



Interim Management's Report

Third Quarter 2011

Three-Month and Nine-Month Periods Ended March 31, 2011

May 11, 2011

Management's Report

1. PURPOSE AND BASIS OF PRESENTATION

The Management's Report is designed to assist investors in understanding the nature and the importance of the changes and trends, as well as the risks and uncertainties associated with the operations and financial position of Noveko International Inc. (the "Company"). This Management's Report presents an analysis of the Company's operations for the third quarter and the nine-month period ended March 31, 2011 (the "third quarter of 2011" and the "first nine months of fiscal 2011", respectively), in comparison with the corresponding periods ended March 31, 2010 (the "third quarter of 2010" and the "first nine months of fiscal 2010", respectively), as well as an analysis of its balance sheet, cash flows and changes in financial position between those dates. The Management's Report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the third quarter of 2011. It should be noted that these financial statements have not been reviewed by the external auditor.

Supplementary information about the Company, including its Annual Information Form for the fiscal year ended June 30, 2010, annual reports, management's reports on previous interim periods and press releases, is available on the Company's website (www.noveko.com) and on SEDAR (www.sedar.com).

In this Management's Report, unless otherwise indicated or required by the context, "Noveko International", "the Company", "we", "us", "our", "our Company", "the Group" and "our Group" designate, as the case may be, Noveko International Inc. or Noveko International Inc. and its subsidiaries, and "Noveko" designates Noveko Inc., a subsidiary of the Company. The Company's other subsidiaries are designated as follows: "ECM" for S.A.S. E.C.M., "Epurair" for Epurair Inc., "Magnum" for Magnum Pharmaceuticals Inc., "Noveko Algérie" for SARL Noveko Algérie, "Noveko Beijing" for Noveko (Beijing) Hi-Tech Development Limited, "Noveko Taiwan" for Noveko Taiwan Co., Ltd., "Noveko Trading" for Noveko Trading 2008 LLC, "Purer Life" for Purer Life Technology Co., Ltd. and "BLI" for Bolduc Leroux Inc. Also, the fiscal year ending June 30, 2011 and those ended June 30 of prior years are sometimes designated by the terms "fiscal 2011", "fiscal 2010" and so on.

The information contained in this Management's Report accounts for any major event occurring up to May 11, 2011, the date on which the Board of Directors approved the unaudited consolidated financial statements and Management's Report for the third quarter of 2011. It presents the Company's status and business context as they were, to management's best knowledge, at the time this report was written.

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

Compliance with Canadian GAAP

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

Use of Estimates and Forward-Looking Statements

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

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

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as the financial condition of the economic sectors in which we are involved), operational risks (such as those involved in researching and developing new products and services, risks associated with doing business with partners, product warranty and product liability, risks from regulatory and legal proceedings, risks relating to our dependence on certain key customers and suppliers, human resources, risks resulting from fixed-term commitments and risks associated with production and project execution), financing risks (such as risks relating to liquidity, the access to capital markets and the terms of certain restrictive debt covenants) and market risks (including foreign currency fluctuations, changing interest rates and commodity pricing risk). For further details, the reader is referred to the *Risks and Uncertainties* section of the Management's Report for fiscal 2010. Readers are cautioned that foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed upon forward-looking statements. The forward-looking statements set forth herein reflect the Company's expectations as of the date of this Management's Report and are subject to modifications after this date. Unless otherwise required by applicable securities laws, the Company does not intend to update or review any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements contained in this Management's Report are provided expressly under this warning.

2. DESCRIPTION OF THE COMPANY

Profile of the Company

Noveko International offers innovative solutions in the environmental and medical fields worldwide, with the purpose of improving human and animal health and well-being. Through our subsidiaries, we are engaged primarily in the design, development, manufacture and marketing of products incorporating our patented air filtration technologies, specifically air filters, antimicrobial surgical masks and respirators, as well as hand sanitizers with antimicrobial properties and medical equipment, mainly ultrasound scanners for use in human and veterinary medicine.

Operational Overview, Third-Quarter Highlights and Subsequent Events

Strategy

Our primary objectives for upcoming quarters are to increase our market share in our various business segments and to improve our profitability. Our growth strategy is focused on the development and worldwide marketing of our solutions and patented air filtration technologies intended for the air filters and antimicrobial masks and respirators segments, and the design of innovative applications derived therefrom. We are striving to stimulate the development of markets for our hand sanitizers. We also aim to strengthen our leadership in the veterinary medicine market and to increase our presence in the human medicine market with our broader range of new-generation ultrasound scanners.

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

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

Patented Air Filtration Technologies

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

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

Operational Overview

To drive our growth based on our strategic priorities, we are continuing the measures to improve the Group's operational efficiency and to better control operating costs in each of our business segments. We have notably proceeded with the restructuring of certain teams.

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

Sale of the Terrebonne Building: Effective March 31, 2011, we closed the sale of the building located in Terrebonne, Quebec, for a consideration of \$1.3 million. This sale followed the combination of the activities of our head office and the subsidiary Noveko under one roof with a view to optimizing the Group's operations.

Eventual Sale of BLI: The process of divesting BLI continues. The process is taking longer than initially expected because of the weakness of the steel processing market.

Increase in Epurair's Productivity and Production Capacity: In order to meet the expected growth in demand for our filtration solutions, the design, development and production of our subsidiary Epurair have been relocated to larger premises located in Boucherville, Quebec. The acquisition of new cutting-edge equipment has also contributed to significantly increase the new facility's productivity and production capacity.

Financing: On March 16, 2011, we proceeded with a closing of \$2.5 million of units in connection with the offering announced on February 22, 2011. Each unit was offered at a price of \$0.40 per unit and consisted of one (1) Class A share of the Company and one-half of one warrant. Each full warrant entitled its holder to purchase, at a price of \$0.60 per share, one Class A share for a period of 36 months, subject to an acceleration clause. Consequently, 6,267,584 Class A shares were issued and 3,133,792 additional shares could be issued if all the warrants are exercised. The Canadian portion of the private placement was completed without a broker and no commission was paid in this regard. For the portion of the offering completed outside Canada, a cash commission of \$49,000 was paid to a U.S. broker and we issued broker warrants entitling the broker to purchase 122,500 Class A shares of the Company at a price of \$0.60 per share, for a period of 36 months following their issuance, also subject to an acceleration clause.

On April 8, 2011, we terminated the above-mentioned offering, whose issue price no longer reflected the market price of the Company's shares, and initiated a new private placement for a maximum amount of \$4 million of units. Each unit is offered at a price of \$0.70 per unit and consists of one (1) Class A share of the Company and one-half of one warrant. Each full 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 subject to an acceleration clause. On April 29, 2011, we proceeded with a first closing of \$595,104 of this offering. Consequently, 850,148 Class A shares were issued and 425,074 additional shares may be issued if all the warrants are exercised. We remain confident we will achieve our financing objectives as additional closings are expected until May 23, 2011.

Air Filtration Products

Initially targeted to the livestock farm market, especially hog farms, our air filtration solutions have characteristics now valued by several other business segments, notably the transportation industry and the real estate market, including office buildings, commercial and multi-purpose buildings and healthcare facilities. In addition to the properties specific to Noveko's patented antimicrobial technologies, the membranes manufactured by our subsidiary Purer Life incorporate a patented weaving technology featuring a three-dimensional configuration that set them apart as a cost-effective and eco-friendly solution. Noveko™ filters offer superior filtration capacity and durability, while putting less restriction on ventilation, thereby requiring less power from ventilation systems. They are also cleanable and recyclable, significantly reducing the number of filters used and the costs associated with their replacement and the elimination of waste. It is notably the incorporation of antimicrobial agents into our filter fibres, protecting them against deterioration due to the action of microorganisms, that accounts for their cleanability and durability. The combination of all these features makes them an ideal solution for any user in connection with a sustainable development strategy. The major breakthroughs achieved during fiscal 2011 in these high-potential markets attests to the great interest in our green filtration technologies in the air filters segment, which should represent our primary growth driver over the medium and long term.

Air Filters for the Transportation Industry

First Agreement for a Train in North America

In April 2011, we signed a three-year agreement with Kinkisharyo International, L.L.C. ("Kinkisharyo"), pursuant to which Kinkisharyo will lease Noveko™ filters to equip the entire fleet of the Hudson-Bergen Light Rail Line in New Jersey. The Hudson-Bergen Line electrically-powered and air-conditioned vehicles were designed and manufactured by Kinkisharyo, which also carries out all their maintenance under a long-term contract. The Hudson-Bergen Line provides transit services linking many communities in New Jersey and, via the Port Authority Trans-Hudson (PATH), connects them to Manhattan in New York City.

This agreement is the outcome of the conclusive tests conducted on the Hudson-Bergen system, which demonstrated that the filtration capacity of the Noveko™ filters was not affected despite more than four months of use without cleaning. This represents a major advantage for the operator as, until then, the traditional filters it previously used had to be replaced every two months. Noveko™ test filters are still being used on the systems to further demonstrate their longer durability. We believe this agreement with Kinkisharyo once again showcases the value associated with the distinctive features of our green filtration solutions and paves the way for our continued penetration of an extensive market. Kinkisharyo is the largest supplier of low-floor light rail vehicles in North America and the North American subsidiary of Japan-based Kinki Sharyo Co., Ltd. Its light rail vehicles can be found in other cities in the United States, including Boston, Seattle, Dallas, Santa Clara and Phoenix. This group's international activities include various railcar operations in Dubai, Egypt, Hong Kong, Singapore, the Philippines and Japan.

Ongoing Tests in Rail Transportation

In cooperation with various transportation bodies, we are conducting further adaptability trials on several systems, including subway cars, trains, tunnels and subway stations in various major cities in North America. In this context, the process with Bombardier Transportation is also continuing and the representatives of the two companies are working to ensure that the agreement binding them materializes. We do not expect the partnership with Bombardier Transportation to generate significant revenues between now and the end of fiscal 2011, but we believe the various tests currently underway will gradually yield agreements and revenues that will prove more substantial over the medium term. We reiterate that the goal of this partnership is to ensure that our filtration solutions eventually become the standard for all of Bombardier Transportation's clients, both those for which it manufactures rail vehicles and those for which it ensures the maintenance – the latter covering rail vehicles it manufactures as well as those made by other manufacturers. Bombardier Transportation has also started to include our filtration solutions in bids for the construction of new railcars. However, it could take several months for the outcome of such calls for tenders to become known.

As our filtration solutions change the traditional business model and the operational practices of users of both the transportation and real estate segments, a normal process of adopting the product is underway by users and will take some time. Indeed, we are only at the beginning of the life cycle of our innovative solutions, more specifically the launch phase in the rail transportation industry. While the previously referred-to trials in a real environment are going well, several teams at the various players and solicited users are involved in the process. Furthermore, we are in talks with various transportation bodies interested in our technologies.

At the end of April 2011, the Société de transport de Montréal (the "STM") opted for Noveko™ filtration solutions to equip the transportation centres housing its vehicle operation and maintenance related activities. To that end, we entered into two first agreements with the STM covering the supply and cleaning of filters for the Anjou and St-Denis transportation centres. This initial collaboration follows a period of conclusive tests conducted at the Anjou transportation centre. Noveko™ filters could also be used in the STM's other transportation centres and buildings to further reduce its ecological footprint. In 2010, the STM ensured more than 390 million bus, metro and paratransit trips in the Montreal area, representing approximately 70% of the public transit in Quebec. It also received the American Public Transportation Association award as Outstanding Public Transportation System in North America.

Aeronautics Segment: Final Phase toward Certification

Jointly with Industrielle du Ponant, we have completed most of the prerequisite tests to obtain "STC" certification from Transport Canada. These tests all proved highly conclusive. We are now in the final phase of the process as we are conducting the last series of tests needed to complete the file. In this regard, we believe we could obtain STC certification at the beginning of fiscal 2012, which would pave the way for the commercialization of our filtration technologies in the aeronautics market. Thus, we do not anticipate any revenues in this regard for fiscal 2011. However, various airlines, including Air Transat, have already shown an interest in equipping their aircraft with our filters.

Air Filters for Buildings – Institutional, Commercial and Residential Markets

We made considerable progress during fiscal 2011 as Noveko's filtration solutions achieved significant advances in the North American, European and Asian real estate markets.

Breakthroughs in the U.S., European and Asian Real Estate Markets

In March 2011, we made our first sale to the U.S. real estate market, as Noveko™ filters are in the process of being installed in a luxury condominium tower, located in the Upper East Side in New York City. In April 2011, we strengthened our position in the U.S. market by entering into an agreement with HTS New York, a leader in heating, ventilation and air-conditioning ("HVAC") equipment integration. Pursuant to this three-year agreement, HTS New York will purchase our filtration solutions to incorporate them into its HVAC systems offering. Even though their focus is New York, HTS' teams also work throughout the United States and Canada in numerous vertical markets such as healthcare, laboratories, heat-recovery technologies, as well as luxury hospitality and high-rise construction.

In Europe, the Hilton Luxembourg Hotel is now completely equipped with our filtration solutions. We have also closed a sale of filters for an office building in Switzerland through a new distributor. Our energy-efficient solutions are attracting great interest in Europe, where energy-related costs are particularly high. Furthermore, a first order of filtering membranes has been won as part of an agreement entered into with the Taiwanese company JJMR-Clean-Air Solution, specializing in the production of filters for manufacturers of semi-conductors and LCD screens.

Noveko™ filters are being installed for pre-sale testing purposes in some of the most prestigious large-scale buildings worldwide, in New York, Dubai, Taipei, Geneva and Paris.

Noveko Keeps Up its Momentum in the Greater Montreal Area

The portfolio of Montreal area buildings that have opted for Noveko™ air filtration solutions continues to grow. About 10 office and commercial buildings are currently equipped with Noveko™ filters. Furthermore, about 30 bids are under review for the Montreal area alone. In this regard, the agreement entered into in December 2010 with Distinction Group Inc., through its subsidiary Montcalm Technical Services (hereinafter collectively referred to as "GDI"), should stimulate our sales in this segment. It is expected that for a minimum of three years, GDI will purchase or lease our filtration solutions to gradually equip the buildings for which it ensures the ventilation-related services. Our teams are working jointly with those of GDI to ensure that the bids tendered to major property owners in the Greater Montreal Area progressively yield concrete agreements.

Conclusive Experience: A Sustainable Solution

Our business model in this market, based on the signing of agreements for three-year periods, stands apart from the business model related to traditional filters, which is rather based on one-time orders, generally without a commitment to any particular supplier. The longer-term commitment of the users of our filtration solutions, which is moreover based on their special features, thus ensures us of recurring revenues and the loyalty of our clientele. Furthermore, the results of tests conducted on our filters installed for over 12 months in buildings in the Greater Montreal Area confirmed their distinctive features. Indeed, the experience at our trial clients allows us to affirm that after more than one year of use, our filters still required no cleaning and retained their filtration capacity. Such tests also proved that Noveko™ filters enable users to achieve ventilation systems related energy savings of approximately 10% to 15%. It was also shown that the filters could easily be cleaned on-site.

The energy savings and the reduction in filtration waste arising from the use of our cleanable and recyclable filtration solutions make them particularly important advantages for building owners seeking to obtain the certifications recognizing responsible environmental management and the design and construction of sustainable buildings, such as the LEED, ISO 14001 and BOMA BESt (*Building Environmental Standards*) certifications. Moreover, we are in active talks with other real estate parties interested in our filtration solutions and are confident that the marketing of our air filters in this segment will further accelerate in upcoming quarters.

Air Filters for Farm Buildings

While the economic health of the swine industry remains fragile, industry leaders increasingly recognize that changes are needed in the area of production planning to ensure that a sustainable management model is implemented for farmers. In this respect, we believe we are well positioned for producers to adopt our antimicrobial filtration solutions, particularly with our new-generation filters that are installed directly on air diffusers in farm buildings. This new filter configuration, easily adaptable to building structures, features the advantage of eliminating most of the costs related to their installation, making them a more cost-effective option. We have also re-engineered our filters designed for building air intakes to reduce their production costs, while also offering, more affordably, the same level of protection against the airborne spread of pathogens. Aimed at an expanded client base, these new-generation filtration solutions are attracting considerable interest from a number of hog farmers and are now recommended by veterinarians as a key feature of bio-safety programs. Furthermore, the Epurair plant's greater productivity enabled us to complete, during the third quarter of 2011, the delivery of the filters designed for the Villa Vista Farms' 14 buildings as part of a contract worth close to a quarter million dollars. Founded in 1967, Villa Vista Farms stand out as a breeding benchmark in the Ontario swine industry. We are also pursuing our targeted market development initiatives, especially in North America, and are currently in talks with several other hog farmers.

EPURAIR Products

Epurair designs and sells air filtration systems for furnaces and air-conditioners, air exchangers and air purifiers for the residential and commercial markets. Integrating the Epurair and Noveko technologies also allows us to develop promising new products. A new filter model targeted to the residential market and featuring antimicrobial agents is now available as well.

Antimicrobial Masks and Respirators

Several factors slowed down the marketing of our masks and respirators in recent quarters and account for our much lower sales than in the corresponding periods of fiscal 2010, as they had benefited from the A (H1N1) influenza pandemic prevailing at that time.

The production and execution challenges, described in further detail in our management's reports for previous quarters, caused notably by the hazards of pandemic threats as well as numerous regulatory obstacles inherent to products considered as medical equipment with antimicrobial properties, made us reconsider our strategic priorities for the marketing of our masks and respirators. In this regard, we reiterate that the conclusion of partnerships is our preferred business model to drive the development, production and marketing of our antimicrobial filtration technologies. Thus, although we are directly pursuing some commercialization activities as well, we are now focusing further efforts on the search for partners. Our ultimate goal, over the medium and long term, is to grant manufacturing and commercialization licences to our intellectual property. We are confident that this is a sustainable marketing strategy that is also better aligned with our corporate mission and should also allow more efficient use of our capital resources. To that end, we are still in talks with various parties – membrane producers, mask assemblers and distributors alike – and thereby hope to further stimulate our market development and the commercialization of our technologies in this segment. Despite the delays encountered in implementing our business plan in this regard, the interest shown by various parties confirms that the gains in brand awareness achieved by our products since more than a year ago are due primarily to the differentiation associated with our antimicrobial technologies. Our sales teams who participated in the Medica Trade Fair in Germany in December 2010 and the Arab Health Conference held in Dubai last January, among the most important events in the healthcare field worldwide, confirm the potential these markets represent for our products. However, it is difficult to foresee how long it will take for new commercialization agreements to materialize and for our sales to pick up in this segment. This recovery could also depend on the significant inventories accumulated industry-wide and on obtaining the required approvals to bring them to market. We therefore do not anticipate any significant revenues in this regard for fiscal 2011.

Certification Processes

Our model of Noveko™ RD2 antimicrobial respirators having obtained FFP2 classification in conformity with standard EN 149:2001+A1:2009 at the beginning of the fiscal year, we expect to shortly bring it to market in Europe. This certification should also facilitate the marketing of respirators in several other territories that recognize European standards *de facto*.

During the third quarter of 2011, an application for certification of a Noveko™ respirator model without any antimicrobial agent was submitted to the US National Institute for Occupational Safety and Health (“NIOSH”). The certification process with NIOSH is currently underway. Through this process, we hope to show buyers seeking NIOSH recognition in their purchasing decision that our respirators – with or without antimicrobial agents – meet the NIOSH’s filtration criteria, even though their marketing in the United States remains subject to obtaining FDA certification.

Concurrently with this process, we are pursuing the tests and obtaining the required performance data to draw up the file to support a future 510(k) submission in order to meet both the FDA’s requirements and our marketing imperatives. Our objective is to file such an application by the end of fiscal 2011. In this context, and in line with our strategy of teaming up with partners in order to stimulate the development and marketing of our technologies, we are continuing talks with certain large-scale corporations. We are looking into various partnership opportunities that would facilitate the development of antimicrobial masks and respirators meeting all these requirements.

Sanitizers

As explained in the previous section and our prior management’s reports, several factors also slowed down the marketing of sanitizers and account for the fact that our sales were lower than in the corresponding period of fiscal 2010, which posted a major increase in the pandemic context. Despite these execution delays, we believe that the increased awareness of governments, institutions and the general population as to the importance of maintaining good hand hygiene, as well as the efforts to reduce infections and the spread of viruses and bacteria, will continue to have a positive impact on the demand for sanitizers over the long term.

In this context, we continue to prioritize the most promising hospital and institutional markets for our hand sanitizers, while continuing our efforts to further stimulate our sales in the retail market. Although we are witnessing a certain resumption of our marketing activities in this segment, both directly and through our distribution partners, that could take longer than expected due notably to the significant inventories accumulated at all levels of the supply chain industry-wide.

In order to drive our sales of sanitizers, we recently launched a new compact format concept targeted to the private brand niche, notably in the foodservices, hospitality and aviation fields. We are also still in talks with various partners interested in our products.

Medical Equipment

Ultrasound Scanners

Although the swine and bovine industries remain fragile, ECM is successfully maintaining its dominant presence in portable ultrasound scanners for use in veterinary medicine with both its Agrosan™ line of ultrasound scanners and its new-generation ultrasound scanners. ECM also continues to strengthen its market positioning in ultrasound scanners for use in human medicine by partnering with new distributors. In this regard, we point notably to the exclusive distribution agreement entered into during the first quarter of 2011 with the Chinese company Ningbo Xingaoyi Magnetism Co., Ltd (“NXM”). Under this agreement, which has an initial term of three years, NXM has committed to purchase ultrasound scanners for use in human medicine in China, notably the Imagyne™, all for a value of 5.7 million Euros, of which 900,000 Euros are expected the first year. Despite some delays in the delivery of our Imagyne™ ultrasound scanners during the third quarter of 2011, the recently taken corrective measures will enable us to make up these delays and to meet our sales objectives. Remember that the Imagyne™ ultrasound scanner will also be designed for use in veterinary medicine, but to a lesser extent.

ECM also continues to achieve breakthroughs in the equine market with its Exago™ ultrasound scanner, which has enjoyed considerable success since its launch a year ago. Remember that at the beginning of the year, ECM had been awarded contracts representing more than \$4 million over a three-year period by key players in the North American veterinarian medicine field. The Exago™, initially designed for the equine market and, to a lesser extent, for the pets market, is now also intended for use in human medicine, especially for emergency, anaesthesia and army needs. In fact, during the second quarter of 2011, ECM was authorized to affix CE Marking on the Exago™ and started its first deliveries targeted to human medicine. During the fourth quarter of 2011, ECM plans to launch the Exagyne™ (as it were the portable version of the Imagyne™). It will thereby offer a complete line of ultrasound scanners responding to various clinical applications, thereby driving further penetration of the human medicine market. Its network of exclusive distributors for the human medicine market now extends to more than 30 countries.

Noveko Algérie

Noveko Algérie continues to reap the benefits of supplying various medical devices, notably with orders targeted to the Algerian National Office of Equipment and Accessories for Handicapped People. It expects that the healthcare promotion in Algeria will further stimulate its medical equipment import activities and pave the way for promising breakthroughs for all our products.

3. SELECTED CONSOLIDATED QUARTERLY INFORMATION

Three-Month and Nine-Month Periods Ended March 31, 2011 and 2010

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

	Three Months		Nine Months	
	2011 ⁽¹⁾	2010	2011 ⁽¹⁾	2010
Revenues from continuing operations	3,415	2,927	11,187	12,215
Gross margin	1,376	1,081	4,545	5,023
Loss before amortization, financial expenses, income taxes, other items and discontinued operations ⁽²⁾	(2,052)	(3,716)	(6,347)	(10,226)
Loss from continuing operations	(2,643)	(4,678)	(8,310)	(12,979)
Loss from discontinued operations ⁽³⁾	(88)	(519)	(276)	(1,365)
Net loss	(2,731)	(5,197)	(8,586)	(14,345)
Loss per Class A share (basic and diluted)				
Continuing operations	\$ (0.03)	\$ (0.06)	\$ (0.10)	\$ (0.18)
Discontinued operations ⁽³⁾	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)
Net loss	\$ (0.03)	\$ (0.07)	\$ (0.10)	\$ (0.20)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	85,940	75,916	82,077	72,678

Balance Sheet Data	March 31 2011	June 30 2010
Total assets	42,301	42,675
Shareholders' equity	33,049	33,063
Total interest-bearing debt ⁽⁴⁾	506	1,446
Non-current liabilities for sale ⁽⁵⁾	1,589	1,753
Cash, cash equivalents, short-term investments and deposit in trust	2,874	2,873

- 1) The consolidated financial statements include the accounts of the Company and of its subsidiaries, all wholly-owned as at March 31, 2011.
- 2) Including stock-based compensation of \$110,158, \$599,139, \$547,909 and \$3,049,927 for the respective periods of fiscal 2011 and fiscal 2010, which has no impact on the cash balance.
- 3) Related to BLI's and Magnum's operations for the third quarter of 2010, but solely to BLI's operations for the third quarter of 2011.
- 4) Including long-term debt and its current portion, as well as bank loans, excluding BLI.
- 5) Related to BLI.

4. OPERATING RESULTS

Analysis of Consolidated and Segmented Operating Results for the Third Quarter of 2011 Compared with the Third Quarter of 2010

Our segmented information is reported based on the following business segments: medical equipment (“medical equipment”), sanitizers (“sanitizers”), antimicrobial surgical masks and respirators (“masks”), filtration products (“filtration”) and other activities consisting primarily of the activities of the parent company, Noveko International, and of Noveko Trading (“other”). Furthermore, the results of operations of BLI have been withdrawn from continuing operations to be treated as discontinued operations in the Company’s financial statements. The assets and liabilities related to BLI have been reclassified as assets and liabilities held for sale. As Magnum proceeded with a voluntary assignment of its assets effective June 2, 2010, its results of operations are also treated as discontinued operations in the Company’s financial statements for the periods ended prior to that date. As for the assets and liabilities related to Magnum, they no longer appear in the Company’s financial statements subsequent to the voluntary assignment of its assets.

Consolidated and Segmented Revenues from Continuing Operations (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
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
Total	\$ 3,414,831	\$ 2,927,450	\$ 11,187,310	\$ 12,214,853

Consolidated revenues for the third quarter of 2011 grew by \$0.5 million or 17% to \$3.4 million. This growth is due mainly to the \$0.6 million or 28% increase in sales of medical equipment. Noveko Algérie recorded a substantial sales growth of \$0.4 million or 77% for the quarter; and sales of portable ultrasound scanners posted an increase of \$0.2 million or 13% stemming primarily from the veterinary medicine market. To this increase was also added a growth in filtration product revenues of \$0.3 million or 52% over the third quarter of 2010, reflecting the advances achieved in the hog market, primarily the sales to the Villa Vista farms, plus the sales increase in the institutional and commercial markets where the recognition of revenues generally extends over the term of the leasing agreements. Sales of masks and sanitizers declined by \$0.2 million or 95% and by \$0.1 million or 61%, respectively, from the third quarter of 2010, which still benefited from the consequences of the pandemic context prevailing until the beginning of that period. Signs of a recovery of our commercialization activities have been seen in the sanitizers segment, as attested to by the recent orders from hospitals, although it could take longer than expected to materialize due notably to the significant inventories accumulated industry-wide. In the masks segment, we believe we can stimulate the marketing of our technologies thanks notably to the fact that we have obtained European certification for our antimicrobial respirators and to our ongoing talks with a number of parties. However, it is difficult to foresee how long it will take for new commercialization agreements to materialize and for our sales to pick up in this segment. For further details in this regard, the reader is referred to *Description of the Company – Operational Review – Antimicrobial Masks and Respirators*.

For the first nine months, revenues declined by \$1.0 million or 8%, reflecting reductions in sales of masks and sanitizers of \$1.3 million or 98% and of \$1.8 million or 74%, respectively, stemming from the aforementioned factors. Sales of medical equipment increased by \$1.7 million or 25%, due mainly to the growth of more than \$1.2 million or 27% in ECM’s sales during the period. In ECM’s case, the increase would have been higher – at 48% in Euros – were it not for the depreciation of the Euro against the Canadian dollar, which represented a negative impact of \$1.0 million on our revenues. The growth in ECM’s sales reflects both the breakthroughs in the human medicine market and the ongoing advances in the veterinary medicine market, as further described under *Description of the Company – Operational Review – Medical Equipment*. Revenues from filtration products also posted an increase of \$0.4 million or 26% for the aforementioned reasons.

The operating profit margin for the third quarter of 2011 stood at 40.3%, up from 36.9% for the third quarter of 2010. This slight improvement is due primarily to the better margins posted in the filtration segment. For the first nine months, the operating profit margin stood at 40.6%, compared with 41.1% for the corresponding period of the previous year. Besides the aforementioned factors, this figure reflects the weighting of certain logistics services expenses in a context of lower sales in the masks and sanitizers segments, as well as an increase in the allowance for inventory obsolescence related to the frames of our former filters model targeted to the swine industry.

Selling and administration expenses for the third quarter of 2011 and the first nine months declined by \$0.7 million or 18% and by \$1.6 million or 14%, respectively, to \$3.2 million and \$9.7 million. This reduction partly reflects the cost control measures implemented.

Stock-based compensation charge for the third quarter of 2011 and the first nine months, which is without impact on the Company's cash balance, decreased by \$0.5 million and \$2.5 million, respectively, to \$0.1 million and \$0.5 million. These reductions can be explained by the lower number of options granted in the past quarters, the reduced exercise price for the options issued more recently and the gradual recognition of the stock-based compensation charge.

Research and development expenses for the third quarter of 2011 and the first nine months decreased by \$0.2 million and \$0.3 million, respectively, to \$0.3 million and \$1.0 million, due primarily to the tightening of development costs associated with the masks segment.

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
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)
Other	(1,347,370)	(1,829,804)	(3,734,912)	(6,567,134)
Total	\$ (2,051,510)	\$ (3,715,957)	\$ (6,347,088)	\$ (10,225,911)

Considering mainly the aforementioned factors, **the loss before amortization, financial expenses, income taxes, other items and discontinued operations** was reduced significantly to \$2.1 million for the third quarter of 2011, down by \$1.7 million or 45% from the corresponding quarter of the previous year. For the first nine months, it amounted to \$6.3 million, a decrease of \$3.9 million or 38%, despite a 8% decline in revenues during the period. This major improvement is due primarily to the following factors:

- a major reduction in the stock-based compensation charge of the parent company Noveko International (in the "other" segment) for the previously mentioned reasons;
- improvements in the profitability of Noveko Algérie and ECM as the overall medical equipment segment achieved earnings before amortization, financial expenses and income taxes of \$0.3 million in the third quarter of 2011, an improvement of \$0.4 million over the third quarter of 2010, and earnings of \$1.3 million for the first nine months, an increase of \$0.8 million over the corresponding period of the previous year;
- a reduction in the loss incurred by the sanitizers segment of approximately \$0.8 million for the third quarter of 2011 and \$0.3 million for the first nine months, resulting primarily from the cost tightening measures;
- a reduction in the loss attributable to the masks segment of close to \$0.4 million for the third quarter, mainly reflecting the lower development expenses and stock-based compensation charge. For the first nine months, the segment's loss also declined by approximately \$0.4 million;

- conversely, the filtration segment increased its loss by \$0.4 million and \$0.5 million, respectively, for the third quarter and the first nine months of fiscal 2011, due to an increase in commercialization expenses and the allowance for inventory obsolescence.

Amortization expenses for the third quarter of 2011 remained stable at \$0.7 million, whereas they increased by \$0.4 million for the first nine months. This increase is primarily attributable to the amortization of the expenses related to the development of the Exago™ since its launch in the veterinary market and the increase in amortization expenses related to tangible and intangible assets, including our integrated management system, the implementation of which was completed during the third quarter of fiscal 2010.

Financial expenses less investment revenues represented revenues of \$0.1 million and \$0.2 million respectively for the third quarter and the first nine months of fiscal 2011, compared with expenses of \$0.5 million and \$1.3 million for the corresponding periods of the previous year. These changes are due primarily to the recognition of exchange gains of \$0.1 million and \$0.3 million for the third quarter and the first nine months of fiscal 2011, whereas exchange losses of \$0.6 million and \$1.4 million had been recognized in the same periods of the previous year. To a lesser extent, the reduction in interest on convertible debentures also explains these changes and offsets the decrease in investment revenues.

Net Earnings (Loss) from Continuing Operations (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
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)
Other	(1,431,586)	(2,164,410)	(4,364,949)	(7,816,275)
Total	\$ (2,643,273)	\$ (4,678,031)	\$ (8,309,819)	\$ (12,979,186)

Considering mainly the aforementioned factors, **the net loss from continuing operations** for the third quarter of 2011 and the first nine months decreased significantly from the corresponding periods of the previous year, by \$2.0 million or 44% and by \$4.7 million or 36%, respectively, to \$2.6 million and \$8.3 million.

As detailed in note 6 "Discontinued Operations and Assets Held for Sale" accompanying the consolidated financial statements for the third quarter of 2011, a loss of \$0.1 million from discontinued operations (BLI) was recognized, compared with a loss of \$0.5 million for the corresponding period of the previous year. In this regard, discontinued operations include the accounts of both BLI and Magnum for the third quarter of 2010, but solely the accounts of BLI for the third quarter of 2011. Consequently, the third-quarter **net loss** totalled \$2.7 million, compared with \$5.2 million for the same quarter of the previous year, a major reduction of \$2.5 million or 47%. For the first nine months, a loss of \$0.3 million from discontinued operations (BLI) was recognized, compared with a loss of \$1.4 million for the corresponding period of the previous year. Consequently, **the net loss** for the first nine months totalled \$8.6 million, compared with \$14.3 million for the same period of the previous year, a major reduction of \$5.8 million or 40%.

Considering a net change in unrealized gains on translation of the financial statements of self-sustaining foreign operations of \$0.1 million for the quarter, compared with a net change in realized losses of \$0.7 million for the corresponding quarter of the previous year, a net loss of \$2.6 million represented **the comprehensive loss** for the third quarter of 2011, compared with a net loss of \$5.9 million for the corresponding quarter of the previous year. For the first nine months, a net loss of \$8.3 million represented **the comprehensive loss**, considering a net change in unrealized gains on translation of the financial statements of self-sustaining foreign operations of \$0.2 million, compared with a net loss of \$15.7 million for the corresponding period of the previous year, considering a net change in unrealized losses on translation of the financial statements of self-sustaining foreign operations of \$1.4 million.

The loss from continuing operations and the net loss per Class A share (basic and diluted) for the third quarter of 2011 both amounted to \$0.03 on a weighted average of 85,940,149 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.06 and \$0.07 per share, respectively, on a weighted average of 75,916,023 shares for the third quarter of 2010. For the first nine months, the loss from continuing operations and the net loss per Class A share (basic and diluted) both amounted to \$0.10 on a weighted average of 82,077,304 shares, compared with a loss from continuing operations and a net loss of \$0.18 and \$0.20 per share, respectively, on a weighted average of 72,677,982 shares for the corresponding period of the previous year. The increased weighted average number of outstanding shares is due mainly to the issue of Class A shares related to the private placements completed during the first three quarters of fiscal 2011, as detailed in note 10 accompanying the financial statements for the third quarter.

Principal Quarterly Financial Information

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2011				
Revenues	2,747	5,026	3,415	
Loss from continuing operations	(2,838)	(2,828)	(2,643)	
Comprehensive loss	(2,654)	(3,096)	(2,593)	
Loss per Class A share from continuing operations (basic and diluted)	(0.04)	(0.03)	(0.03)	
Fiscal 2010				
Revenues	4,388	4,899	2,927	2,896
Loss from continuing operations	(3,503)	(4,798)	(4,678)	(7,737)
Comprehensive loss	(4,417)	(5,449)	(5,858)	(9,612)
Loss per Class A share from continuing operations (basic and diluted)	(0.05)	(0.06)	(0.07)	(0.10)
Fiscal 2009				
Revenues	2,014	3,687	2,454	3,257
Loss from continuing operations	(6,057)	(6,526)	(5,216)	(10,003)
Comprehensive loss	(6,957)	(5,506)	(7,062)	(12,865)
Loss per Class A share from continuing operations (basic and diluted)	(0.09)	(0.10)	(0.08)	(0.15)

5. FINANCIAL POSITION

Analysis of Principal Cash Flows for the Third Quarter and Nine-Month Period of Fiscal 2011 (unaudited)

	Three Months		Nine Months	
	Ended March 31		Ended March 31	
	2011	2010	2011	2010
Operating activities:				
Net loss	\$ (2,731,415)	\$ (5,196,538)	\$ (8,586,318)	\$ (14,344,537)
Adjustments for loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, amortization, loss (gain) on disposal of fixed assets, loss (gain) on fair value of short-term investments, goodwill impairment charge adjustment, foreign exchange loss (gain) and adjustments from discontinued operations	890,133	1,710,577	3,147,564	6,448,244
Net change in non-cash balances related to operations	(687,575)	(1,078,267)	(1,633,420)	(3,600,133)
Total	(2,528,857)	(4,564,228)	(7,072,174)	(11,496,426)
Financing activities	1,752,162	(219,003)	6,776,804	13,850,862
Investing activities	86,115	4,702,722	175,686	(1,289,867)
Foreign exchange loss (gain) 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, end of period	\$ 503,306	\$ 1,843,376	\$ 503,306	\$ 1,843,376

For the third quarter of 2011, **operating activities after net change in non-cash balances related to operations** used cash flows of \$2.5 million, compared with a cash outflow of \$4.6 million for the third quarter of 2010. This change is due primarily to the reduction in the net loss, less adjustments for the loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, amortization, loss (gain) on disposal of fixed assets, loss (gain) on short-term investments, adjustment of goodwill impairment loss, foreign exchange loss (gain) and adjustments from discontinued operations. Net change in non-cash balances related to operations for the third quarter of 2011 represented a cash outflow of \$0.7 million, compared with a cash outflow of \$1.1 million for the corresponding quarter of the previous year. For the first nine months, operating activities after net change in non-cash balances related to operations used cash flows of \$7.1 million, compared with a cash outflow of \$11.5 million for the corresponding period of the previous year. Net change in non-cash balances related to operations represented a cash outflow of \$1.6 million, compared with a cash outflow of \$3.6 million for the first nine months of the previous year. These changes for the third quarters and nine-month periods are due primarily to an increase in accounts payable and accrued liabilities.

Financing activities provided cash flows of \$1.8 million, whereas they had used cash flows of \$0.2 million in the third quarter of 2010. This change primarily reflects the \$2.5 million net proceeds from the issue of Class A shares related to the closing of the March 2011 private placement, less the repayment of bank loans and principal on the long-term debt of \$0.8 million. For the first nine months, financing activities provided cash flows of \$6.8 million, compared with a cash inflow of \$13.9 million for the corresponding period of the previous year. This change also reflects the difference between the \$7.8 million net proceeds from the share issues related to the private placements completed since the beginning of fiscal 2011 and the \$15.9 million net proceeds from the issue of Class A shares related to the October 2009 private placement.

Investing activities provided cash flows of \$0.1 million, compared with a cash inflow of \$4.7 million during the third quarter of 2010. This change is due primarily to a net encashment of short-term investments of \$5.0 million in the third quarter of 2010. During the third quarter of 2011, the Company collected an amount of \$1.9 million from the disposal of two buildings, of which \$1.2 million was allocated to deposit in trust. For the first nine months, investing activities provided cash flows of \$0.2 million, whereas they had used cash flows of \$1.3 million for the corresponding period of the previous year. These changes are due mainly to the fact that the Company encashed a net amount of \$1.0 million during the first nine months of fiscal 2011, whereas during the corresponding period of fiscal 2010, and subsequent to the October 2009 private placement, it had acquired short-term investments for a net amount of \$0.4 million. In addition, the Company acquired fixed assets for \$0.4 million and \$1.0 million, respectively, during the third quarter and the first nine months of fiscal 2011.

Consequently, aggregate cash inflows and outflows for the first nine months of fiscal 2011 used **net cash flows** of \$0.1 million, whereas they had provided net cash flows of approximately \$1.0 million for the first nine months of fiscal 2010. The Company ended the period with **cash and cash equivalents** of \$0.5 million, compared with \$1.8 million as at March 31, 2010.

Balance Sheet Analysis as at March 31, 2011

Summary Balance Sheet (unaudited)

	March 31 2011	June 30 2010
Current assets	\$ 19,710,206	\$ 17,786,357
Current assets held for sale ⁽¹⁾	1,096,100	1,231,858
Long-term assets	17,558,030	17,760,238
Long-term assets held for sale ⁽²⁾	3,936,839	5,896,657
	\$ 42,301,175	\$ 42,675,110
Current liabilities	\$ 4,702,372	\$ 4,444,427
Current assets held for sale ⁽¹⁾	1,996,967	1,780,589
Long-term assets	963,876	1,633,938
Long-term assets held for sale ⁽¹⁾	1,588,519	1,753,146
Shareholders' equity	33,049,441	33,063,010
	\$ 42,301,175	\$ 42,675,110

1) Related to BLI.

2) Related to BLI and buildings held for sale as at June 30, 2010, but solely to BLI as at March 31, 2011, the buildings having been sold during the third quarter of 2011.

The changes in the Company's balance sheet between June 30, 2010 and March 31, 2011 notably reflect the period's results, including the increase in accounts receivable, accounts payable and accrued liabilities, the encashment of short-term investments and the sale of two buildings of the Company, as previously explained.

As at March 31, 2011, **total assets** amounted to \$42.3 million, down by \$0.4 million from June 30, 2010. **Working capital** stood at \$14.1 million for a current ratio of 3.1:1, compared with \$12.8 million and a 3.1:1 ratio as at June 30, 2010.

Shareholders' equity totalled \$33.0 million as at March 31, 2011, remaining relatively stable compared with June 30, 2010, primarily reflecting the \$7.4 million increase in capital stock subsequent to the issue of Class A shares in connection with the private placements completed during the first nine months of fiscal 2011 and the \$0.6 million increase in contributed surplus reflecting the stock-based compensation charge, less an \$8.7 million increase in the deficit.

Indebtedness

	March 31 2011	June 30 2010
Bank loans	\$ -	\$ 167,011
Current portion of long-term debt	396,552	475,432
Long-term debt	109,110	803,647
Total indebtedness⁽¹⁾	\$ 505,662	\$ 1,446,090

1) Excluding BLI.

Total interest-bearing debt (bank loans, current portion of long-term debt and long-term debt) amounted to \$0.5 million as at March 31, 2011, down by approximately \$1 million from June 30, 2010. This reduction is due primarily to the principal repayments on long-term debt, including the mortgage related to the sale of the subsidiary Epurair's McMasterville building during the third quarter of 2011, and the repayment of bank loans during the first nine months of fiscal 2011. It is to be noted that the total interest-bearing debt related to BLI, as detailed in note 6 "Discontinued Operations and Assets Held for Sale" accompanying the third-quarter consolidated financial statements, stood at \$3.1 million as at March 31, 2011.

Capital Stock Information

During the first nine months of fiscal 2011, and subsequent to the private placements completed during this period, the Company issued 15,167,584 Class A shares for a cash consideration of \$7,847,034.

Considering these issues, the Company's capital stock consisted of 91,093,496 Class A shares as at March 31, 2011 – 91,946,144 as of the date of this Management's Report – compared with 75,925,912 Class A shares as at June 30, 2010.

Contractual Commitments

As at March 31, 2011, the balance of all the Company's contractual commitments, including leases, contractual obligations and other contractual obligations (other long-term liabilities) from continuing operations maturing up to 2020 totalled \$7.5 million. The table below presents the breakdown of required minimum annual payments:

	2012	2013	2014	2015	2016	Thereafter
Leases	\$ 869,742	\$ 832,719	\$ 803,965	\$ 722,351	\$ 474,438	\$ 2,257,485
Contractual obligations	\$ 437,922	\$ 392,999	\$ 89,992	\$ 56,659	\$ 23,608	\$ -
Other long-term obligations	\$ 396,552	\$ 103,041	\$ 6,067	\$ -	\$ -	\$ -
Total	\$ 1,704,216	\$ 1,328,759	\$ 900,024	\$ 779,010	\$ 498,046	\$ 2,257,485

The Company is also committed to pay to a corporate shareholder exercising significant influence a quarterly royalty which represents the lower of \$45,000 or 25% of consolidated cash flows from operating activities if these cash flows are positive and the working capital exceeds \$6 million. 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 had yet been made pursuant to this agreement.

In addition, the Company is committed to pay a quarterly royalty of 1% of the gross revenues generated by the patent obtained in connection with the acquisition of BLI and any other patent ensuing from the same invention. During the first nine months of fiscal 2011, an amount of \$1,775 was paid under the terms of this agreement, whereas a total of \$13,371 had been paid during the corresponding period of fiscal 2010.

Related-Party Transactions

During the first nine months of fiscal 2011, the Company granted a mandate for the sale of two of its buildings to a corporation of which one of the officers is also a director of the Company. This mandate entailed the payment of a cash commission in the amount of \$97,500. This transaction was conducted in the normal course of business.

Sources and Requirement of Funds

Since our inception, we have incurred several operating losses related mainly to our product development and commercialization-related expenses. As at March 31, 2011, our accumulated deficit amounted to \$96.2 million and we had \$2.9 million in cash, cash equivalents, deposit in trust and short-term investments. Up to now, we have had recourse to private placements to finance our growth. Since the beginning of fiscal 2011 and as of the date of this Management's Report, we have completed private placements for aggregate gross proceeds of \$8.4 million. The private placement currently underway extends until May 23, 2011. We closely monitor our financial position and, as and when we pursue our growth, we will also wish to take further advantage of debt financing to finance our future projects.

As at March 31, 2011, Noveko had a receivable purchase facility of \$3 million which was unused. It no longer had the credit facility on demand of \$500,000, as that facility was no longer secured by an immovable hypothec subsequent to the sale of the Terrebonne building formerly owned by the Company. Epurair had a credit facility on demand of \$250,000, of which \$196,369 was used as at March 31, 2011. This credit, bearing interest at the prime rate of the financial institution plus 1.5%, is renegotiable annually. According to the covenants of this credit facility, the loan is limited to a value of accounts receivable and inventories and Epurair must maintain a minimum current ratio, debt-to-equity ratio and net worth of \$400,000. As at March 31, 2011, the subsidiary met these ratios. For its part, BLI had a credit facility on demand of \$1,350,000, of which \$1,263,280 was used as at March 31, 2011. This credit, bearing interest at the prime rate of the financial institution plus 1.25%, is secured by a movable hypothec on the universality of BLI's receivables, by a first-ranking movable hypothec on the universality of BLI's inventories and by the guarantee of the Company.

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

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

Events Subsequent to Balance Sheet Date

On April 8, 2011, we initiated a new private placement for a maximum amount of \$4 million of units. Each unit is offered at a price of \$0.70 per unit and consists of one (1) Class A share and one-half of one warrant. Each full unit 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 subject to an acceleration clause. On April 29, 2011, we proceeded with a first closing of \$595,104 of this offering. Consequently, 850,148 Class A shares were issued and 425,074 additional shares may be issued if all the warrants are exercised. We remain confident we will achieve our financing objectives as additional closings are expected until May 23, 2011.

6. OUTLOOK

Consistent with our corporate vision, we will continue to prioritize the development and commercialization of our products with antimicrobial properties. To that end, we are carrying on our efforts to forge partnerships that will foster their more efficient production and their distribution on a wider scale. We are also further increasing our market share in ultrasound scanners for human and veterinary medicine. Our primary objectives for the near term are to increase our market share in our various business segments and to improve our profitability.

Given the major breakthroughs achieved throughout fiscal 2011 by our *filtration solutions*, we expect air filters to represent our primary growth driver over the medium and long term. We also foresee that promising advances will continue to be realized in upcoming quarters in the commercialization of our new applications in the real estate and rail transportation fields.

In the real estate segment, we believe there is great potential, within the near term, for us to win several new contracts to install our air filtration solutions in office buildings, commercial properties or apartment towers. Our air filtration solutions have proven to provide an effective, cost-efficient and eco-friendly solution ideal for any building as part of a sustainable development strategy. This outlook is notably based on the agreements entered into over the last quarters, the breakthroughs in the North American, European and Asian real estate markets, as well as the numerous meetings and calls for tenders from real estate groups interested in our filtration solutions.

In *air filters for the transportation industry*, we believe that obtaining our first contract to equip a railcar line in North America sets the stage for the development of a highly promising market. Our commercialization efforts are initially focused on the North American market and tests in a real environment are currently underway on several rail transportation systems, notably as part of the agreement with Bombardier Transportation. The spin-offs of these tests should gradually lead to substantial revenues within the medium term, although we do not anticipate any significant revenues in this regard between now and the end of fiscal 2011. Furthermore, various parties in the rail transportation industry have indicated they are interested in our filtration solutions. In the aeronautics segment, we are now in the final phase of the process involved in obtaining "STC" certification for our filters from Transport Canada, as we are conducting the last required tests. While we do not anticipate any significant revenues in this regard for fiscal 2011, we believe we can obtain this certification at the beginning of fiscal 2012.

In *air filters for farm buildings*, our business is picking up somewhat, and that should continue in upcoming quarters. This outlook is based notably on the signing of agreements with hog farmers as well as the volume of inquiries and calls for tenders with regard to our filtration solutions. Producers increasingly recognize that a bio-safety program is an important part of a sustainable development program and, in this context, our new-generation filtration solutions are attracting great interest and are recommended by veterinarians.

With regard to the commercialization of our *surgical masks and respirators*, we are confident that by deploying further efforts to team up with partners in order to drive the development and distribution of our patented antimicrobial filtration technologies, either through business partnerships or through distribution or licence agreements, we will implement a more sustainable marketing strategy that is better aligned with our corporate mission. We are carrying on our initiatives in this regard, although we are also pursuing certain commercialization activities directly, and we are in talks with a number of parties interested in our antimicrobial filtration technologies. However, we cannot foresee what timeframe will be required for new marketing agreements to materialize and for our sales to recover, such recovery being also dependent on the substantial inventories accumulated industry-wide. Consequently, we do not anticipate any significant revenues in this regard between now and the end of fiscal 2011. The FFP2 classification of our Noveko™ RD2 antimicrobial respirator provides us with access to the great potential represented by the European Union and other territories that recognize European standards *de facto*. In North America, we remain subject to obtaining the certifications required or sought in practice by buyers and cannot guarantee the outcome of our initiatives to that end. We are looking into various partnership opportunities in this regard as well.

As for the commercialization of our *hand sanitizers*, we have witnessed a certain resumption of our marketing activities, both directly and through our distribution partners. However, that could take longer than expected due to the significant inventories accumulated at all levels of the supply chain industry-wide. We continue to prioritize the development of the hospital and institutional markets.

We expect that our *medical equipment* segment will further improve its sales and profitability. The Exago™ was launched in the human medicine market during the second quarter; subsequent to the forthcoming launch of the Exagyne™, ECM will offer a full range of ultrasound scanners for use in human medicine. It also continues to enhance its already enviable positioning in the veterinary medicine market, notably with its new-generation ultrasound scanners. Finally, Noveko Algérie should continue to reap the benefits of supplying various medical devices to Algeria.

We will continue to focus particular attention on improving our operational efficiency and on developing products and markets driving our growth based on our strategic priorities. We maintain our objective of reaching the break-even point within the near term. However, the achievement of this objective will depend notably on our success in formalizing existing agreements and in pursuing and intensifying the development and marketing of our products and solutions.

We wish to point out that the achievement of this outlook is also subject to certain fluctuations related to economic conditions, exchange rate variations, the execution schedule of agreements and order deliveries, our ability to conclude additional licence and distribution agreements and to obtain the required regulatory approvals for certain products, as well as the other risks and uncertainties to which we are regularly exposed, as set forth in our continuous disclosure filings.

Considering the various factors previously mentioned in this Management's Report, we need to raise additional funds within the near term to pursue our product development and marketing. As such, since the beginning of fiscal 2011 and as of the date of this Management's Report, we have successfully raised total gross proceeds of \$8.4 million by way of private placements. The new private placement initiated on April 8, 2011 extends until May 23, 2011.

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

Disclosure Controls and Procedures

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

As at March 31, 2011, an evaluation was carried out, under the supervision of and with the participation of our management, including the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures as defined under NI 52-109. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Upon such review, the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer determined that there were material weaknesses in the design of our DC&P. However, the DC&P deficiencies we identified did not result in adjustments to our interim consolidated financial statements for the third quarters of 2011 and 2010. We have identified the following material weaknesses:

Entity Level Controls

We did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in our internal control over financial reporting. To mitigate the risk, management relies heavily on manual procedures and detection controls, management meetings, quarterly reviews of financial statements by our subsidiaries and by the Audit Committee. These manual procedures were performed during the interim periods ended March 31, 2011 and 2010.

Acquisitions over the Previous Two Fiscal Years

We also carried out an evaluation of the material weaknesses relating to the design of our DC&P as of March 31, 2011 for Noveko Algérie, Purer Life and Noveko Beijing, respectively acquired in July 2008, August 2008 and April 2010. We determined that risks exist with respect to these entities that could reasonably result in a material misstatement in their interim filings. The certifying officers do not limit the scope of the design of the DC&P with respect to Noveko Algérie, Purer Life and Noveko Beijing as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are not excluded from the management's evaluation of the design of the Company's DC&P.

Internal Control over Financial Reporting

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

We carried out an evaluation of our ICFR, under the supervision of and with the participation of our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer as to the material weaknesses relating to the design of our ICFR as of March 31, 2011. This evaluation was based on the Internal Control-Integrated Framework issued by the COSO. The evaluation considered the procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the applicable securities legislation is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the applicable securities legislation and communicated to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chairman of the Board and Chief Executive Officer and Chief Financial Officer have determined that there existed material weaknesses in the design of our ICFR. The ICFR weaknesses we identified did not result in adjustments to our interim consolidated financial statements for the third quarters of 2011 and 2010. Following our assessment, we identified the following material weaknesses:

Information Technology General Controls

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

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

Segregation of Duties

We have deficient controls within our accounting department over segregation of duties inherent to the department's size. Specifically, as a result of the limited number of personnel in the accounting

department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, regular management meetings, as well as reviews of our financial statements by subsidiaries and by the Audit Committee. These manual procedures were performed for the periods ended March 31, 2011 and 2010.

Acquisitions over the Previous Two Fiscal Years

We also carried out an evaluation of the material weaknesses of our ICFR as of March 31, 2011 for Noveko Algérie, Purer Life and Noveko Beijing. We determined that risks exist with respect to these entities that could reasonably result in a material misstatement in their interim filings. The certifying officers do not limit the scope of their design of ICFR for Noveko Algérie, Purer Life and Noveko Beijing as defined by NI 52-109. Accordingly, the controls, policies and procedures of these acquired entities are not excluded from management's evaluation of the design of the Company's ICFR.

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

We have initiated the following actions to address the material weaknesses in our DC&P and ICFR identified as of March 31, 2011.

Entity Level Controls

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

Information Technology General Controls

We will implement enhanced information technology policies and procedures specifically with regard to inventory controls and to the system's change management, program development, access over end-of-period process spreadsheets, IT operations and related monitoring. We are completing the implementation of a new accounting system that will overcome the accounting system inventory controls and access deficiencies. We will also develop and implement a global information technology strategic plan and a business continuity plan.

Inadequate Segregation of Duties

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

Acquisitions over the Previous Two Fiscal Years

In upcoming quarters, the Company will continue to integrate the subsidiaries Noveko Algérie, Purer Life and Noveko Beijing into its controls and procedures framework, as it did for its other subsidiaries. Control visits started during the fiscal year ended June 30, 2010. Further visits will also be needed and will be conducted in the near term to provide the personnel involved with the tools required for the evaluation of – and compliance with – the controls and procedures framework adopted by the Company.

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous DC&P and ICFF. It will take time to put in place the rigorous controls and procedures desired by our management and Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with our Audit Committee, Chairman of the Board and Chief Executive Officer and Chief Financial Officer, think necessary. Again, the control deficiencies which we identified did not result in adjustments to our interim consolidated financial statements for the third quarter of 2011 or any previous periods.

Other than the remediation efforts discussed above and the implementation of the Company's ICFR, there have been no changes in our ICFR that occurred since the beginning of the interim period ended March 31, 2011 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer, has discussed these issues and remediation efforts with our Audit Committee.

We will provide updates on the remediation plan in our quarterly and annual management's reports.

It should be noted that while our management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human errors and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable assurance, not absolute, that the objectives of the control system are met.

8. RISKS AND UNCERTAINTIES

An investment in our securities involves a high degree of risk and should be considered speculative due to the nature of our business and the businesses of our subsidiaries and their current respective stage of development. Before making any decision to purchase or to sell any of our securities, you should carefully consider the complete statement of the risk factors and uncertainties described in the Management's Report and Annual Information Form for fiscal 2010. The Company is pursuing an ongoing risk review and management process.

9. CHANGES IN ACCOUNTING POLICIES

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

Section 1582 converges with IFRS 3, "Business Combinations". Section 1601 carries forward the requirements of Section 1600 "Consolidated Financial Statements", other than those relating to non-controlling interests. Section 1602 converges with the requirements of International Accounting Standards ("IAS") 27, "Consolidated and Separate Financial Statements", for non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the previous standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, are measured at fair value. Any interest in the acquiree owned prior to obtaining control will be revalued at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed. This new recommendation had no significant impact on the Company's financial statements.

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

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

Effective July 1st, 2009, the Company adopted the amendments of CICA Handbook Section 3862 "Financial Instruments – Disclosure". This section has been amended to improve the communication of information related to the fair value evaluation of financial instruments. All the new financial disclosure

requirements related to this section are presented in note 1 b) Accounting policies – Financial instruments and note 28 Financial Instruments accompanying the financial statements. These amendments did not affect the consolidated financial results.

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

Future Changes in Accounting Policies

Transition to International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that GAAP, as used by publicly accountable enterprises, will be superseded, for fiscal years beginning on or after January 1st, 2001 (the "changeover"), by International Financial Reporting Standards ("IFRS"), which include the International Accounting Standards ("IAS") where appropriate.

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

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

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

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

During the fourth quarter of fiscal 2011, we will continue to review the IFRS standards for their application to our operations and carry out impact assessments. We will also finalize our accounting policy decisions and the preparation of our accounting systems accordingly to allow preparation of our opening balance sheet under IFRS as at July 1st, 2010.

Material Differences Compared with Current Accounting Policies

We are therefore in the process of determining the material differences between our accounting policies and IFRS as well as selecting and approving the related alternatives. The detailed analysis and accounting policy decision-making have not been completed. Nevertheless, the Company estimates that material differences will arise or are likely to arise in the following accounting areas and, in cases where decisions have been made, analyses of their impact are presented below:

- **IFRS 1**, *First-Time Adoption of International Financial Reporting Standards*
- **IFRS 2**, *Share-Based Payment*
- **IFRS 3**, *Business Combinations*
- **IAS 16**, *Property, Plant and Equipment*
- **IAS 21**, *Effects of Changes in Foreign Exchange Rates*
- **IAS 36**, *Impairment of Assets*
- **IAS 37**, *Provisions, Contingent Liabilities and Contingent Assets*
- **IAS 38**, *Intangible Assets*

The following analysis does not aim to provide a complete list of all relevant differences between GAAP and IFRS. Solely the notable differences that will give rise to major financial statement adjustments or add material difficulties to the current disclosure context have been targeted.

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*

IFRS 1 deals with the transition of an entity's current financial reporting standard to IFRS. The general IFRS 1 requirement is to retrospectively apply IFRS upon the first-time application. However, IFRS 1 offers entities adopting IFRS for the first time (a "first-time adopter") a number of optional exemptions and mandatory exceptions to the complete retroactive restatement. The Company has assessed and selected certain exemptions to the retrospective application of IFRS standards, as set forth in the table below:

Exemption	Application
IFRS 2 , <i>Share-Based Payment</i>	<p>A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments granted no later than November 7, 2002. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments granted after November 7, 2002 and vested before the IFRS transition date.</p> <p>We have opted to avail ourselves of the exemption allowed under IFRS 1. We will therefore apply IFRS 2 to all equity instruments granted after November 7, 2002 and not yet vested as of July 1st, 2010. We will also apply IFRS 2 to all equity instrument grants as of July 1st, 2010.</p>
IFRS 3 , <i>Business Combinations</i>	<p>IFRS 1 allows a first-time adopter to apply IFRS 3 retrospectively to all combinations, on a retrospective basis as of a certain date or prospectively.</p> <p>We have opted to apply IFRS 3 prospectively. Accordingly, no accounting adjustment will be made to business combinations to account for the differences between GAAP and IFRS prior to July 1st, 2010, being the transition date. Consequently, there will be no restatement of goodwill or intangible assets prior to the transition. However, the reader should refer to the IFRS 3, <i>Business Combinations</i> section of the following table with regard to CICA Handbook Section 1582. The reader should also refer to IAS 36, <i>Impairment of Assets</i>, as there are possible impacts at the asset impairment level even if vested before the transition.</p>
IAS 21 , <i>Effects of Changes in Foreign Exchange Rates</i>	<p>IFRS 1 allows an entity to recognize all the translation adjustments of foreign operations in retained earnings and to deem as nil the accumulated adjustments to the translation of currencies prior to the transition date.</p> <p>We have opted to apply this exemption.</p>

The table below presents certain of the most relevant differences between GAAP and IFRS, but it should not be considered an exhaustive and definitive list.

Standards	Comparison between GAAP and IFRS and Preliminary Assessments
IFRS 2, Share-Based Payment	<p>For share options of which the rights vest by instalments, IFRS require the use of the graded vesting method, based on which each instalment must be treated as a separate award having its own fair value. However, GAAP give an entity the option of using the graded vesting method or the straight-line amortization method, which uses the single account approach and allows charges to be recognized equally over the life of the award. In conformity with GAAP, we are in the process of assessing the fair value of options as a single award using the Black-Scholes valuation model.</p> <p>We are in the process of assessing the impact of the revaluation of options as separate awards rather than as a single award. As previously mentioned, we intend to use the exemption allowed under IFRS in regard to stock-based compensation.</p>
IFRS 3, Business Combinations	<p>Acquisition costs (other than the costs related to debt security and equity security issues) must be expensed under IFRS, contrary to the current practice under GAAP, which allows them to be capitalized under certain conditions. Retirement, termination and reassignment costs are usually expensed under IFRS, unless, at the acquisition date, the acquired entity has already recognized a liability as restructuring costs in conformity with IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>. Under GAAP, an entity would usually have the right to capitalize such costs based on less strict guidelines.</p> <p>We will not restate acquisitions-related assets, including goodwill and intangible assets, in respect of prior business combinations because, as previously mentioned, IFRS 1 allows the prospective application of IFRS 3. Also, CICA Handbook Section 1582 released in January 2009 (refer to the <i>Other Future Changes in Accounting Policies</i> section) is fundamentally consistent with IFRS 3. Section 1582 applies to the first fiscal year beginning on or after January 1st, 2011. We have opted for early adoption of Section 1582 for fiscal 2011. Accordingly, this section would apply to acquisitions completed as of July 1st, 2010, if any. Consequently, we will avoid having to make accounting adjustments to account for the differences between GAAP and IFRS for business combinations that could be completed, if any, between July 1st, 2010 and July 1st, 2011.</p>
IAS 16, Property, Plant and Equipment	<p>Under IFRS and as required by GAAP, property, plant and equipment are initially measured at cost. The accounting differences are more at the amortization level. Under IFRS, an entity must amortize each item of property, plant and equipment having a significant cost in relation to the total cost of the asset over its useful life and using amortization methods that more specifically reflect their respective service potential. Under, GAAP, the items of property, plant and equipment are amortized when it is possible to do so.</p> <p>We are in the process of assessing the impact of these different amortization treatments. However, without being able to specifically quantify the difference, we know that the application of IFRS will give rise to an adjustment in the value of property, plant and equipment, of which the consideration will be recognized in retained earnings in our financial statements at the transition date.</p>
IAS 21, Effects of Changes in Foreign Exchange Rates	<p>Under GAAP, an entity determines the functional currency of a foreign operation as an integrated or self-sustaining operation and translates it using the temporal method or the closing price method. None of the factors is predominant for determining the functional currency of a foreign operation. IFRS do not consider the concept of an integrated or self-sustaining entity. An entity must determine its own functional currency and that of all its subsidiaries and joint ventures. There is a hierarchy of criteria that are similar to GAAP.</p> <p>We are in the process of assessing whether there is a change in the functional currency of our subsidiaries or the accounting policy for the translation of currency transactions and, if applicable, the impact of such change.</p>

**IAS 36,
Impairment of Assets**

Under effective GAAP, amortizable capital assets and intangible assets are tested for impairment when circumstances suggest that the recoverable amount is less than the carrying amount of the asset. GAAP use a two-step approach. In step one, the carrying amount of the asset is compared to its undiscounted cash flows. In step two, when the carrying amount exceeds the step-one undiscounted cash flows, the value of the asset is reduced to its fair value, based on discounted cash flows. Under IFRS, the notion of impairment is similar but definition and calculation of the recoverable value differ. IAS 36 requires that at every reporting date, an entity assess whether an asset should be recognized as impaired. IFRS define recoverable amount as the higher of (a) fair value less costs to sell and (b) the value in use (which represents the discounted value of future cash flows). Accordingly, impairments may be recorded more frequently under IFRS than under GAAP. However, unlike GAAP, IAS 36 requires the reversal of past impairment losses when circumstances requiring the recognition of an impairment have changed.

We are in the process of assessing the impact of this standard on our current impairment testing models.

**IAS 37,
Provisions, Contingent Liabilities and
Contingent Assets**

IAS 37 requires that a provision be recognized when (a) there is a current obligation resulting from a past event; (b) it is likely that an outlay will be necessary to settle the obligation; and (c) a reasonable estimate of the obligation can be made. In this context, "likely" means "more likely than unlikely". Under GAAP, the criterion for recognition in the financial statements is a "likely" threshold, which is a higher recognition threshold than "more likely than unlikely". There are other differences in regard to the assessment of provisions, notably the methodology to determine the best estimate when several results are possible (IFRS use the median of the range, whereas GAAP use the lower end of the range). IFRS also require that the provision be discounted when the discounting effect is material.

Consequently, there may be possible obligations that would meet IFRS recognition criteria but would not be recognized under GAAP. We are in the process of assessing the impact of this standard, notably on our legal and implicit obligations.

**IAS 38,
Intangible Assets**

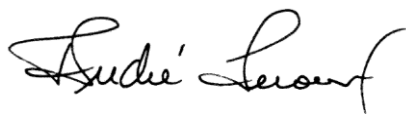
Under IFRS, intangible assets continue to be initially measured at cost, as required by GAAP. Under GAAP and IFRS, goodwill and intangible assets with an indefinite useful life must be submitted to an impairment test at least once a year. However, impairment tests under GAAP differ from those performed under IFRS as described above in IAS 36, *Impairment of Assets*. Intangible assets with an indefinite useful life are amortized over their expected useful life under both GAAP and IFRS. No specific directive has been issued with regard to the recognition of software for internal or external use under either IFRS or GAAP, except with regard to the costs related to the realization of non-transactional websites. Under IFRS, contrary to the current practice under GAAP, the capitalization of costs related to non-transactional websites is not permitted.

Subsequent to our analysis, the application of IFRS will result in a reduction of approximately \$71,944 in our intangible assets, of which the consideration will be recognized in retained earnings in our financial statements at the transition date.

Progress toward Completion of our Changeover Plan

Summarized hereafter is a description of our progress toward completion of selected key activities of our changeover plan. Thus far, we cannot yet quantify all their impacts on our financial statements and operational performance measures. Additional information will be provided as we move toward the changeover date.

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



ANDRÉ LEROUX
Chairman of the Board and
Chief Executive Officer



ÉRIC FAVREAU
Vice-President and
Chief Financial Officer

May 11, 2011