note 9)	-	-	24,902	(69,700)
	580,502	1,155,545	1,900,882	2,993,168
Loss before income taxes	(2,632,012)	(4,871,502)	(8,247,970)	(13,219,079)
Income taxes:				
Current (recovered)	47,686	(87,555)	118,904	12,406
Future	(36,425)	(105,916)	(57,055)	(252,299)
	11,261	(193,471)	61,849	(239,893)
Net loss from continuing operations	(2,643,273)	(4,678,031)	(8,309,819)	(12,979,186)
Net loss from discontinued operations (note 6)	(88,142)	(518,507)	(276,499)	(1,365,351)
Net loss	\$ (2,731,415)	\$ (5,196,538)	\$ (8,586,318)	\$ (14,344,537)
Basic and diluted loss per share:				
From continuing operations	\$ (0.03)	\$ (0.06)	\$ (0.10)	\$ (0.18)
From discontinued operations	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)
Net loss	\$ (0.03)	\$ (0.07)	\$ (0.10)	\$ (0.20)
Weighted average number of outstanding shares, basic and diluted	85,940,149	75,916,023	82,077,304	72,677,982

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Nine and three month periods ended March 31, 2011 and 2010
(unaudited)

	Three months		Nine months	
	2011	2010	2011	2010
Net loss	\$ (2,731,415)	\$ (5,196,538)	\$ (8,586,318)	\$ (14,344,537)
Other comprehensive income, net of income taxes:				
Change in unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	138,548	(661,763)	242,852	(1,379,069)
Comprehensive loss	\$ (2,592,867)	\$ (5,858,301)	\$ (8,343,466)	\$ (15,723,606)

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Nine-month periods ended March 31, 2011 and 2010
(unaudited)

	March 31 2011	March 31 2010
DEFICIT		
Deficit, beginning of period	\$ (87,494,810)	\$ (61,205,942)
Net loss	(8,586,318)	(14,344,537)
Share issuance fees	(83,175)	(2,070,317)
Deficit, end of period	\$ (96,164,303)	\$ (77,620,796)
CONTRIBUTED SURPLUS		
Contributed surplus, beginning of period	\$ 22,874,810	\$ 18,718,376
Fair value of stock options granted	547,909	3,165,463
Fair value of agent's warrant granted to the broker (note 10 c) ii))	18,130	732,000
Fair value of stock options exercised	-	(89,941)
Contributed surplus, end of period	\$ 23,440,849	\$ 22,525,898

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of cash flows

Nine and three month periods ended March 31, 2011 and 2010
(unaudited)

	Three months		Nine months	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net loss	\$ (2,731,415)	\$ (5,196,538)	\$ (8,586,318)	\$ (14,344,537)
Adjustments for:				
Loss from discontinued operations	88,142	518,507	276,499	1,365,351
Future income taxes	(36,425)	(105,916)	(57,055)	(252,299)
Accreted interest on secured convertible debentures	-	3,554	-	68,254
Stock-based compensation	110,158	599,139	547,909	3,049,927
Loss on disposal of fixed assets	114,230	1,502	205,505	7,439
Amortization (note 7)	709,703	655,065	2,103,671	1,736,970
Goodwill impairment charge adjustment	-	-	24,902	(69,700)
Loss on fair value of short-term investments	-	-	-	11,676
Foreign exchange loss (gain)	(652)	(11,089)	(1,287)	6,040
Adjustments from discontinued operations	(95,023)	49,815	50,420	524,586
	(1,841,282)	(3,485,961)	(5,438,754)	(7,896,293)
Net change in non-cash working capital	(687,575)	(1,078,267)	(1,633,420)	(3,600,133)
	(2,528,857)	(4,564,228)	(7,072,174)	(11,496,426)
Cash flows from financing activities:				
Net changes in bank loans	(179,079)	(67,531)	(176,582)	77,271
Repayment of long-term debt	(612,744)	(160,763)	(803,923)	(519,918)
Interest paid on secured convertible debentures	-	(1,972)	-	(42,858)
Proceeds from Class A shares and warrants issued	2,507,033	8,700	7,847,033	15,874,066
Class A shares issue expenses	(48,787)	2,671	(65,045)	(1,338,317)
Cash flows from discontinued operations	85,739	(108)	(24,679)	(199,382)
	1,752,162	(219,003)	6,776,804	13,850,862
Cash flows from investing activities:				
Acquisition of short-term investments	-	(3,000,000)	(1,590,000)	(15,000,000)
Proceeds from disposal of short-term investments	-	7,998,164	2,590,000	14,634,425
Acquisition of fixed assets	(428,836)	(91,741)	(1,028,766)	(225,165)
Proceeds from disposal of fixed assets	1,851,179	(750)	1,873,821	27,436
Acquisition of intangible assets	(31,621)	-	(190,178)	(203,770)
Acquisition of other assets	-	-	-	(44,400)
Deposit in trust	(1,225,123)	(78,479)	(1,225,123)	(73,019)
Deferred development costs, net of related research tax credits received	(79,484)	(88,457)	(250,868)	(267,586)
Cash flows from discontinued operations	-	(36,015)	(3,200)	(137,788)
	86,115	4,702,722	175,686	(1,289,867)
Foreign exchange loss on cash in foreign currencies	(3,723)	(36,488)	(16,553)	(158,512)
Increase (decrease) in cash and cash equivalents	(694,303)	(116,997)	(136,237)	906,057
Cash and cash equivalents, beginning of period	1,197,609	1,960,373	639,543	937,319
Cash and cash equivalents, end of period	\$ 503,306	\$ 1,843,376	\$ 503,306	\$ 1,843,376

Cash flows related to operating activities include interest paid for \$150,510 (\$101,894 in 2010) and income taxes paid for \$30,938 (\$270,445 received in 2010).

For non-cash activities, see note 8.

See accompanying notes to unaudited consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

March 31, 2011
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Noveko International Inc. (“the Company”) is incorporated under the *Canada Business Corporations Act* and operates in the following reportable segments:

- **Medical equipment**, primarily real-time ultrasound scanners for use in human and veterinary medicine, along with medical equipment import and distribution activities (“medical equipments”);
- **Sanitizers** with antimicrobial properties, geared to the same markets as the masks (“sanitizers”);
- NovekoTM **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 NovekoTM 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 EPURAIRTM air quality systems (“filtration”); 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.

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.

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

March 31, 2011
(unaudited)

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 nine-month period ended March 31, 2011:

Effective July 1st, 2010, the Company adopted by anticipation new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Sections 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

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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.

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4. Future changes in accounting policies:

In 2006, Canada's Accounting Standards Board confirmed that public companies will be required to apply 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, and 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

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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 professional 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	 <hr/> \$ 158,675
Consideration:	
Cash, including acquisition fees	\$ 99,770
Cash, paid in previous year	\$ 58,905
	<hr/> \$ 158,675

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

March 31, 2011
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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 for the three and nine month period ended March 31, 2010 have been restated and presented distinctively in the discontinued operations and the assets and liabilities of this subsidiary as at March 31, 2010 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. Therefore, from this date, the buildings ceased to be amortized and were distinctly presented with the non-current assets held for sale. On January 13, 2011, the Company sold one of these two buildings held for sale for an amount of \$650,000. On March 31, 2011, the Company sold the second building for an amount of \$1,300,000.
- 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 and cash flows are generated.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

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(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 March 31, 2011 and March 31, 2010:

Condensed statement of operations of discontinued operations, including the accounts of Magnum Pharmaceuticals Inc. and of Bolduc Leroux Inc. for the three and nine-month periods ended March 31, 2010 and including solely the accounts of Bolduc Leroux Inc. for the three and nine-month periods ended March 31, 2011:

Condensed statement of operations:

	Three months		Nine months	
	2011	2010	2011	2010
Revenues	\$ 759,693	\$ 1,125,318	\$ 2,405,839	\$ 3,103,500
Costs of sales	651,758	1,038,808	2,031,344	2,528,809
	107,935	86,510	374,495	574,691
Operating costs	148,569	407,938	502,230	1,211,352
Stock-based compensation	-	(38)	-	115,536
Amortization	-	154,763	-	455,713
Financial fees	(47,508)	49,334	148,764	178,382
Income taxes	-	(6,980)	-	(20,941)
	196,077	605,017	650,994	1,940,042
Loss from discontinued operations	\$ (88,142)	\$ (518,507)	\$ (276,499)	\$ (1,365,351)

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

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(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:

	March 31, 2011	June 30, 2010
Assets held for sale:		
Accounts receivable	\$ 573,866	\$ 658,049
Inventories	488,670	542,812
Prepaid expenses	33,564	30,997
Current assets held for sale	1,096,100	1,231,858
Fixed assets	3,578,589	3,575,390
Buildings held for sale	-	1,963,017
Intangible assets	358,250	358,250
Non-current assets held for sale	\$ 3,936,839	\$ 5,896,657
Liabilities held for sale:		
Bank advances	\$ 1,263,280	\$ 1,118,899
Accounts payable and accrued liabilities	514,002	437,572
Current portion of long-term debt	219,685	224,118
Current liabilities held for sale	1,996,967	1,780,589
Long-term debt	1,588,519	1,753,146
Non-current liabilities held for sale	\$ 1,588,519	\$ 1,753,146
Net assets held for sale	\$ 1,447,453	\$ 3,594,780

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

March 31, 2011
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6. Discontinued operations and assets held for sale (cont'd):

Condensed cash flows of discontinued operations:

	Three months		Nine months	
	2011	2010	2011	2010
Cash flows from operating activities	\$ (95,023)	\$ 49,815	\$ 50,420	\$ 524,586
Cash flows from financing activities	85,739	(108)	(24,679)	(199,382)
Cash flows from investing activities	-	(36,015)	(3,200)	(137,788)
	\$ (9,284)	\$ 13,692	\$ 22,541	\$ 187,416

7. Information on operations:

	Three months		Nine months	
	2011	2010	2011	2010
a) Amortization:				
Amortization of fixed assets	\$ 129,739	\$ 92,844	\$ 380,171	\$ 343,837
Amortization of intangible assets	437,381	364,009	1,312,926	1,046,103
Amortization of deferred development costs	142,583	196,091	410,574	343,852
Amortization of deferred costs	-	2,121	-	3,178
	\$ 709,703	\$ 655,065	\$ 2,103,671	\$ 1,736,970
b) Financial expenses:				
Interest on long-term debt	\$ 10,117	\$ 16,126	\$ 36,105	\$ 55,267
Accreted interests on secured convertible debentures	-	3,554	-	68,254
Interest on bank loan and bank charges	24,454	28,835	91,839	63,238
Foreign exchange loss (gain)	(133,562)	623,894	(317,432)	1,359,509
Loss on fair value of short-term investments	-	-	-	11,676
Investment revenues	(30,210)	(171,929)	(38,203)	(232,046)
	\$ (129,201)	\$ 500,480	\$ (227,691)	\$ 1,325,898

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Notes to consolidated financial statements

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8. Non-cash activities:

		March 31, 2011		March 31, 2010
Conversion of convertible debentures into Class A shares	\$	-	\$	2,076,896

9. Goodwill:

	March 31, 2011			
	Filtration	Sanitizers	Medical equipments	Total
Balance, beginning of period	\$2,545,350	\$2,821,559	\$2,053,103	\$7,420,012
Goodwill impairment charges	-	(24,902)	-	(24,902)
Foreign currency translation adjustments	98,792	-	91,596	190,388
Balance, end of period	\$2,644,142	\$2,796,657	\$2,144,699	\$7,585,498

	June 30, 2010			
	Filtration	Sanitizers	Medical equipments	Total
Balance, beginning of period	\$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 period	\$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. 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 as 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.

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9. Goodwill (cont'd):

With the assistance of an independent valuator, the Company conducted a comprehensive assessment including a detailed calculation of the estimated fair values of recorded and unrecorded fixed and intangible assets of this business unit.

The final impairment calculation was completed by the Company during the period ended December 31, 2010 and the resulting non cash adjustment consisted in an increase of \$24,902 of the preliminary impairment charge recorded during the prior year, this increase being recorded in the consolidated statement of operations for this period.

10. Capital stock:

a) Authorized:

On March 31, 2011, 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 shares and Class 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, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value.

b) Issued:

	March 31, 2011	June 30, 2010
91,093,496 Class A shares (75,925,912 as at June 30, 2010)	\$ 103,003,764	\$ 95,620,532

c) Transactions during the nine-month period ended March 31, 2011:

- i) Issuance of 8,900,000 Class A shares for a cash consideration of \$5,340,000.

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10. Capital stock (cont'd):

c) Transactions during the nine-month period ended March 31, 2011 (cont'd):

- ii) Issuance of 6,267,584 units for a total amount of \$2,507,034 in cash. Each unit includes one Class A share and one half of a warrant, each warrant allowing the purchase of one Class A share of the Company at a price of \$0.60 per share, for a period of 36 months following the warrants' issuance. A value of \$463,801 was attributed to the warrants granted, and the difference of \$2,043,232 was recorded in the capital stock.

Simultaneously with the issuance of the 6,267,584 units, the Company paid a \$49,000 commission in cash and granted 122,500 agent's warrants to the broker allowing the purchase of 122,500 Class A shares at a price of \$0.60 per share until March 2014. A value of \$18,130 was attributed to the share issuance fees and the difference was recorded to the contributed surplus.

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

	March 31, 2011
Weighted average expected dividend rate	Nil
Weighted average expected volatility	110 %
Weighted average risk-free interest rate	2.05 %
Weighted average expected life	36 months

As at March 31, 2011, no agent's warrant had been exercised.

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10. Capital stock (cont'd):

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 the purchase of one 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 for units to the brokers allowing the purchase of 490,571 Class A shares and 245,285 complete 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.

The fair value of the portion of the warrants of the issued units and of the agent's options for units that were granted to the brokers 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	36 months

As at March 31, 2011, no agent's options for units had been exercised.

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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.

The following table summarizes the changes in the plans position between June 30, 2010 and March 31, 2011:

	March 31, 2011		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	200,000	0.60	1,960,000	1.52
Exercised	-	-	(136,665)	0.96
Cancelled	(1,561,934)	3.76	(1,510,000)	4.13
Balance, end of period	6,742,998	\$ 2.66	8,104,932	\$ 2.92
Options that can be exercised at period-end	5,531,998	\$ 3.01	6,430,932	\$ 3.35
Weighted average fair value of options granted during the period		\$ 0.44		\$ 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 March 31, 2011:

Outstanding options			Exercisable options	
Exercise price	Number	Weighted average outstanding maturity period (year)	Number	
\$0.87	1,542,998	0.75	1,542,998	
\$1.31	200,000	1.00	200,000	
\$2.75	250,000	1.17	250,000	
\$6.80	1,100,000	1.58	1,100,000	
\$4.85	10,000	2.25	10,000	
\$3.95	200,000	2.25	200,000	
\$3.98	200,000	2.33	200,000	
\$3.82	200,000	2.33	200,000	
\$3.85	200,000	2.33	200,000	
\$3.52	300,000	2.33	300,000	
\$3.05	200,000	2.42	200,000	
\$2.49	100,000	2.42	100,000	
\$3.98	200,000	2.50	200,000	
\$1.18	50,000	2.67	50,000	
\$0.60	200,000	2.75	160,000	
\$0.87	90,000	3.00	82,000	
\$2.06	25,000	3.08	15,000	
\$2.14	60,000	3.33	56,000	
\$2.58	215,000	3.67	86,000	
\$1.00	1,200,000	4.17	380,000	
\$0.60	200,000	4.67	-	
	6,742,998	2.25	5,531,998	

a) Transaction during the nine-month period ended March 31, 2011:

During the nine-month period ended March 31, 2011, the Company granted 200,000 stock options allowing the acquisition of 200,000 Class A shares at an exercise price of \$0.60 with a vesting period of 30 months.

NOVEKO INTERNATIONAL INC.

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11. Stock option plan (cont'd):

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

The Company 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.

c) Compensation costs:

For the nine-month period ended March 31, 2011, compensation costs related to the stock option plans amount to \$547,909, of which \$280,052 for employees (\$3,165,463 of which \$2,066,314 for employees, for the nine-month period ended March 31, 2010).

d) Fair value of the options:

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

	March 31, 2011	June 30, 2010
Weighted average expected dividend rate	Nil	Nil
Weighted average expected volatility	96.88%	101%
Weighted average risk-free interest rate	2.27%	2.67%
Weighted average expected life of options	60 months	60 months

12. Warrants:

The following table summarizes the changes in the warrants position between June 30, 2010 and March 31, 2011:

	March 31, 2011		June 30, 2010	
	Warrant Number	Amount	Warrant Number	Amount
Balance, beginning of period	3,878,000	\$ 3,348,000	-	\$ -
Granted	3,133,792	463,801	3,878,000	3,348,000
Balance, end of period	7,011,792	\$ 3,811,801	3,878,000	\$ 3,348,000

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12. Warrants (cont'd):

The following table summarizes the outstanding warrants as at March 31, 2011:

Exercise Price	Number	Weighted average outstanding maturity period (months)
\$3.00	3,578,000	19
\$1.00	300,000	20
\$0.60	3,133,792	36
	7,011,792	

a) Transactions during the nine-month period ended March 31, 2011:

Issuance, simultaneously with the issuance of 6,267,584 Class A shares, of 3,133,792 warrants allowing the purchase of 3,133,792 Class A shares at a price of \$0.60 per share until March 2014. A value of \$463,801 was attributed to these warrants by using the Monte Carlo's regression pricing model. Those warrants include an early exercise clause corresponding to 30 days, at the Company's discretion, if the average price of Class A shares is or exceeds \$1.50 for a period of 20 consecutive business days.

b) 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 by using the Monte Carlo's regression pricing model. 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.

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13. Accumulated other comprehensive loss:

The changes that occurred during the period were as follows:

	March 31, 2011	March 31, 2010
Balance, beginning of period	\$ (1,285,522)	\$ (166,928)
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	242,852	(1,379,069)
Balance, end of period	\$ (1,042,670)	\$ (1,545,997)

14. Commitments:

- a) As at March 31, 2011, the balance of the commitments included under the terms of leases for the rental of its business premises, maturing in 2020, totals \$6,961,879. Rent payments of \$554,538 were recorded during the nine-month period ended March 31, 2011 (\$428,185 for the nine-month period ended March 31, 2010). Minimum lease payments over the next five years are as follows:

2012	\$ 1,307,664
2013	\$ 1,225,718
2014	\$ 893,957
2015	\$ 779,010
2016	\$ 498,046

- 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 March 31, 2011, 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 nine-month period ended March 31, 2011, \$1,775 (\$13,371 for the nine-month period ended March 31, 2010) was paid under the terms of this agreement.

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15. Related party transactions:

- a) For the nine-month period ended March 31, 2011:

During the nine-month period ended March 31, 2011, 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 generated a \$97,500 commission paid in cash. 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.

- 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 has not generated 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 medical equipment, sanitizers, masks, filtration 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:

	Three months 2011		2010	Nine months 2011		2010		
Revenues from external clients:								
Medical equipment	\$	2,503,431	\$	1,951,539	\$	8,436,684	\$	6,744,101
Sanitizers		68,758		174,972		657,578		2,484,763
Masks		12,097		255,452		26,773		1,339,910
Filtration		830,545		545,487		2,066,275		1,646,079
	\$	3,414,831	\$	2,927,450	\$	11,187,310	\$	12,214,853
Earnings (loss) before amortization, financial fees and income taxes:								
Medical equipment	\$	306,724	\$	(64,911)	\$	1,270,313	\$	438,086
Sanitizers		(404,683)		(1,244,360)		(1,608,860)		(1,929,676)
Masks		(71,765)		(424,480)		(498,538)		(879,879)
Filtration		(534,416)		(152,402)		(1,775,091)		(1,287,308)
Others		(1,347,370)		(1,829,804)		(3,734,912)		(6,567,134)
	\$	(2,051,510)	\$	(3,715,957)	\$	(6,347,088)	\$	(10,225,911)

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16. Segmented information (cont'd):

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

	Three months		Nine months	
	2011	2010	2011	2010
Amortization:				
Medical equipment	\$ 212,195	\$ 255,172	\$ 628,771	\$ 523,493
Sanitizers	143,963	31,286	431,474	80,203
Masks	17,675	17,501	53,025	52,919
Filtration	59,048	73,902	177,032	219,372
Others	276,822	277,204	813,369	860,983
	\$ 709,703	\$ 655,065	\$ 2,103,671	\$ 1,736,970
Interest expenses:				
Medical equipment	\$ 5,574	\$ 13,394	\$ 30,541	\$ 37,299
Sanitizers	4,848	6,281	23,744	15,937
Masks	1,069	2,800	6,829	8,003
Filtration	10,689	14,916	27,788	29,165
Others	12,391	11,124	39,042	96,355
	\$ 34,571	\$ 48,515	\$ 127,944	\$ 186,759
Income taxes:				
Medical equipment	\$ 42,095	\$ (163,573)	\$ 154,482	\$ (157,013)
Sanitizers	-	-	-	-
Masks	-	-	-	-
Filtration	(13,354)	(10,973)	(40,713)	(23,179)
Others	(17,480)	(18,925)	(51,920)	(59,701)
	\$ 11,261	\$ (193,471)	\$ 61,849	\$ (239,893)
Net income (loss) from continuing operations:				
Medical equipment	\$ 54,235	\$ (430,474)	\$ 494,788	\$ (231,449)
Sanitizers	(550,290)	(1,349,955)	(2,060,615)	(2,269,697)
Masks	(87,304)	(484,183)	(511,310)	(1,064,694)
Filtration	(628,328)	(249,009)	(1,867,733)	(1,597,071)
Others	(1,431,586)	(2,164,410)	(4,364,949)	(7,816,275)
	\$ (2,643,273)	\$ (4,678,031)	\$ (8,309,819)	\$ (12,979,186)
Assets:				
Medical equipment			\$ 11,943,603	\$ 9,616,676
Sanitizers			5,643,938	9,739,513
Masks			5,575,572	4,805,810
Filtration			5,907,940	6,681,762
Others			8,216,026	12,588,605
Assets held for sale			5,014,096	5,042,578
Assets related to discontinued operations			-	3,327,398
			\$ 42,301,175	\$ 51,802,342

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16. Segmented information (cont'd):

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

	Three months 2011		2010	Nine months 2011		2010		
Fixed asset expenditures:								
Medical equipment	\$	130,846	\$	175,306	\$	449,042	\$	463,782
Sanitizers		-		-		-		13,300
Masks		-		-		13,245		-
Filtration		316,487		3,185		358,646		5,861
Others		92,608		1,707		648,879		257,978
	\$	539,941	\$	180,198	\$	1,469,812	\$	740,921

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

	March 31, 2011		June 30, 2010	
Canada	\$	5,592,004	\$	5,053,309
France		2,526,442		2,398,505
Algeria		325,607		340,228
Luxembourg		584,613		516,034
Taiwan		556,304		577,893
Chine		142,439		127,042
	\$	9,727,409	\$	9,013,011

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

	Three months 2011		2010	Nine months 2011		2010		
Canada	\$	964,661	\$	507,664	\$	3,020,955	\$	3,668,143
Latin America		154,301		139,543		496,757		333,671
United States		161,918		185,361		597,713		407,283
Europe		940,899		1,051,338		3,003,774		4,058,581
Africa and Asia		1,193,052		1,043,544		4,068,111		3,747,175
Total revenues	\$	3,414,831	\$	2,927,450	\$	11,187,310	\$	12,214,853

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17. Contingencies:

- a) During the nine-month period ended March 31, 2011, a lawsuit was initiated against the Company and two of its subsidiaries by a former employee. This claim is still at a preliminary stage and, consequently, the Company and its subsidiaries are unable to comment on the evaluation of the dispute and the amount that the Company would have to pay, if any. No provision was recorded in the financial statements.
- b) 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 events:

- a) On April 8, 2011, the Company announced that it intends to proceed with a private placement of units for a maximum amount of \$4,000,000 at a price of \$0.70 per unit, each unit consisting of one Class A share of the Company and one-half of a warrant. Each warrant entitles its holder to purchase one Class A share at a price of \$1.00 per share for the first 12-month period following the issuance of the units, and at a price of \$2.00 per share for the subsequent 12-month period. The warrants are not subjected to an acceleration clause.
- b) On April 29, 2011, as part of its private placement, the Company issued 850,148 Class A share and 425,074 warrants for a cash consideration of \$595,104.

19. Comparative figures:

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