

Consolidated financial statements of

NOVEKO INTERNATIONAL INC.

Years ended June 30, 2011 and 2010

NOVEKO INTERNATIONAL INC.

Consolidated financial statements

Years ended June 30, 2011 and 2010

Financial statements

Auditors' report.....	1
Consolidated balance sheets.....	2
Consolidated statements of operations.....	3
Consolidated statements of comprehensive loss	4
Consolidated statements of deficit and contributed surplus	5
Consolidated statements of cash flows.....	6
Notes to consolidated financial statements.....	7



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INDEPENDENT AUDITORS' REPORT

To the shareholders

We have audited the accompanying consolidated financial statements of Noveko International inc., which comprise the consolidated balance sheets as at June 30, 2011 and as at June 30, 2010, and the consolidated statements of operations, comprehensive loss, deficit and contributed surplus and cash flows for the years then ended, and notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting



estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Noveko International inc. as at June 30, 2011 and June 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 a) to the consolidated financial statements, Basis of presentation and going concern, which indicates that the Company, since its inception, has incurred significant operating losses. These conditions, along with other matters as set forth in Note 1 a) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants

Montréal, Canada

September 27, 2011

NOVEKO INTERNATIONAL INC.

Consolidated balance sheets

June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 683,562	\$ 639,543
Deposit in trust	-	87,787
Short-term investments (note 8)	1,146,201	2,145,631
Accounts receivable (note 9)	4,136,099	3,026,436
Inventories (note 10)	9,222,372	11,259,316
Prepaid expenses	663,299	627,644
Current assets held for sale (note 5)	973,595	1,231,858
	16,825,128	19,018,215
Fixed assets (note 11)	2,293,307	1,592,999
Intangible assets (note 12)	5,656,611	7,782,150
Other assets (note 13)	667,009	945,653
Future income taxes (note 30)	198,246	19,424
Goodwill (note 14)	7,166,395	7,420,012
Non-current assets held for sale (note 5)	2,871,840	5,896,657
	\$ 35,678,536	\$ 42,675,110
Liabilities and shareholders' equity		
Current liabilities:		
Bank advances (note 15)	\$ -	\$ -
Bank loans (note 16)	-	167,011
Term note (note 17)	90,000	-
Accounts payable and accrued liabilities (note 18)	4,514,015	3,801,984
Current portion of long-term debt (note 19)	350,345	475,432
Current liabilities held for sale (note 5)	1,839,176	1,780,589
	6,793,536	6,225,016
Long-term debt (note 19)	273,741	803,647
Future income taxes (note 30)	748,798	830,291
Non-current liabilities held for sale (note 5)	1,535,371	1,753,146
Shareholders' equity:		
Capital stock (note 21)	103,540,806	95,620,532
Warrants (note 23)	3,877,363	3,348,000
Contributed surplus	23,381,299	22,874,810
Accumulated other comprehensive loss (note 24)	(1,032,213)	(1,285,522)
Deficit	(103,440,165)	(87,494,810)
	26,327,090	33,063,010
Commitments (note 25)		
Contingency (note 31)		
Subsequent events (note 32)		
	\$ 35,678,536	\$ 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

Years ended June 30, 2011 and 2010

	2011	2010
Revenues	\$ 14,296,688	\$ 15,110,654
Cost of sales	8,649,310	9,407,387
	5,647,378	5,703,267
Operating expenses:		
Administrative and selling	12,819,136	15,444,132
Provision for slow-moving inventories (note 10)	2,520,411	-
Stock-based compensation	488,469	3,413,576
Research and development	1,143,448	1,853,396
Research and development tax credits	(505,565)	(571,412)
	16,465,899	20,139,692
Loss before amortization, financial expenses, income taxes, other items and discontinued operations	(10,818,521)	(14,436,425)
Amortization (note 6)	2,381,244	2,418,274
Financial expenses less investment revenues (note 6)	(371,436)	1,633,401
Impairment of intangible assets (note 12)	1,458,113	-
Goodwill impairment charge (note 14)	492,202	2,305,300
	3,960,123	6,356,975
Loss before income taxes	(14,778,644)	(20,793,400)
Income taxes (note 30) :		
Current	30,134	52,829
Future	(320,066)	(483,638)
	(289,932)	(430,809)
Net loss from continuing operations	(14,488,712)	(20,362,591)
Net loss from discontinued operations (note 5)	(1,347,017)	(3,855,960)
Net loss	\$ (15,835,729)	\$ (24,218,551)
Basic and diluted loss per share:		
From continuing operations	\$ (0.17)	\$ (0.28)
From discontinued operations	\$ (0.02)	\$ (0.05)
Net loss	\$ (0.19)	\$ (0.33)
Weighted average number of outstanding shares, basic and diluted	84,472,421	73,487,740

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Years ended June 30, 2011 and 2010

	2011	2010
Net loss	\$ (15,835,729)	\$ (24,218,551)
Other comprehensive loss, net of income taxes:		
Change in unrealized losses on translation of financial statements of self-sustaining foreign operations	253,309	(1,118,594)
Comprehensive loss	\$ (15,582,420)	\$ (25,337,145)

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Years ended June 30, 2011 and 2010

	2011	2010
DEFICIT		
Deficit, beginning of year	\$ (87,494,810)	\$ (61,205,942)
Net loss	(15,835,729)	(24,218,551)
Share issuance fees	(109,626)	(2,070,317)
Deficit, end of year	\$ (103,440,165)	\$ (87,494,810)
CONTRIBUTED SURPLUS		
Contributed surplus, beginning of year	\$ 22,874,810	\$ 18,718,376
Fair value of stock options granted	488,359	3,514,375
Fair value of options granted to the agents (note 21 c) ii)	18,130	732,000
Stock options exercised	-	(89,941)
Contributed surplus, end of year	\$ 23,381,299	\$ 22,874,810

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Consolidated statements of cash flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net loss	\$ (15,835,729)	\$ (24,218,551)
Adjustments for:		
Loss from discontinued operations	1,347,017	3,855,960
Future income taxes	(320,066)	(483,638)
Accreted interest on secured convertible debentures	-	59,644
Stock-based compensation	488,469	3,413,576
Professional fees paid by warrants	-	159,000
Loss on disposal of fixed assets	198,503	7,438
Amortization (note 6)	2,381,244	2,418,274
Goodwill impairment charges	492,202	2,305,300
Loss (gain) on fair value of short-term investments	(148)	11,512
Impairment of intangible assets	1,458,113	-
Foreign exchange loss (gain)	(767)	935
Adjustments related to discontinued operations	158,444	563,956
	(9,632,718)	(11,906,594)
Net change in non-cash working capital	1,329,093	(2,148,838)
	(8,303,625)	(14,055,432)
Cash flows from financing activities:		
Net changes in bank loans	(179,439)	36,661
Increase in long-term debt	290,000	-
Repayment of long-term debt	(984,602)	(598,252)
Proceeds from Class A shares and warrants issued	8,449,638	15,874,066
Class A shares issue expenses	(91,496)	(1,338,317)
Cash flows related to discontinued operations	(144,518)	(334,672)
Repayment of secured convertible debentures	-	(100,000)
Interest paid on secured convertible debentures	-	(21,142)
	7,339,583	13,518,344
Cash flows from investing activities:		
Business acquisitions (note 4)	-	(86,261)
Acquisition of short-term investments	(1,590,000)	(15,090,000)
Proceeds from disposal of short-term investments	2,590,000	16,634,425
Acquisition of fixed assets	(1,304,912)	(279,721)
Proceeds from disposal of fixed assets	24,259	26,214
Acquisition of intangible assets	(214,436)	(295,713)
Deferred development costs, net of related research tax credits received	(336,117)	(353,766)
Cash flows related to discontinued operations	1,848,676	(76,700)
Acquisition of other assets	-	(755)
Deposit in trust	-	(44,540)
	1,017,470	433,183
Foreign exchange gain on cash in foreign currencies	(9,409)	(193,871)
Increase (decrease) in cash and cash equivalents	44,019	(297,776)
Cash and cash equivalents, beginning of year	639,543	937,319
Cash and cash equivalents, end of year	\$ 683,562	\$ 639,543

Cash flows related to continuing operations include interest paid of \$187,229 (\$76,990 in 2010) and income taxes paid of \$86,857 (\$230,473 recovered in 2010).

For non-cash activities, see note 7.

See accompanying notes to consolidated financial statements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

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 air filtration technologies 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 portable real-time ultrasound scanners for use in human and veterinary medicine, along with medical equipment import and distribution activities ("medical equipment"); and
- **Other activities**, essentially the activities of the parent company, Noveko International Inc., and of Noveko Trading 2008 LLC ("other").

1. Significant accounting policies:

a) Basis of presentation and going concern:

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, Magnum Pharmaceuticals Inc. until June 2, 2010, SARL Noveko Algérie, Epurair Inc., Purer Life Technology Co., Ltd, Noveko Taiwan Co., Ltd, and Noveko (Beijing) Hi-Tech Development Limited.

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") under the assumption of going concern which assumes that the Company will be able to continue its operations and discharge its liabilities in the normal course of business in the foreseeable future.

However, there is a material uncertainty about the use of this assumption because since our inception, we have incurred significant operating losses. Our capacity to generate profits and positive working capital in the future is dependent upon numerous factors, namely, our capacity to develop new technologies and new products, the rapidity of penetration of our products in their target 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 raise a significant doubt about the Company's ability to continue as a going concern.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

a) Basis of presentation and going concern (cont'd):

We will need to raise supplementary funds in the future to sustain our growth. The going concern assumption is based on our capacity to raise such funds, which 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 reduce our commercialization or development programs. See however note 32 c) regarding the financing closed on September 28, 2011.

The financial statements do not include any adjustments to the measurement and presentation of the Company's assets and liabilities should the Company be unable to pursue its operations.

b) Financial Instruments:

Financial instruments are classified as: held-for-trading, financial assets available-for-sale, investments held-to-maturity, loans and receivables, or other financial liabilities. The financial assets and liabilities are initially recorded at fair value. Subsequent measurement and changes in fair value will depend on their initial classification.

- i) Financial instruments held-for-trading are measured at fair value with changes in fair value recognized in income. Cash and cash equivalents, deposit in trust and short-term investments were classified in this category.
- ii) Available-for-sale financial assets are measured at fair value or at cost, in the case of financial assets that do not have a quoted price in an active market, and changes in fair value are recorded in comprehensive income.
- iii) Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, using the effective interest amortization method. Accounts receivable were classified as loans and receivables whereas bank advances, bank loans, term note, accounts payable and accrued liabilities, current portion of long term-debt, and long-term debt were classified as other financial liabilities.

Derivative financial instruments are classified as held-for-trading and are measured at their fair value.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

b) Financial Instruments (cont'd):

The Company classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the type of inputs used in making the measurements:

- Level 1: prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs, other than Level 1 prices, that are directly observable for the asset or liability (i.e., prices) or indirectly (i.e., derivatives of prices);
- Level 3: inputs for the asset or liability that are not based on market data (unobservable inputs).

c) Cash and cash equivalents:

Cash and cash equivalents are stated at cost, which approximates market value and include cash and highly liquid investments purchased three months or less from maturity..

d) Short-term investments:

The short-term investments, comprised of shares, bonds and term deposits, are financial instruments classified as held-for-trading, and as such, are valued at their fair value at each balance sheet date. Any changes in fair value are recorded to the loss in the year where these changes occur.

e) Inventory:

Raw materials are valued at the lower of cost (average cost method for Noveko Inc., S.A.S. E.C.M., Épurair Inc. and Purer Life Technology Co., Ltd and first-in, first-out method for Bolduc Leroux Inc.) and net realizable value.

Work in process and finished goods are valued at the lower of cost (standard cost method for S.A.S. E.C.M., Noveko Taiwan Co., Ltd and Purer Life Technology Co., Ltd, actual cost method for Bolduc Leroux Inc., average cost method for Noveko Inc., Épurair Inc. and Noveko Trading 2008 LLC and first-in, first-out method for SARL Noveko Algérie) and net realizable value. Costs include raw materials, the cost of direct labor applied to the products and applicable share of overhead expenses.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

f) Fixed assets:

Fixed assets are recorded at cost, net of related research and development tax credits and other government assistance. Amortization is provided for using the methods, periods and rates over their useful lives as follows:

Asset	Method	Rate/Period
Building	Declining balance	4%
Furniture and fixtures	Declining balance or straight-line	20% 5 years
Machinery and equipment	Declining balance or straight-line	10%, 20% and 30% 5 years
Computer equipment	Declining balance or straight-line	30% and 45% 3 years
Leasehold improvements	Straight-line	2, 5 and 10 years
Vehicles	Declining balance or straight-line	30% 4 and 5 years
Computer equipment under capital leases	Straight-line	3 years

g) Impairment of long-lived assets:

Accounting for the potential impairment of long-lived assets held for use is a two-step process: the first step determining when impairment should be recognized and the second step is to measure the amount of the impairment. First, an impairment loss is recognized when the carrying amount of an asset held for use exceeds the sum of the undiscounted cash flows expected from its use and contingent disposal. Secondly, the impairment loss is accounted for when the net book value of long-lived assets is not recoverable or exceeds the fair value of the asset.

h) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets of the acquired businesses. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

i) Intangible assets:

Intangible assets are recorded at cost and are amortized using the following methods and periods over their useful lives:

Asset	Method	Rate/Period
Web site	Straight-line	3 years
Software	Declining balance or straight-line	45% 3 and 5 years
Customer relationships	Straight-line	5 and 7 years
Patents	Straight-line	10, 19 and 20 years
Trademarks	Straight-line	15 years
Technology	Straight-line	10 years
Non competition agreement	Straight-line	2, 5 and 10 years
Commercial agent contract	Straight-line	5 years

j) Research and development costs:

Research expenditures, net of related research tax credits, are charged to earnings in the year in which they are incurred.

Development costs of new products, net of related research and development tax credits, are accounted for as a reduction of the related charges, except when they meet the criteria for capitalization in accordance with Canadian generally accepted accounting principles. Deferred development costs are amortized on a straight-line basis over a two-year period, beginning in the first year of commercialization.

Deferred development costs are subject to a periodic review by management regarding their value and the related amortization period. Any reduction in the carrying value will be determined based on the related undiscounted future cash flows.

k) Revenue recognition:

The Company recognizes revenues when products are shipped or when the service is rendered and the customer or the distributor takes ownership and assumes the risk of losses, collectibility is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Revenues from royalties are recognized when the royalty has been billed and recovery is likely.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

l) Warranty provision:

Some products sold by the Company are covered by a warranty. Management accounts for this provision when the products are sold to its customers. The provision is estimated based on warranty expenses incurred in past years and on management's estimates and assumptions of future warranty claims.

m) Government assistance:

Government assistance, consisting of research tax credits and grants, is recorded as a reduction of the related expense. The government assistance related to fixed assets is recorded as a reduction of the cost of the asset acquired. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

n) Foreign currency translation:

Financial statements of self-sustaining foreign operations are translated using the current rate method by which assets and liabilities are translated at the effective exchange rate on the balance sheet date and by using the average rates effective during the year for the revenues and expenditures. Differences resulting from these translations are deferred and recorded under currency translation adjustments in accumulated other comprehensive income in shareholders' equity and are only included in earnings when there has been a reduction in the net investment in these foreign operations.

Transactions in foreign currencies are translated using the temporal method by which transactions are translated at the effective rate on the transaction date. Monetary assets and liabilities are translated at the effective rate on the balance sheet date, and non-monetary items are translated using the effective rate on the transaction date. Exchange gains and losses are included in the financial expenses in the statement of operations.

o) Stock based-compensation:

The Company uses the fair value based method of accounting for all options granted to its officers, directors, employees and persons providing services on a continuous basis to the Company, whereby a compensation expense is recognized over the vesting periods of the options with a corresponding increase to contributed surplus if the options are vested when granted, the compensation expense is recognized in full on that date. When stock options are exercised, capital stock is credited by the sum of the consideration paid together with the related portion previously credited to the contributed surplus.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

p) Income taxes:

The Company uses the tax asset and liability method to account for income taxes. Under this method, future tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying amounts and assets and liabilities tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws at the date of financial statements for the years in which the temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future income tax assets must be recognized unless chances of realization are not more likely than not, in which case a valuation allowance is provided.

q) Basic and diluted earnings per share:

Earnings per share are calculated based on the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effects of stock options and the warrants when calculating diluted earnings per share. Due to anti-dilution effects of stock options as the Company has incurred losses, the results of diluted earnings per share and basic earnings per share are the same.

r) Comprehensive Income (loss):

Comprehensive loss is comprised of net earnings (loss) plus or minus changes in equity from transactions and other events from non-owner sources. Comprehensive loss reflects net loss and other comprehensive income (loss) for the period. Other comprehensive income (loss) includes revenues, expenses, gains and losses not recorded in net earnings (loss) such as changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, net of taxes. The components of comprehensive income (loss) are disclosed in the statement of comprehensive income (loss).

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

1. Significant accounting policies (cont'd):

s) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the estimate of allowance for doubtful accounts, the provisions for slow-moving and obsolete inventories, the useful lives of fixed assets and intangible assets which are 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 acquisition, and the fair value of goodwill. Refundable income tax credits 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.

2. Changes in accounting policies:

a) For the year ended June 30, 2011:

Effective July 1st, 2010, the Company early adopted the 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.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

2. Changes in accounting policies (cont'd):

a) For the year ended June 30, 2011 (cont'd):

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.

b) For the year ended June 30, 2010:

Effective July 1st, 2009, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets" which provides guidance on the recognition of intangible assets and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This new recommendation which replaced 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. These amendments did not affect the consolidated financial results.

Effective July 1st, 2009, in connection with the implementation of a 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.

3. Future changes in accounting policies:

In 2006, Canada's Accounting Standards Board has confirmed that public companies will be required to implement International Financial Reporting Standards ("IFRS"). 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.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

3. Future changes in accounting policies (cont'd):

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 and 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 (cont'd)

Years ended June 30, 2011 and 2010

4. Business acquisition and asset purchase:

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 was allocated 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 fiscal year	58,905
	<hr/> \$ 158,675

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

5. 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 as at June 30, 2010 and the assets and liabilities of this subsidiary as at June 30, 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 for an amount of \$650,000. On March 31, 2011, the Company sold the second building for an amount of \$1,300,000. During fiscal 2011, a loss of \$111,000 was recorded in the statement of operations related to these disposals.
- c) During the year ended June 30, 2009, the Company committed to a plan 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 and an additional loss of \$1,065,000 as at June 30, 2011. The Company continues to operate the subsidiary. Management is considering a two-fold purchase offer.

The following tables summarize the additional financial information related to the discontinued operations as at and for the years ended June 30, 2011 and June 30, 2010:

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

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

Condensed statement of operations of discontinued operations, including the accounts of Bolduc Leroux Inc. as at June 30, 2011 and including the accounts of Bolduc Leroux Inc. and Magnum Pharmaceuticals Inc. as at June 30, 2010:

	2011	2010
Revenues	\$ 3,426,040	\$ 4,125,952
Cost of sales	2,908,751	3,347,807
	517,289	778,145
Operating costs	612,094	1,597,870
Stock based compensation	-	115,536
Amortization	-	89,542
Financial fees	187,212	212,291
Income taxes	-	(25,595)
	799,306	1,989,644
	(282,017)	(1,211,499)
Loss on potential sale	(1,065,000)	-
Loss from deconsolidation ⁽¹⁾	-	(2,644,461)
Loss from discontinued operations	\$ (1,347,017)	\$ (3,855,960)

⁽¹⁾ Details on loss from deconsolidation:

	2011	2010
Deconsolidation of the subsidiary net liability	\$ -	\$ (502,496)
Loss on intangible asset write-off, net of future income taxes	-	179,615
Loss on goodwill write-off	-	2,748,872
Loss on intercompanies advances	-	218,470
	\$ -	\$ 2,644,461

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

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

Condensed balance sheet of assets and liabilities held for sale, including Bolduc Leroux Inc. as at June 30, 2011 and including Bolduc Leroux Inc. and the buildings held for sale as at June 30, 2010:

	2011	2010
Assets held for sale:		
Accounts receivable	\$ 667,053	\$ 658,049
Inventories	275,511	542,812
Prepaid expenses	31,031	30,997
Current assets held for sale	973,595	1,231,858
Fixed assets	2,871,840	3,575,390
Buildings held for sale	-	1,963,017
Intangible assets	-	358,250
Non-current assets held for sale	\$ 2,871,840	\$ 5,896,657
Liabilities held for sale:		
Bank advances	\$ 1,196,588	\$ 1,118,899
Accounts payable and accrued liabilities	422,903	437,572
Current portion of long-term debt	219,685	224,118
Current liabilities held for sale	1,839,176	1,780,589
Long-term debt	1,535,371	1,753,146
Non-current liabilities held for sale	\$ 1,535,371	\$ 1,753,146
Net assets held for sale	\$ 470,888	\$ 3,594,780

Condensed cash flows related to discontinued operations:

	2011	2010
Cash flows from operating activities	\$ 158,444	\$ 563,956
Cash flows from financing activities	(144,518)	(334,672)
Cash flows from investing activities	1,848,676	(76,700)
	\$ 1,862,602	\$ 152,584

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

6. Information on operations:

	2011		2010
a) Amortization of:			
Fixed assets	\$ 515,612	\$	493,254
Intangible assets	1,250,871		1,376,833
Deferred development costs	614,761		545,009
Deferred costs	-		3,178
	\$ 2,381,244	\$	2,418,274
b) Financial expenses:			
Interest on long-term debt	\$ 44,546	\$	67,917
Accreted interest on secured convertible debentures	-		59,644
Interest on bank loan and bank charges	142,519		74,345
Foreign exchange loss (gain)	(463,711)		1,653,701
Loss on change in fair value of short-term investments	-		11,676
Investment revenues	(94,790)		(233,882)
	\$ (371,436)	\$	1,633,401

7. Non-cash activities:

	2011		2010
Conversion of convertible debentures into Class A shares	\$ -	\$	2,076,896
Issuance of warrants in exchange for professional services	\$ 18,130	\$	159,000

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

8. Short-term investments:

	2011	2010
Term deposit bearing interest at 1.38%, maturing in October 2011 (0,60 % in 2010)	\$ 1,050,000	\$ 1,050,000
Guaranteed investment certificate, bearing interest at 0.85%, maturing in march 2013	90,000	1,090,000
Shares of public companies	6,201	5,631
	\$ 1,146,201	\$ 2,145,631

9. Accounts receivable:

	2011	2010
Trade	\$ 2,627,686	\$ 2,080,224
Sales taxes	302,395	351,772
Research and development tax credits	813,877	402,366
Advances to shareholders exercising significant influence	124,165	131,544
Interest receivable	10,976	21,998
Income taxes recoverable	104,175	4,643
Other	152,825	33,889
	\$ 4,136,099	\$ 3,026,436

10. Inventories:

	2011	2010
Raw materials	\$ 4,479,219	\$ 3,182,202
Work in process	692,900	854,923
Finished goods	7,584,342	7,802,229
Provision for obsolescence	(1,013,678)	(580,038)
Provision for slow-moving inventories	(2,520,411)	-
	\$ 9,222,372	\$ 11,259,316

On June 30, 2011, inventories include a provision for obsolescence for an amount of \$1,013,678 and a provision for slow-moving inventories for an amount of \$2,520,411 (\$580,038 and \$- on June 30, 2010). This provision for slow-moving inventories is related to a surplus of inventory and is recognized as a separate item in the statement of operations. On June 30, 2011, the cost of sales includes \$433,640 of provision for obsolescence (\$379,938 on June 30, 2010) and the amount of inventories expensed amounted to \$8,531,713 (\$9,027,449 as at June 30, 2010).

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

11. Fixed assets:

				2011
	Cost	Accumulated amortization	Net book value	
Furniture and fixtures	\$ 382,469	\$ 169,340	\$ 213,129	
Machinery and equipment	1,935,086	1,062,812	872,274	
Computer equipment	313,731	251,025	62,706	
Leasehold improvements	1,178,967	233,094	945,873	
Vehicules	324,086	164,190	159,896	
	4,134,339	1,880,461	2,253,878	
Fixed assets under capital leases:				
Computer equipment	129,040	89,611	39,429	
	\$ 4,263,379	\$ 1,970,072	\$ 2,293,307	

				2010
	Cost	Accumulated amortization	Net book value	
Furniture and fixtures	317,471	123,824	193,647	
Machinery and equipment	1,551,667	744,328	807,339	
Computer equipment	309,852	227,461	82,391	
Leasehold improvements	439,700	187,625	252,075	
Vehicules	290,481	115,376	175,105	
	2,909,171	1,398,614	1,510,557	
Fixed assets under capital leases:				
Computer equipment	129,040	46,598	82,442	
	\$ 3,038,211	\$ 1,445,212	\$ 1,592,999	

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

12. Intangible assets:

				2011
	Cost	Accumulated amortization	Net book value	
Web site	\$ 69,625	\$ 38,681	\$ 30,944	
Software	448,841	283,663	165,178	
Customer relationships	160,000	94,488	65,512	
Patents	1,351,983	270,231	1,081,752	
Trademarks	880,840	635,837	245,003	
Technology	4,832,843	1,322,990	3,509,853	
Non competition agreements	922,000	363,631	558,369	
	\$ 8,666,132	\$ 3,009,521	\$ 5,656,611	

				2010
	Cost	Accumulated amortization	Net book value	
Web site	\$ 92,500	\$ 20,556	\$ 71,944	
Software	460,453	152,481	307,972	
Customer relationships	160,000	62,488	97,512	
Patents	1,338,736	198,566	1,140,170	
Trademarks	880,840	151,633	729,207	
Technology	4,132,748	777,246	3,355,502	
Commercial agent contract	2,355,207	929,177	1,426,030	
Non competition agreements	922,000	268,187	653,813	
	\$ 10,342,484	\$ 2,560,334	\$ 7,782,150	

During the year ended June 30, 2011, the Company wrote off the commercial agent contract and a trademark that was no longer used for a total impairment charge of \$ 1,458,113. This impairment of intangible assets was recorded as a separate item in the statement of operations.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

13. Other assets:

	2011			2010	
	Cost	Accumulated amortization	Net book value	Net book value	
Deferred development costs ⁽¹⁾	\$ 2,127,482	\$ 1,460,473	\$ 667,009	\$ 945,953	
	\$ 2,127,482	\$ 1,460,473	\$ 667,009	\$ 945,653	

⁽¹⁾ Deferred development costs:

	2011		2010	
Balance, beginning of year	\$	945,653	\$	1,136,895
Development costs capitalized during the year		336,117		353,767
Amortization of deferred development costs		(614,761)		(545,009)
	\$	667,009	\$	945,653

14. Goodwill:

	2011			
	Filtration	Sanitizers	Medical equipment	Total
Balance, beginning of year	\$2,545,350	\$2,821,559	\$2,053,103	\$7,420,012
Goodwill impairment	-	(492,202)	-	(492,202)
Foreign currency translation adjustments	114,091	-	124,494	238,585
Balance, end of year	\$2,659,441	\$2,329,357	\$2,177,597	\$7,166,395

	2010			
	Filtration	Sanitizers	Medical equipment	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	-	(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

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

14. Goodwill (cont'd):

During the period ended December 31, 2010, the final impairment calculation as of June 30, 2010 for the business unit include in the sanitizers segment was completed by the Company. The resulting non cash adjustment consisted in an increase of \$24,902 of the preliminary impairment charge recorded during the prior year.

As at June 30, 2011, when the Company initiated its step-one analysis, it was determined that a comprehensive step-two analysis of goodwill for the business unit included in the sanitizers segment was required. With the assistance of an independent valuator, the Company is conducting 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 Company was unable to complete the comprehensive assessment prior to the financial statements' filing date because of missing information.

Based on the preliminary assessment of the estimated fair value of the net asset of the business unit under review, management estimated that as at June 30, 2011, the fair value of goodwill in the sanitizers segment amounted to \$2,329,357. Accordingly, as required by CICA Handbook Section 3062, and in anticipation of completing the comprehensive step-two analysis of goodwill, the Company recorded a goodwill impairment charge of \$467,300 in its financial statements as at June 30, 2011. This impairment reflects market conditions related to this segment, primarily the slowdown in the marketing of disinfectant due to the rapid end of the epidemic period of influenza A (H1N1).

The Company expects the final impairment calculation to be completed during fiscal 2012 and the adjustments, if any, will result in non cash adjustments that will be recorded in the consolidated statement of operations.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

15. Bank advances:

S.A.S. E.C.M. has a credit facility on demand in the amount of €50,000, which was unused as at June 30, 2011. This credit is bearing interest at the prime rate of the financial institution plus 1.2%.

Epurair Inc. has a credit facility on demand in the amount of \$400,000, of which \$300,094 was used as at June 30, 2011. This credit, bearing interest at the prime rate of the financial institution plus 1.5%, is renewable annually. According to the covenants of the bank advance, this advance is limited to a percentage of the value of inventories and account receivables and the company must maintain a minimum general liquidity ratio of 1.3:1 and a maximum debt-to-equity ratio of 2:1. As at June 30, 2011, the subsidiary was meeting these terms and conditions.

16. Bank loan:

The bank loans granted to S.A.S. E.C.M., of an initial amount of €128,125 (or \$167,011) were bearing interest at prime rate of the financial institution plus 1.76% and 1.87%, and were entirely reimbursed during the financial year ended June 30, 2011.

17. Term note:

Term note payable by the Company to a shareholder director exercising significant influence in the original amount of \$ 90,000, bearing interest at 12% and maturing on July 23, 2011.

18. Accounts payable and accrued liabilities:

	2011	2010
Trade	\$ 2,685,939	\$ 2,143,119
Accrued liabilities	1,083,732	1,097,815
Salaries and deductions at source payable	735,408	551,605
Advances from a shareholder exercising significant influence	8,936	9,445
	\$ 4,514,015	\$ 3,801,984

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

19. Long-term debt:

	2011	2010
S.A.S. E.C.M.:		
Loans payable in Euros, bearing interest at rates varying between 3.70% to 4.56%, payable in monthly instalments of \$18,562 (€13,254), including interest, secured by vehicles, machinery and equipment, maturing in January and February 2012;	\$ 137,552	\$ 328,219
Loans payable in Euros, non-interest bearing, maturing between March 2012 and May 2013;	131,167	204,044
Épurair Inc. :		
Loan bearing interest at the prime rate plus 1.5%, payable in monthly instalments of \$3,750 plus interest, secured by a first rank moveable hypothec on specific equipment and by a \$1,140,872 guarantee of the Company, maturing in July 2015;	175,600	-
Loan bearing interest at the prime rate plus 1.5%, payable in monthly instalments of \$3,033 plus interest, secured by a first rank moveable hypothec on specific machinery and equipment and by a \$1,140,872 guarantee of the Company, maturing in May 2013;	69,767	106,166
Loan bearing interest at the prime rate plus 1.5%, payable in monthly instalments of \$6,250 plus interest, secured by a first rank moveable hypothec on specific equipment and by a \$1,140,872 guarantee of the Company, maturing in July 2014;	110,000	-
Loan bearing interest at the prime rate plus 1.0%, payable in monthly instalments of \$3,333 plus interest, secured by a first rank mortgage on a building and by a \$930,000 surety of the Company, repaid in full during the year ended June 30, 2011;	-	453,333
Loan bearing interest at 8.1%, payable in monthly instalments of \$4,399, principal and interest, secured by a moveable hypothec on specific machinery and equipment, repaid in full during the year ended June 30, 2011;	-	115,531
Noveko International Inc.:		
Obligations under capital leases (note 20).	-	71,786
	\$ 624,086	\$ 1,279,079
Current portion	(350,345)	(475,432)
	\$ 273,741	\$ 803,647

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

19. Long-term debt (cont'd):

The prime rate was 3.00% as at June 30, 2011 (2.50% as at June 30, 2010).

Principal repayments, including instalments due under the capital leases, over the next five years are estimated as follows:

2012	\$	350,345
2013	\$	146,808
2014	\$	81,933
2015	\$	45,000

20. Obligations under capital leases:

	2011	2010
Noveko International Inc. :		
Computer equipment lease contract, payable in monthly instalments of \$5,741, including interest, calculated at a rate of 17%, maturing on April 21, 2011	\$ -	\$ 78,852
Interest included in instalments	-	78,852
		(7,066)
Balance of the obligation under capital lease	\$ -	\$ 71,786

21. Capital stock:

a) Authorized:

On June 30, 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 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;

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

21. Capital stock (cont'd):

b) Issued:

	2011	2010
91,946,144 Class A shares (75,925,912 in 2010)	\$ 103,540,806	\$ 95,620,532

c) Transactions during the year ended June 30, 2011:

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

	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 June 30, 2011, no agent's warrant had been exercised.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

21. Capital stock (cont'd):

c) Transactions during the year ended June 30, 2011 (cont'd):

- iii) Issuance of 850,148 units for a total amount of \$595,104 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 \$2.00 per share, for a period of 24 months following the warrants' issuance. A value of \$68,012 was attributed to the warrants granted, and the difference of \$527,092 was recorded in the capital stock. Simultaneously with the issuance of these 850,148 units, the Company paid a \$7,200 commission in cash to the agent.

The fair value of the portion of the warrants of the issued units was estimated at the date on which they were granted by using the Black & Scholes pricing model with the following assumptions:

	2011
Weighted average expected dividend rate	Nil
Weighted average expected volatility	90%
Weighted average risk-free interest rate	1.67%
Weighted average expected life	24 months

As at June 30, 2011, no warrant had been exercised.

- iv) Issuance of 2,500 Class A shares following the exercise of 2,500 warrants for a cash consideration of \$7,500 and a transfer of \$2,450 from the warrants.

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.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

21. Capital stock (cont'd):

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

- 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 a corresponding amount was recorded to the contributed surplus.

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

	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 June 30, 2011, no agent's options were exercised.

22. Stock option plan:

The Company instituted a stock option plans under 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 then 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 extending from 12 to 30 months, as the case may be.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

22. Stock option plan (cont'd):

The following table summarizes the changes in the plans position for the years ended June 30, 2010 and 2011:

	2011		2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	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	(2,136,934)	3.71	(1,510,000)	4.13
Balance, end of year	6,167,998	\$ 2.56	8,104,932	\$ 2.92
Options that can be exercised at year-end	5,369,998	\$ 2.78	6,430,932	\$ 3.35
Weighted average fair value of options granted during the period		\$ 0.44		\$ 1.02

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

22. Stock option plan (cont'd):

The following table summarizes the information on the outstanding stock options as at June 30, 2011:

		Outstanding options		Exercisable options	
Exercise price	Number	Weighted average outstanding maturity period (years)		Number	
\$0.87	1,542,998	0.50		1,542,998	
\$1.31	150,000	0.75		150,000	
\$2.75	50,000	0.92		50,000	
\$6.80	1,000,000	1.33		1,000,000	
\$4.85	10,000	2.00		10,000	
\$3.95	200,000	2.00		200,000	
\$3.82	200,000	2.08		200,000	
\$3.85	200,000	2.08		200,000	
\$3.52	300,000	2.08		300,000	
\$3.05	200,000	2.17		200,000	
\$2.49	100,000	2.17		100,000	
\$3.98	200,000	2.25		200,000	
\$1.18	50,000	2.42		50,000	
\$0.60	200,000	2.50		200,000	
\$0.87	90,000	2.67		82,000	
\$2.14	60,000	3.08		56,000	
\$2.58	215,000	3.42		129,000	
\$1.00	1,200,000	3.92		660,000	
\$0.60	200,000	4.42		40,000	
	6,167,998	2.04		5,369,998	

a) Transactions during the year ended June 30, 2011:

During the year ended June 30, 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.

b) 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.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

22. Stock option plan (cont'd):

c) Compensation costs:

For the year ended June 30, 2011, compensation costs related to the stock option plans amount to \$488,359, of which \$353,882 for employees (\$3,413,576 of which \$2,078,307 for employees, for the year ended June 30, 2010).

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:

	2011	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

23. Warrants:

The following table summarizes the changes in the warrants position for the years ended June 30, 2011 and 2010:

	2011		2010	
	Numer of Warrant	Amount	Number of Warrant	Amount
Balance, beginning of year	3,878,000	\$ 3,348,000	-	\$ -
Granted	3,558,866	531,813	3,878,000	3,348,000
Exercised	(2,500)	(2,450)	-	-
Balance, end of year	7,434,366	\$ 3,877,363	3,878,000	\$ 3,348,000

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

23. Warrants (cont'd):

The following table summarizes the outstanding warrants as at June 30, 2011:

Exercise Price	Number	Weighted average outstanding maturity period (months)
\$3.00	3,575,500	16
\$1.00	300,000	17
\$0.60	3,133,792	33
\$2.00	425,074	22
	7,434,366	

a) Transactions during the year ended June 30, 2011:

- i) 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.
- ii) Issuance, simultaneously with the issuance of 850,148 Class A shares, of 425,074 warrants allowing the purchase of 425,074 Class A shares at a price of \$2.00 per share until April 2013. A value of \$68,012 was attributed to these warrants by using the Black & Scholes pricing model.

b) Transactions during the year ended June 30, 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.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

24. Accumulated other comprehensive loss:

The changes that occurred during the year ended June 30, 2010 were as follows:

	2011	2010
Balance, beginning of year	\$ (1,285,522)	\$ (166,928)
Unrealized gain (losses) on translation of financial statements of self-sustaining foreign operations	253,309	(1,118,594)
Balance, end of year	\$ (1,032,213)	\$ (1,285,522)

25. Commitments:

- a) As at June 30, 2011, the balance of the commitments included under the terms of leases for the rental of its business premises, maturing in 2020, totals \$6,345,547. Rental payments of \$838,419 were recorded during the year (\$679,004 as at June 30, 2010). Minimum lease payments over the next five years are as follows:

2012	\$ 1,284,280
2013	\$ 1,150,440
2014	\$ 884,982
2015	\$ 774,731
2016	\$ 601,195

- 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 June 30, 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. As at June 30, 2011, \$3,150 (\$11,726 as at June 30, 2010) was paid under the terms of this agreement.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

26. Related party transactions:

- a) Year ended June, 30 2011:
 - i) During the year ended June 30, 2011, the Company granted a mandate for the sale of its two buildings held for disposal 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) 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.

27. Capital Management:

The Company's primary objective in managing capital is to maintain an optimal capital base in order to support the capital requirements of its various businesses, including growth opportunities.

In managing its capital structure, the Company takes into account the asset characteristics of its subsidiaries and planned requirements for funds. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand.

Since the last financial year, the Company has not significantly changed its strategy regarding the management of the capital structure of its continuing operations.

The capital structure of the Company is composed of shareholders' equity, bank loans, long-term debt, convertible debentures, liabilities related to derivative financial instruments, less cash, cash equivalents and short term investments.

The Company met all of its long term debt covenants and is not subject to any externally imposed capital requirements.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

28. Financial instruments:

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

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

a) Interest rate risk:

Interest rate risk is the risk the fair value or the future cash flows of a financial instrument fluctuate due to change in market interest rates.

As at June 30, 2011, a 0.5% decrease or increase of the interest rates and assuming that all other variables remain constant, would not have had a significant impact on the Company's loss and comprehensive loss for the year ended June 30, 2011 and the year ended June 30, 2010.

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

b) Currency risk:

Currency risk is the risk that the future cash flows of foreign currency financial instruments will fluctuate due to changes in the foreign exchange rate of the Canadian dollar against the foreign currencies.

The Company is exposed to exchange risk due to its exports of goods manufactured in Canada and sold into the United States, Europe, Asia, Latin America and the Middle-East. These risks are partly offset by its purchases of goods in US dollars.

The Company is exposed to currency risk on its financial instruments denominated either in US dollars or Euros, as shown in the following table:

	<u>US</u> June 30 2011	<u>US</u> June 30 2010	<u>Euro</u> June 30 2011	<u>Euro</u> June 30 2010
Cash	\$ 16,368	\$ 60,267	\$ 461	\$ 16,835
Accounts receivable	114,997	450,257	557,247	511,309
Accounts payable	268,180	510,635	819,456	6,929

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

28. Financial instruments (cont'd):

b) Currency risk (cont'd):

Based on the above exposures as at June 30, 2011, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the American dollar and Euro would result in a decrease or increase in the Company's net loss and comprehensive loss of approximately \$115,000.

c) Counterparty credit risk:

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

Accounts receivable credit risk is mitigated through established credit management techniques, including conducting financial and other assessments to establish and monitor a customer's creditworthiness, setting customer limits and monitoring exposures against these limits. The Company establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts related to continuing operations amounted to \$70,620 as at June 30, 2011 (\$893,232 as at June 30, 2010).

Surplus cash is only invested with counterparties meeting minimum credit quality requirements and issuer and concentration limits. Derivative transactions are executed only with approved high-quality counterparties under master netting agreements. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis.

The Company's maximum counterparty credit exposure at period end consists of the carrying amount of cash, accounts receivable and derivative instruments.

d) Liquidity risk:

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

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

28. Financial instruments (cont'd):

d) Liquidity risk (cont'd):

The following are the undiscounted contractual maturities of financial liabilities as at June 30, 2011:

	Maturities			
	Total \$	Less than 1 year \$	2 years \$	More than 2 years \$
Term note	90,000	90,000	-	-
Accounts payable and accrued liabilities	4,514,015	4,514,015	-	-
Long-term debt	624,086	350,345	146,808	126,933

e) Fair value:

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

The fair value of the term loans that bear interest at the prime rate plus 1.5% with a carrying value of \$355,367 corresponds to their book values as a result of the variable interest rates associated with these loans.

The book value and the fair value of other financial assets and liabilities at year end are summarized as follows:

	Level	June 30, 2011		June 30, 2010	
		Book value	Fair value	Book value	Fair value
Short-term investments	1	\$ 1,146,201	\$ 1,146,201	\$ 2,145,631	\$ 2,145,631
Long-term debt	N/A	\$ 624,086	\$ 617,950	\$ 1,279,080	\$ 1,245,006
Non-current liabilities held for sale	N/A	\$ 1,755,056	\$ 1,755,056	\$ 1,977,264	\$ 1,977,264

Methods and assumptions by which the fair value of each financial instrument was estimated are as follows:

i) Short-term investments:

The fair value is determined using the market value.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

28. Financial instruments (cont'd):

e) Fair value (cont'd):

ii) Long-term debt:

The fair value is determined using the discounted future payments of principal and interest as mentioned in the loan agreements using interest rates that the Company can actually obtain on the market for the same or similar instruments.

29. Segmented information:

Following the discontinued operations of the Bolduc Leroux Inc. subsidiary, management has determined that the Company exercise its activities in five significant segments, which are masks, filtrations, sanitizers, medical equipment and 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 of operations and the assets of each segment:

	2011	2010
Revenues from external clients:		
Medical equipment	\$ 10,654,659	\$ 8,834,220
Sanitizers	718,843	2,551,461
Masks	27,892	1,390,295
Filtration	2,895,294	2,331,974
Others	-	2,704
	\$ 14,296,688	\$ 15,110,654
Income (loss) before amortization, financial fees and income taxes:		
Medical equipment	\$ 1,493,429	\$ 251,250
Sanitizers	(2,861,050)	(2,740,748)
Masks	(2,632,923)	(2,266,232)
Filtration	(2,054,417)	(1,685,215)
Others	(4,763,560)	(7,995,480)
	\$ (10,818,521)	\$ (14,436,425)

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

29. Segmented information (cont'd):

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

	2011		2010	
Amortization:				
Medical equipment	\$	905,213	\$	777,585
Sanitizers		106,499		123,808
Masks		70,700		70,419
Filtration		244,965		290,585
Others		1,053,867		1,155,877
	\$	2,381,244	\$	2,418,274
Interest expense:				
Medical equipment	\$	55,030	\$	49,385
Sanitizers		25,905		17,993
Masks		7,369		(5,644)
Filtration		48,698		29,901
Others		50,063		110,271
	\$	187,065	\$	201,906
Income taxes:				
Medical equipment	\$	21,045	\$	(260,439)
Sanitizers		-		-
Masks		-		-
Filtration		(240,587)		(93,914)
Others		(70,390)		(76,456)
	\$	(289,932)	\$	(430,809)
Net income (loss) from continuing operations:				
Medical equipment	\$	585,975	\$	(555,879)
Sanitizers		(3,905,721)		(4,441,996)
Masks		(2,648,470)		(2,510,416)
Filtration		(1,988,163)		(1,980,110)
Others		(6,532,333)		(10,874,190)
	\$	(14,488,712)	\$	(20,362,591)
Assets:				
Medical equipment	\$	11,965,740	\$	8,769,811
Sanitizers		4,663,007		7,491,135
Masks		3,103,363		4,754,039
Filtration		9,843,446		9,685,677
Others		2,288,204		4,845,933
Assets held for sale		3,814,776		7,128,515
	\$	35,678,536	\$	42,675,110

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

29. Segmented information (cont'd):

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

	2011	2010
Fixed asset additions:		
Medical equipment	\$ 619,314	\$ 554,622
Sanitizers	4,971	34,813
Masks	13,245	91,944
Filtration	745,370	14,705
Others	472,565	233,871
	\$ 1,855,465	\$ 929,955

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

	2011	2010
Canada	\$ 5,236,254	\$ 5,053,309
France	2,529,891	2,398,505
Algeria	383,350	340,228
Luxembourg	593,636	516,034
Taiwan	578,630	577,893
China	137,941	127,042
	\$ 9,459,702	\$ 9,013,011

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

	2011	2010
Canada	\$ 3,716,106	\$ 4,799,919
Latin America	544,318	345,494
United States	659,854	447,361
Europe	3,824,242	4,886,595
Africa and Asia	5,552,168	4,631,285
Total revenues	\$ 14,296,688	\$ 15,110,654

Revenues were broken down by geographic area based on the location of customers. No customer represented more than 10% of total revenues in 2011 and 2010.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

30. Income taxes:

- a) The provision for income taxes differs from the amount calculated using the statutory tax rate for the following reasons:

	2011	2010
Income taxes at the statutory tax rate of 29.15% (30.40% in 2010)	\$ (4,307,975)	\$ (6,321,194)
Unrecorded tax benefits	3,236,249	3,257,780
Difference between statutory rates in Canada and rates applicable to foreign subsidiaries	82,809	236,954
Non deductible stock based compensation	142,389	1,037,727
Others	556,596	1,357,924
	\$ (289,932)	\$ (430,809)

- b) Future income taxes are as follows:

	2011	2010
Future income tax assets:		
Losses carried forward	\$ 14,086,575	\$ 11,680,070
Fixed assets and other assets	861,081	472,885
Deferred financing costs	218,149	407,763
	15,165,805	12,560,718
Less valuation allowance	(14,967,559)	(12,541,294)
Future income tax assets recognized	\$ 198,246	\$ 19,424
Future income tax liabilities:		
Excess of capital cost allowance over amortization accounted for in the books for fixed assets and intangible assets	\$ 748,798	\$ 830,291
Future income tax liabilities recognized	\$ 748,798	\$ 830,291
Net future income taxes liabilities	\$ 550,552	\$ 810,867

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

30. Income taxes (cont'd):

c) The tax benefits of the Company are as follows:

Tax losses carried forward amount to approximately \$44,804,000 at the federal level, approximately \$45,353,000 at the provincial level and approximately \$6,259,000 in foreign jurisdictions. No amount has been recognized as future income tax assets during the year except those for S.A.S E.C.M. and Épurair Inc. These tax losses will expire as follows:

	Federal	Provincial
2014	\$ 850,000	\$ 847,000
2015	188,000	187,000
2026	2,819,000	3,304,000
2027	4,161,000	4,058,000
2028	7,419,000	7,448,000
2029	6,978,000	7,039,000
2030	11,861,000	11,900,000
2031	10,528,000	10,570,000
	<u>\$ 44,804,000</u>	<u>\$ 45,353,000</u>

The Company has available a balance of non-deducted research and development expenses that could be used to reduce taxable income in future years of \$2,595,000 at the federal level and \$2,081,000 at the provincial level.

Finally, the Company has an amount of \$648,000 of investment tax credits that can be used to reduce federal taxes in the future. This credit has not been recorded.

31. 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.

32. Subsequent event:

a) On July 1st, 2011, the Company sold 30% of its shares in its subsidiary Noveko Algérie in consideration of \$188,011 to an officer thereof, to comply with the new regulations under the new Algerian *Code des marchés publics*.

NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements (cont'd)

Years ended June 30, 2011 and 2010

32. Subsequent event (cont'd):

- b) On July 26, 2011, the Company obtained an interim financing in the amount of \$670,000 from Company directors, management and insiders. This interim financing was in the form of convertible debentures bearing interest at an annual rate of 12%.

- c) On September 28, 2011, the Company closed a \$6 million financing consisting of a \$4 million credit facility and \$2 million of convertible debentures. The credit facility is for a maximum amount of \$4 million for a twenty four-month period from the closing. Both the credit facility and the debentures will bear interest at an annual rate of 12%. The debenture holder shall have the right, at its sole discretion and at any time during the term, to convert the principal of the debentures into Class A shares of the Company, at a conversion price of \$0.60 per share. All advances under the credit facility, as well as the remaining non-converted portion of the debentures, shall be reimbursed by the Company twenty four months after closing. To secure its obligations under the credit facility and the convertible debentures, the Company has granted hypothecs on all its assets, including the shares it holds in its subsidiaries. In addition, The Company's Canadian subsidiaries have each granted hypothecs on all their respective movable and immovable assets.

33. Comparative figures:

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