



# **Annual Management's Report**

## **Fourth Quarter of 2011**

Three-Month Period and Fiscal Year Ended June 30, 2011

September 28, 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 fiscal year and the fourth quarter ended June 30, 2011 ("fiscal 2011" and the "fourth quarter of 2011", respectively), in comparison with the corresponding periods ended June 30, 2010 ("fiscal 2010" and the "fourth quarter of 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 audited consolidated financial statements and accompanying notes for fiscal 2011.

Supplementary information about the Company, including its Annual Information Form for fiscal 2011, annual reports, management's reports on previous interim periods and press releases, is available on the Company's website ([www.noveko.com](http://www.noveko.com)) and on SEDAR ([www.sedar.com](http://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, 2012 and those ended June 30 of prior years are sometimes designated by the terms "fiscal 2012", "fiscal 2011" and so on.

The information contained in this Management's Report accounts for any major event occurring up to September 28, 2011, the date on which the Board of Directors approved the audited consolidated financial statements and Management's Report for the fourth quarter of 2011 and fiscal 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 the 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 and or scheduled 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 clients 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 2011. 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, including ultrasound scanners for use in human and veterinary medicine.

### Operational Overview, Highlights and Subsequent Events

#### Strategy

Our primary objectives 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 spread of pathogens by filtration, but also neutralize them thanks to the antimicrobial agents directly incorporated into the fibres of the filtering membranes. The integration of antimicrobial agents into the fibres of our *air filters* protects them against deterioration from the action of microorganisms. Our 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 carrying on measures to improve the Group's operational efficiency and to better control operating costs in each of our business segments. During fiscal 2011, we 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 December 2010 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:* Although the divesting process is taking longer than initially expected, the steps to that end are continuing. We have received a two-fold purchase offer in recent days, one relating to certain assets of BLI and the other relating to BLI's shares, which we consider serious and are currently reviewing. While no decision has been made in this regard and it could be accepted, refused or negotiated, we deemed it appropriate under the circumstances, in light of the divesting process initiated over two years ago and the filing of this offer, to recognize a loss for eventual disposal of \$1.1 million under results from discontinued operations in our fiscal 2011 financial statements.

*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 were relocated to larger premises located in Boucherville, Quebec. Consequently, the McMasterville, Quebec building that formerly housed these operations was divested for a consideration of \$650,000. The acquisition of new cutting-edge equipment also contributed to significantly increase the new facility's productivity and production capacity.

*Financing:* On September 30, 2010, we proceeded with a first closing of \$4,440,000 in connection with a private placement of Class A shares at a price of \$0.60 per share. On October 29, 2010, we proceeded with a second closing of \$900,000. Consequently, a total of 8,900,000 Class A shares were issued for an aggregate gross consideration of \$5,340,000 in connection with this private placement.

On March 16, 2011, we proceeded with a closing of \$2.5 million of units in connection with a private placement. Each unit was offered at a price of \$0.40 per unit and consisted of one (1) Class A share and one-half of one warrant, each full warrant entitling its holder to purchase one Class A share at a price of \$0.60 per 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.

On April 29, 2011, we proceeded with a closing of \$595,104 in connection with a new private placement of units under which each unit was offered at a price of \$0.70 per unit and consisted of one (1) Class A share and one-half of one warrant, each full warrant entitled 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. Consequently, 850,148 Class A shares were issued and 425,074 additional shares could be issued if all the warrants are exercised. The warrants are not subject to an acceleration clause.

On July 26, 2011, we announced the closing of an interim financing in the amount of \$670,000 obtained mainly from Company directors, officers and insiders. This interim financing by way of convertible debentures was used for working capital purposes up to the closing of the \$6 million financing described below. The debentures bearing interest at an annual rate of 12% will be redeemed using the net proceeds from the above-described financing.

On September 28, 2011, we proceeded with the closing of a \$6 million financing consisting of a credit facility of up to \$4 million and convertible debentures in the amount of \$2 million. The Toronto-based investment firm Third Eye Capital Corporation acted as agent in connection with this financing. The net proceeds from these transactions will be used to pursue the Company's global growth objectives as well as for working capital purposes. The credit facility will mature 24 months from the Closing (the "Maturity Date"), subject to the Company's right to terminate it after the first anniversary of the Closing. The credit facility and the debentures bear interest at an annual rate, compounded and paid monthly, equal to a minimum of 12%, adjusted upward for any changes in a selected chartered bank rate. Maintenance fees at a rate of 1% per annum will also be due on the portion of the credit facility not disbursed. Debenture holders will have the right, at their sole discretion and at any time during the term, to convert, in whole or in part, the principal of the debentures into Class A shares of the

Company, at a conversion price of \$0.60 per share. All advances under the credit facility, as well as the remaining non-converted portion of the debenture, will be reimbursed by the Company on the Maturity Date. The remaining portion of the debentures, if any, will then be redeemable at 1.5 times their par value. To secure its obligations under the credit facility and the convertible debentures, the Company has granted hypothecs on all its assets, including the shares held in its subsidiaries. In addition, the Company's Canadian subsidiaries have each granted hypothecs on all their respective movable and immovable properties.

### ***Air Filtration Products***

Initially targeted to the livestock farm market, especially hog farms, our air filtration solutions now have characteristics 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 as part of a sustainable development strategy. The major breakthroughs achieved in these high-potential markets during fiscal 2011 attest 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 leases 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 conclusive tests conducted on the Hudson-Bergen system, which demonstrated that the filtration capacity of Noveko™ filters was not affected despite more than four months of use without cleaning. This represents a major advantage for the operator as the traditional filters it previously used had, until then, to be replaced every two months. 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 further 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 several other cities in the United States, including Boston, Seattle, Dallas, Santa Clara and Phoenix.

#### ***Ongoing Tests in Rail Transportation***

In cooperation with various transportation bodies, we are conducting further adaptability tests 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 continuing, although it is taking longer than initially expected for the agreement binding the two companies to materialize and it is difficult to foresee the outcome. We therefore do not expect the partnership with Bombardier Transportation to generate significant revenues within the near term. Furthermore, Bombardier Transportation has included our filtration solutions in bids for the construction of new railcars, but it could take several months for the results 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 the solicited users are involved in the process. We are also in ongoing talks with various transportation bodies interested in our technologies. Furthermore, it should be noted that in the case of transportation systems reporting to public authorities, projects are often subject to calls for tenders.

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 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 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: STC Certification and First Agreement*

Our efforts in aeronautics finally paid off in June 2011 when we were granted a Supplemental Type Certificate (or “STC”) allowing the installation of filters incorporating our filtration technologies into the Airbus A330 series aircraft. Transport Canada’s grant of the STC certification for the filters paves the way for their commercialization throughout the Airbus A330 fleet worldwide. We intend to have the entire Airbus fleet certified and steps to that end have already been taken. As the performance tests have been completed, we expect these new certification files to proceed more rapidly.

Subsequent to Transport Canada’s grant of the STC, we achieved our official breakthrough in the aeronautics market and won our first contract with Air Transat, Canada’s leading holiday airline, to equip its entire Airbus A330 fleet with our filters. Air Transat’s fleet comprises 21 aircraft, including 10 Airbus A330s currently in operation, and two more A330s will be added to its fleet by the beginning of 2012. Each aircraft of this series generally requires eight air filters.

Developed jointly with Industrielle du Ponant, our filters are sold under the Noveko IDP™ brand. Thanks notably to our patented air filtration technologies, the various tests conducted on these filters revealed that they attain ULPA (Ultra-Low Particulate Air) filtration levels and also provide a superior odour management solution. Exhibited for the first time in June 2011 at the International Paris Air Show at Le Bourget, Noveko IDP™ filters are attracting growing interest in the industry due to these high value-added features. We are in ongoing talks with a number of players, including airlines, manufacturers and distributors, with a view to entering into partnerships to drive the commercialization of our technologies in this segment.

#### ***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 of Noveko™ filters to the U.S. real estate market, and these filters have since been installed in a luxury condominium tower located in the Upper East Side in New York City. In April 2011, we entered into an agreement with HTS New York, a leader in heating, ventilation and air conditioning (“HVAC”) equipment integration, pursuant to which HTS New York will incorporate our filtration solutions into its HVAC systems offering. We are also in ongoing talks with other managers and major property owners in this region interested in our filtration solutions.

In Europe, the Hilton Luxembourg Hotel is now 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 have been installed for pre-sale 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 our air filtration solutions grew during fiscal 2011 and several bids are under review for the Montreal area alone. Our objective for the current fiscal year is to accelerate sales in this segment. To that end, we recently implemented further efforts to expand our product offering and to provide integrated solutions meeting our clients' various air filtration needs. Consequently, we are now equipping our existing clients' buildings with our new line of high-efficiency solutions (the reader is referred to the *New Innovative High-Efficiency Filters Meeting the Needs of an Expanded Client Base* section below) and are thereby gaining access to a potentially larger client base. We are also in active talks with other parties in the real estate market, especially major property owners and managers who would give us access to a broader buildings pool, all in line with our strategy of teaming up with strategic partners to stimulate the marketing of our solutions and make better use of our resources. In this regard, our teams are working jointly with those of Distinction Group Inc., through its subsidiary Montcalm Technical Services, so the bids tendered to major property owners in the Greater Montreal Area in connection with the agreement binding them gradually translate into sales.

#### *Conclusive Experience: A Sustainable Solution*

Our business model in the filtration market, based on the signing of agreements for three-year periods, stands apart from the traditional business model associated with standard 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 rooted in their special characteristics, thus ensures us of recurring revenues and earns our clients' loyalty. Furthermore, the results of tests conducted on our filters installed for over 12 months in Greater Montreal Area buildings confirmed their distinctive features. Indeed, the experience at our trial clients allow 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 moreover shown that our filters can easily be cleaned on-site.

#### *Winner of the PINNACLE INNOVATION Award*

In May 2011, the Québec Building Owners and Managers Association (BOMA Québec) granted our Noveko Filtration division the prestigious PINNACLE INNOVATION AWARD in the BOMA AWARDS 2011-2012. Having already won this award at the local level, Noveko Filtration was once again honoured at the BOMA Canada 2011 National Contest, as the big winner of PINACLE INNOVATION AWARD in Canada. We received this award whereas several renowned companies were among the finalists, attesting to the innovativeness of our filtration solutions.

#### *New Innovative High-Efficiency Filters Meeting the Needs of an Expanded Client Base*

The energy savings and the reduction in filtration waste arising from the use of our recyclable filtration solutions make them particularly important advantages for building owners and managers 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. To that end, Noveko Filtration recently expanded its filtration solutions offering by launching new innovative high-efficiency filters to accelerate our penetration of the air filtration market. This new line of bag filters meets the highest filtration effectiveness standards, yielding performances ranging from MERV 10 to MERV 16 based on the ASHRAE 52.2 standard. By combining these new high-efficiency filters with our MERV 8 filters already available (also called "pre-filters"), we now offer integrated solutions that not only meet users' various air filtration needs, but are also more effective, longer lasting and recyclable. The incorporation of antimicrobial agents into the filter fibres also protects them against deterioration due to the action of microorganisms. As we now

feature a more complete portfolio of superior performance filtration solutions, we are confident we can meet the needs of an expanded client base, in line with our goal of accelerating the commercialization of our solutions in the real estate segment.

### ***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. The new configuration of these filters makes them easily adaptable to building structures, which features the advantage of eliminating most of the costs related to their installation and makes them a more cost-effective option. We 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 also recommended by veterinarians as a key feature of bio-safety programs. Furthermore, during the third quarter of 2011, the Epurair plant's greater productivity enabled us to complete 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.

### ***Antimicrobial Masks and Respirators***

Several factors slowed down the marketing of our masks and respirators during fiscal 2011 and account for our much lower sales than in fiscal 2010, which had benefited from the consequences of the A (H1N1) influenza pandemic.

The production and execution challenges described in further detail in our previous management's reports, caused notably by the hazards of pandemic threats as well as numerous regulatory obstacles inherent to products regarded 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 this is a sustainable marketing strategy better aligned with our corporate mission and also allowing more efficient use of our capital resources. To that end, we are continuing 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 during fiscal 2012. Despite the delays encountered in implementing our business plan in this regard, the interest shown by various parties attests to the gains in brand awareness achieved by our products since more than a year ago, which are due primarily to the differentiation associated with our antimicrobial technologies. The order obtained this month from Dufort & Lavigne Ltd. ("Dufort & Lavigne"), a Quebec business specializing in the distribution of medical supplies and equipment, attests to this renewed interest in our products. As distributor, Dufort & Lavigne will ensure the Quebec-wide sale and promotion of Noveko™ antimicrobial masks to medical clinics and hospital centres. However, it is difficult to foresee how long it will take for new commercialization agreements to materialize and for our sales to pick up substantially in this segment. This recovery could also depend on the considerable inventories accumulated industry-wide and on

obtaining the required approvals to bring them to market in the various targeted territories. We therefore do not anticipate any significant revenues in this regard within the near term.

#### *Certification Processes*

During the fourth quarter of 2011, we earned N95 certification from the US National Institute for Occupational Safety and Health (“NIOSH”) for our Noveko™ RD5-V respirator, a model without any antimicrobial agents. This certification confirms that our respirators meet the NIOSH’s particle filtration criteria, and also that their design and manufacture meet its quality assurance requirements. A number of buyers still seek NIOSH recognition in their purchasing decisions. We therefore believe this approval will facilitate the commercialization of all our antimicrobial masks and respirators, especially in Canada which we are now further targeting, even though it was granted for a respirator model without antimicrobial agents.

This certification adds to the FFP2 classification obtained earlier in fiscal 2011 for our Noveko™ RD2 antimicrobial respirator, allowing its marketing in the European Union. This certification should also facilitate the commercialization of our respirators in several other territories that recognize European standards *de facto*.

The U.S. marketing of masks and respirators incorporating Noveko’s antimicrobial technology also remains subject to our obtaining FDA certification. In this regard, the limited working capital at our disposal during fiscal 2011, which was further allocated to the development of our activities in the filtration segment, slowed down the continuation of the tests and obtaining of the required data to draw up a file to support a future 510(k) submission with the FDA. We now aim to file such an application meeting both the FDA’s requirements and our marketing imperatives by the end of fiscal 2012. In this context, and in line with our strategy of teaming up with partners to stimulate the development and marketing of our technologies, 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 our previous management’s reports, several factors also slowed down the marketing of our sanitizers and account for the fact that our sales were lower than in fiscal 2010, which posted a major increase subsequent to 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 settings for our hand sanitizers, while carrying on our efforts to further stimulate our sales in the retail market. Although we are witnessing a certain resumption of our marketing activities, particularly in the healthcare and institutional settings segment, both directly and through our distribution partners, that could take longer than initially expected. On the other hand, the order obtained this month from Dufort & Lavigne attests to renewed interest in our products. As distributor, Dufort & Lavigne will ensure the Quebec-wide sale and promotion of Microban® hand sanitizers to medical and dental clinics.

In order to broaden our line of sanitizers and to stimulate our sales, 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 in further talks with various partners interested in our products.

#### **Medical Equipment**

##### *Ultrasound Scanners*

Although the swine and bovine industries remain fragile worldwide, ECM is successfully maintaining its dominant presence in portable ultrasound scanners for use in veterinary medicine. 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 with the Chinese company Ningbo Xingaoyi Magnetism Co., Ltd (“NXM”) during the first quarter of 2011. 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. In addition, ECM, which continues to further innovate with its products, now sells an enhanced version of the Imagyne™ ultrasound scanner with new applications. The Imagyne™ ultrasound scanner is also designed for use in veterinary medicine, but to a lesser extent.

Furthermore, ECM continues to achieve breakthroughs in the equine market with its Exago™ ultrasound scanner, which has enjoyed considerable success since its launch in January 2010. At the beginning of the year, ECM was awarded contracts representing more than \$4 million over a three-year period by key veterinary medicine players in North America. 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. ECM plans to bring to market the Exagyne™ – as it were the portable version of the Imagyne™ – very shortly. 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. However, the amendment of the Algerian regulatory legislation with respect to the awarding of contracts by public bodies under the new Algerian Code on Government Procurement caused some delays in obtaining major orders during fiscal 2011. Pursuant to this regulatory legislation, contracts and calls for tenders by public bodies cannot be awarded to entities entirely held by foreign interests. As the Company assigned 30% of the shares held in Noveko Algérie to an officer of the subsidiary effective July 1, 2011, the latter's status is now in compliance with this new requirement. Attesting to this market's potential, following a selection by way of a call for tenders, the Algerian National Office of Equipment and Accessories for Handicapped People (the "NOEAHP") recently awarded Noveko Algérie new orders for the supply of medical devices worth approximately \$1.25 million. Deliveries of this equipment are scheduled to extend until December 31, 2011. Noveko Algérie also 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 ANNUAL INFORMATION

#### Fiscal Years Ended June 30

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

	2011 <sup>(1)</sup>	2010	2009
Revenues from continuing operations	14,297	15,111	11,412
Gross margin	5,647	5,703	4,730
Loss before amortization, financial expenses, income taxes, other items and discontinued operations <sup>(2) (3)</sup>	(10,819)	(14,436)	(20,594)
Impairment of intangible assets	(1,458)	-	-
Goodwill impairment charge	(492)	(2,305)	(3,600)
Loss from continuing operations	(14,489)	(20,363)	(27,802)
Loss from discontinued operations <sup>(4)</sup>	(1,347)	(3,856)	(4,073)
Net loss	(15,836)	(24,219)	(31,876)
Loss per Class A share (basic and diluted)			
Continuing operations	\$ (0.17)	\$ (0.28)	\$ (0.42)
Discontinued operations <sup>(4)</sup>	\$ (0.02)	\$ (0.05)	\$ (0.06)
Net loss	\$ (0.19)	\$ (0.33)	\$ (0.48)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	84,472	73,488	66,611

Balance Sheet Data as at June 30	2011	2010	2009
Total assets	35,679	42,675	50,897
Shareholders' equity	26,327	33,063	38,487
Total interest-bearing debt <sup>(5)</sup>	624	1,446	4,043
Non-current liabilities held for sale <sup>(6)</sup>	1,535	1,753	1,924
Non-current liabilities related to discontinued operations <sup>(7)</sup>	-	-	200
Cash, cash equivalents, short-term investments and deposit in trust	1,830	2,873	4,711

(1) The consolidated financial statements include the accounts of the Company and its subsidiaries, all wholly-owned as at June 30, 2011.

(2) Including stock-based compensation of \$488,469, \$3,413,576 and \$10,556,660 respectively for fiscal 2011, 2010 and 2009, which has no impact on the cash balance.

(3) Including a loss on slow-turnover inventories of \$2,520,411, which consists of a non-recurring item recognized in the fourth quarter of 2011.

(4) Related to BLI's and Magnum's operations for fiscal 2010 and 2009, but solely to BLI's operations for fiscal 2011.

(5) Including long-term debt and its current portion and bank loans, excluding the data related to BLI.

(6) Related to BLI.

(7) Related to Magnum.

## 4. OPERATING RESULTS

### Analysis of Consolidated and Segmented Operating Results for Fiscal 2011 Compared with Fiscal 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

Fiscal Years Ended June 30,				
	2011		2010	
Medical equipment	\$	10,654,659	\$	8,834,220
Sanitizers		718,843		2,551,461
Masks		27,892		1,390,295
Filtration		2,895,294		2,331,974
Other		-		2,704
<b>Total</b>	<b>\$</b>	<b>14,296,688</b>	<b>\$</b>	<b>15,110,654</b>

**Revenues for fiscal 2011**, although they included significant increases in the filtration and medical equipment segments, sustained a decline of approximately \$1.0 million (5%) at the consolidated level from fiscal 2010, primarily reflecting:

- decreases in sales of masks and sanitizers of about \$1.4 million (98%) and \$1.8 million (72%) respectively from 2010, which benefited from the impact of the prevailing pandemic context. On the other hand, recently, there have been signs of a recovery of our commercialization activities in these segments. New orders attest to renewed interest in our products (for further details, the reader is referred to *Description of the Company – Operational Overview – Antimicrobial Masks and Respirators and Sanitizers*.) We can also count on the set-up of marketing partnerships to stimulate our sales. However, it is hard to predict how long it will take for new marketing agreements to materialize and for our sales to pick up significantly in these segments;
- sales of medical equipment grew by \$1.8 million (21%) during the year, due mainly to ECM’s strong sales growth of \$1.6 million (28%). The increase would have been greater in ECM’s case – specifically a 37% increase revenues in Euros – were it not for the devaluation of the Euro against the Canadian dollar, which represented a negative impact of \$0.5 million on our revenues. ECM’s sales growth reflects its new-generation ultrasound scanners’ advances in both human medicine and veterinary medicine, as described in further detail under *Description of the Company – Operational Overview – Medical Equipment*. This was the first year that ECM’s sales of new-generation ultrasound scanners exceeded those of its Agrosan™ ultrasound scanners, notably reflecting the major contracts concluded with China for the distribution of the Imagyne™ line, as well as the orders obtained from several key players in the North American veterinary medicine field for the distribution of the Exago™ ultrasound scanner; and
- revenues of filtration products also posted a \$0.6 million (24%) growth, reflecting the sales increases in the institutional and commercial markets, for which the recognition of revenues generally extends over the term of the rental agreements, as well as the advances in the swine market, primarily the sales to the Villa Vista farms.

**The operating profit margin** for fiscal 2011 stood at 39.5%, up from 37.7% for fiscal 2010. This slight improvement reflects the relatively greater proportion of the medical equipment and filtration segments in fiscal 2011 consolidated revenues than the previous year, these segments posting higher margins than the masks and sanitizers segments.

**Selling and administrative expenses** decreased by \$2.6 million (17%) to \$12.8 million. This decline in part reflects the cost control measures taken in fiscal 2011, which notably involved the restructuring of certain teams.

**The loss on slow-turnover inventories** amounted to \$2.5 million and represented an allowance related to the weak turnover of a portion of the accumulated inventories related to the masks and sanitizers segments further to the rapid end to the A (H1N1) influenza pandemic, and not to their obsolescence. In fact, tests conducted on our products allowed us to extend the expiration dates of most of the inventories related to the masks and sanitizers segments. This loss consists of a non-recurring item recognized in the fourth quarter of 2011.

**Stock-based compensation charge** for the year, which had no impact on the Company's cash balance, decreased by \$2.9 million to \$0.5 million. This reduction is explained by the fewer options granted during the year, a lower exercise price for the more recently issued options and the gradual recognition of the compensation charge.

**Research and development expenses** decreased by \$0.7 million to \$1.1 million due mainly to a reduction in development costs in the filtration and portable ultrasound scanners segments and a tightening up of development costs associated with the masks segment.

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

<b>Fiscal Years Ended June 30,</b>			
	<b>2011</b>		<b>2010</b>
Medical equipment	\$	<b>1,493,429</b>	\$ 251,250
Sanitizers		<b>(2,861,050)</b>	(2,740,748)
Masks		<b>(2,632,923)</b>	(2,266,232)
Filtration		<b>(2,054,417)</b>	(1,685,215)
Other		<b>(4,763,560)</b>	(7,995,480)
<b>Total</b>	<b>\$</b>	<b>(10,818,521)</b>	<b>\$ (14,436,425)</b>

In light mainly of the aforementioned factors, the **loss before amortization, financial expenses, income taxes, other items and discontinued operations** was reduced significantly. It amounted to \$10.8 million for fiscal 2011, a decrease of \$3.6 million (25%) from the previous year, despite a slight 5% decline in revenues during the year and a \$2.5 million loss on slow-turnover inventories, as mentioned above. Were it not for this loss on inventories consisting of a non-recurring item, the loss would have been lowered by a total of \$6.1 million (42.5%). This distinct 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 indicated reasons;
- increases in Noveko Algérie's and ECM's profitability by way of which the medical equipment segment posted overall earnings before amortization, financial expenses and income taxes of \$1.5 million for fiscal 2011, a distinct improvement of \$1.2 million over the previous year;
- the loss attributable to the sanitizers segment remained relatively stable, reflecting the positive effects of the cost-tightening measures, offsetting the aforementioned allowance for loss on inventories allocated thereto in the amount of \$0.8 million;
- the masks segment increased its loss by \$0.4 million, primarily reflecting the allowance for loss on inventories allocated thereto in the amount of \$1.5 million, thereby offsetting the positive effects of a reduction in development expenses and the stock-based compensation charge; and

- finally, the filtration segment increased its loss by \$0.4 million during fiscal 2011 due to higher marketing expenses and the allowance for inventory obsolescence related to the frames of our previous filters model targeted to the swine industry.

**Amortization expenses** remained stable at \$2.4 million for fiscal 2011, reflecting a decrease in the amortization attributable to intangible assets, offset by an increase related to amortization of the costs associated with the development of the Exago™ ultrasound scanner since its launch in the veterinary market, combined with an increase in amortization of fixed assets.

**Financial expenses less investment revenues** represented revenues of \$0.4 million for fiscal 2011, compared with expenses of \$1.6 million for the previous year. This change is due primarily to the recognition of exchange gains of \$0.5 million for fiscal 2011, whereas exchange losses of \$1.7 million had been recognized for the previous year. To a lesser extent, the absence of interest expense on convertible debentures for fiscal 2011 also accounted for this change and offset the decline in investment revenues for the year.

**The impairment of intangible assets** amounted to \$1.5 million for fiscal 2011, which impairment is without impact on the Company's cash balance and consists of a non-recurring item for the year. It represents the writeoff of the contract of a commercial agent whose operations have been discontinued and a trademark that is no longer used.

**The goodwill impairment charge** amounted to \$0.5 million for fiscal 2011, which impairment is without impact on the Company's cash balance and can be explained as follows. At the time of the step-one analysis as at June 30, 2011 (preliminary assessment), it was determined that the net book value of the business unit related to the sanitizers segment exceeded its estimated fair value. A comprehensive step-two analysis (comprehensive assessment) was therefore required. Based on the preliminary assessment, the estimated fair value of the sanitizers segment amounted to \$2,329,357 as at June 30, 2011 and a goodwill impairment charge of \$467,300 was hence recognized as at June 30, 2011. This loss adds to the increase in the impairment in the amount of \$24,902 recognized at the beginning of fiscal 2011, subsequent to the final calculation of the goodwill impairment charge for the same segment, completing the preliminary assessment initiated during fiscal 2010. These losses reflect the market conditions affecting this segment, primarily the slowdown in the commercialization of sanitizers since the rapid end of the A (H1N1) influenza pandemic during fiscal 2010, as set forth in further detail under *Description of the Company – Operational Overview – Sanitizers*. With the assistance of an independent valuator, the Company is currently carrying out the comprehensive assessment, including a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. The Company expects to complete the final calculation of the goodwill impairment charge during fiscal 2012 and the resulting adjustments, if any, would result in a non-cash adjustment to the consolidated statement of operations. The reader is reminded that for fiscal 2010, a goodwill impairment charge of \$2.3 million also primarily related to the sanitizers segment had been recognized.

### Net Earnings (Loss) from Continuing Operations

Fiscal Years Ended June 30,		
	2011	2010
Medical equipment	\$ 585,975	\$ (555,879)
Sanitizers	(3,905,721)	(4,441,996)
Masks	(2,648,470)	(2,510,416)
Filtration	(1,988,163)	(1,980,110)
Other	(6,532,333)	(10,874,190)
<b>Total</b>	<b>\$ (14,488,712)</b>	<b>\$ (20,362,591)</b>

In light mainly of the aforementioned factors, including non-recurring items such as the loss on slow-turnover inventories of \$2.5 million and the impairment of intangible assets of \$1.5 million, as well as the goodwill impairment charge attributable to the sanitizers segment for an amount of \$0.5 million, **the net loss from continuing operations** totalled \$14.5 million for fiscal 2011, a major reduction of \$5.9 million (29%).

As detailed in note 5, "Discontinued Operations and Assets Held for Sale" accompanying the fiscal 2011 consolidated financial statements, a \$1.3 million loss from discontinued operations (BLI) was recognized, which included a loss for eventual disposal of \$1.1 million (the reader is referred in this regard to *Description of the Company – Operational Overview – Eventual Sale of BLI*), compared with a \$3.9 million loss for the previous year. The reader is reminded that the discontinued operations include both BLI's and Magnum's accounts for fiscal 2010, but solely BLI's accounts for fiscal 2011. Consequently, the current fiscal year's **net loss** amounted to \$15.8 million, compared with \$24.2 million for the previous year, a major reduction of \$8.4 million (35%).

Considering a net change in unrealized gains on translation of the financial statements of self-sustaining foreign operations of \$0.3 million for fiscal 2011, compared with a net change in unrealized losses of \$1.1 million for the previous year, a net loss of \$15.6 million represented **comprehensive loss** for fiscal 2011, compared with \$25.3 million a year earlier.

**The loss from continuing operations and net loss per Class A share (basic and diluted)** for fiscal 2011 amounted to \$0.17 and \$0.19, respectively, on a weighted average of 85,472,421 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.28 and \$0.33 per share, respectively, on a weighted average of 73,487,740 shares for fiscal 2010. The increased weighted average number of outstanding shares is due primarily to the Class A share issues related to the fiscal 2011 private placements, as detailed in note 21 accompanying the year's financial statements.

#### Principal Quarterly Financial Information

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2011</b>				
Revenues	2,747	5,026	3,415	3,109
Loss from continuing operations	(2,838)	(2,828)	(2,643)	(6,179)
Comprehensive loss	(2,654)	(3,096)	(2,593)	(7,239)
Loss per Class A share from continuing operations (basic and diluted)	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ (0.07)
<b>Fiscal 2010</b>				
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)
<b>Fiscal 2009</b>				
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)

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

### Consolidated and Segmented Revenues from Continuing Operations

Quarters Ended June 30,				
	2011		2010	
Medical equipment	\$	2,217,975	\$	2,090,119
Sanitizers		61,265		66,698
Masks		1,119		50,385
Filtration		829,020		685,895
Other		-		2,704
<b>Total</b>	<b>\$</b>	<b>3,109,379</b>	<b>\$</b>	<b>2,895,801</b>

**Consolidated revenues** for the fourth quarter of 2011 grew by \$0.2 million (7%) to \$3.1 million. This growth primarily reflects:

- a \$127,856 (6%) increase in sales of medical equipment, whereas sales of portable ultrasound scanners posted a significant growth of \$0.7 million (48%), driven notably by the resumed deliveries of our Imagyne™ ultrasound scanners to China, which will enable us to meet our sales objectives with our Chinese distributor. ECM's commercialization efforts contributed to offset the decline in Noveko Algérie's sales. This decrease is partly explained by delays during the quarter of deliveries of the raw material used in the manufacture of its medical equipment. Furthermore, the amendment of the Algerian regulatory legislation with respect to the awarding of contracts by public bodies under the new Algerian Code on Government Procurement also caused delays in obtaining major orders and adversely affected Noveko Algérie's fourth-quarter sales. Pursuant to this regulatory legislation, contracts and calls for tenders by public bodies cannot be awarded to entities entirely held by foreign interests. As Noveko International assigned 30% of the shares held in Noveko Algérie to an officer of the subsidiary effective July 1, 2011, the latter's status is now in compliance with this new requirement;
- a \$143,124 (21%) increase in filtration product revenues mainly reflecting the breakthroughs in the real estate market;
- relatively stable sales of sanitizers in relation to the corresponding quarter of the previous year, in the amount of \$61,265 stemming mainly from hospital settings; and
- a \$49,266 decrease in sales in the masks segment, for the aforementioned reasons.

**The operating profit margin** stood at 35.5% for the fourth quarter of 2011, compared with 23.5% for the fourth quarter of 2010. This improvement is due primarily to the relatively greater proportion of the medical equipment and filtration segments in consolidated revenues than the corresponding period of the previous year.

**Selling and administrative expenses** decreased by \$1 million (24%) to \$3.1 million for the fourth quarter of 2011. This reduction reflects primarily the cost-control measures.

**The loss on slow-turnover inventories** amounted to \$2.5 million and represented an allowance related to the weak turnover of a portion of the accumulated inventories related to the masks and sanitizers segments, further to the rapid end to the A (H1N1) influenza epidemic, as previously explained. This allowance consists of a non-recurring item recognized in the fourth quarter of 2011.

**Stock-based compensation charge**, which has no impact on the Company's cash balance, declined by \$0.4 million for the fourth quarter of 2011, for the aforementioned reasons.

**Research and development expenses** for the fourth quarter of 2011 decreased by \$0.4 million to \$0.2 million due mainly to a tightening up of development costs associated with the masks segment.

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

Quarters Ended June 30,		
	2011	2010
Medical equipment	\$ 223,117	\$ (186,835)
Sanitizers	(1,252,190)	(811,072)
Masks	(2,134,385)	(1,386,353)
Filtration	(279,326)	(397,907)
Other	(1,028,648)	(1,428,346)
<b>Total</b>	<b>\$ (4,471,433)</b>	<b>\$ (4,210,514)</b>

In light mainly of the aforementioned factors, notably a \$2.5 million loss on slow-turnover inventories, the **loss before amortization, financial expenses, income taxes, other items and discontinued operations** totalled \$4.5 million for the fourth quarter of 2011, a slight increase of \$0.3 million (6%) over the corresponding quarter of the previous year. Were it not for the loss on inventories consisting of a non-recurring item recognized in the fourth quarter of 2011, the loss would have been lowered by \$2.3 million (53.7%). Segmented changes reflect the following factors:

- a \$0.4 million reduction in the “other” segment’s loss due to a major decrease in the stock-based compensation charge of the parent company Noveko International;
- improvements in the medical equipment segment which overall posted earnings before amortization, financial expenses and income taxes of \$0.2 million for the fourth quarter of 2011, an increase of \$0.4 million over the fourth quarter of 2010;
- a \$0.1 million reduction in the filtration segment’s loss reflecting the advances achieved in the segment;
- the loss attributable to the sanitizers segment totalled \$1.2 million, an increase of \$0.4 million reflecting the aforementioned allowance for loss on inventories in the amount of \$0.8 million, which offset the positive effects of the cost-turnaround measures in the segment;
- the masks segment increased its loss by \$0.7 million, reflecting the allowance for loss on inventories allocated thereto in the amount of \$1.5 million, which offset the positive effects of the decrease in development expenses.

**Amortization expenses** remained stable, amounting to \$0.6 million for the fourth quarter of 2011.

**Financial expenses less investment revenues** represented revenues of \$0.1 million for the fourth quarter of 2011, compared with expenses of \$0.3 million for the fourth quarter of 2010.

**The impairment of intangible assets** consisting of a non-recurring item recognized in the fourth quarter of 2011 represented primarily the writeoff of a commercial agent’s contract and amounted to \$1.1 million. This loss has no impact on the Company’s cash balance.

**The goodwill impairment charge** recognized for the fourth quarter of 2011 and attributable to the sanitizers segment amounted to \$0.5 million, compared with \$2.4 million for the fourth quarter of 2010. This loss has no impact on the Company’s cash balance.

## Net Earnings (Loss) from Continuing Operations

Quarters Ended June 30,		2011	2010
Medical equipment	\$	91,187	\$ (324,430)
Sanitizers		(1,845,106)	(2,172,299)
Masks		(2,137,160)	(1,445,722)
Filtration		(120,430)	(383,039)
Other		(2,167,384)	(3,057,915)
<b>Total</b>	<b>\$</b>	<b>(6,178,892)</b>	<b>\$ (7,383,405)</b>

The net loss from continuing operations amounted to \$6.2 million for the fourth quarter of 2011, compared with \$7.3 million for the corresponding quarter of the previous year, in light mainly of the aforementioned factors, including non-recurring items such as the loss on slow-turnover inventories of \$2.5 million and the impairment of intangible assets of \$1.1 million recognized in the fourth quarter of 2011, as well as the goodwill impairment charge attributable to the sanitizers segment for an amount of \$0.5 million also recognized in the fourth quarter of 2011, compared with an amount of \$2.4 million for the fourth quarter of 2010.

A loss of \$1.1 million from discontinued operations consisting primarily of an amount for loss on eventual disposal, as previously described, was recognized in fourth-quarter results, compared with a loss of \$2.5 million for the corresponding quarter of the previous year. Consequently, the fourth-quarter net loss amounted to \$7.2 million, compared with \$9.9 million for the same quarter a year earlier.

Considering a net change in unrealized gains on translation of the financial statements of self-sustaining foreign operations of \$10,457 for the quarter, compared with a net change in unrealized gains of \$0.2 million for the corresponding quarter of the previous year, a net loss of \$7.3 million represented comprehensive loss for the fourth quarter, compared with \$9.6 million for the corresponding quarter of the previous year.

The fourth-quarter loss from continuing operations and net loss per Class A share (basic and diluted) amounted to \$0.07 and \$0.08, respectively, on a weighted average of 91,684,093 outstanding shares, compared with a loss from continuing operations and a net loss of \$0.10 and \$0.12 per share, respectively, on a weighted average of 75,915,912 shares for the same quarter a year earlier.

## 5. FINANCIAL POSITION

### Analysis of Principal Cash Flows for Fiscal 2011

Fiscal Years Ended June 30,

	2011	2010
<b>Operating activities:</b>		
Net loss	\$ (15,835,729)	\$ (24,218,551)
Adjustments for loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation, professional fees paid by warrants, amortization, loss (gain) on disposal of fixed assets, loss (gain) on fair value of short-term investments, goodwill impairment charge, impairment of intangible assets, foreign exchange loss (gain) and adjustments from discontinued operations	6,203,011	12,311,957
Net change in non-cash balances related to operations	1,329,093	(2,148,838)
<b>Total</b>	<b>(8,303,625)</b>	<b>(14,055,432)</b>
<b>Financing activities</b>	<b>7,339,583</b>	<b>13,518,344</b>
<b>Investing activities</b>	<b>1,017,470</b>	<b>433,183</b>
Foreign exchange loss (gain) on cash in foreign currencies	(9,409)	(193,871)
Increase (decrease) in cash and cash equivalents	44,019	(297,776)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 683,532</b>	<b>\$ 639,543</b>

For fiscal 2011, **operating activities after net change in non-cash balances related to operations** used cash flows of \$8.3 million, compared with a cash outflow of \$14.1 million for the previous year. This change is due primarily to the reduction in the net loss, less adjustments for the loss from discontinued operations, future income taxes, accreted interest on debentures, stock-based compensation charge, professional fees paid in warrants, amortization, loss (gain) on disposal of fixed assets, loss (gain) on fair value of short-term investments, goodwill impairment charge, impairment of fixed assets, foreign exchange gain (loss) and adjustments from discontinued operations. Net change in non-cash balances related to operations represented a cash inflow of \$1.3 million for fiscal 2011, compared with a cash outflow of \$2.1 million for the previous year. These changes are due primarily to an increase in accounts payable and accrued liabilities and the loss on slow-turnover inventories.

**Financing activities** provided cash flows of \$7.3 million, compared with a cash inflow of \$13.5 million for the previous year. This change primarily reflects the difference between, first, the net proceeds of \$8.4 million from the issuance of units and Class A shares related to the private placements completed during fiscal 2011, less the repayment of bank loans and of principal on the long-term debt of \$1.2 million, and secondly, the net proceeds of \$14.5 million from the issuance of Class A shares related to the private placement completed during fiscal 2010 (in October 2009), less repayments of principal on the long-term debt and the repayment of convertible debentures for a total of \$0.7 million.

**Investing activities** provided cash flows of \$1.0 million, compared with a cash inflow of \$0.4 million for the previous year. This change is due primarily to a net encashment of short-term investments of \$1.0 million during fiscal 2011, plus an amount of \$1.9 million realized on the disposal of two of the Company's buildings, less the purchase of fixed assets of \$1.3 million. During fiscal 2010, and subsequent to the October 2009 private placement, the Company had acquired short-term investments for a net consideration of \$1.5 million.

Consequently, aggregate cash inflows and outflows for fiscal 2011 provided **net cash inflows** of \$44,019, whereas they had used a net cash outflow of approximately \$0.3 million for the previous year. The Company ended the year with **cash and cash equivalents** of \$0.7 million, compared with \$0.6 million as at June 30, 2010.

## Balance Sheet Analysis as at June 30, 2011

### Summary Balance Sheet

	June 30 2011	June 30 2010
Current assets	\$ 15,851,533	\$ 17,786,357
Current assets held for sale <sup>(1)</sup>	973,595	1,231,858
Long-term assets	15,981,568	17,760,238
Long-term assets held for sale <sup>(2)</sup>	2,871,840	5,896,657
	<b>\$ 35,678,536</b>	<b>\$ 42,675,110</b>
Current liabilities	\$ 4,954,360	\$ 4,444,427
Current assets held for sale <sup>(1)</sup>	1,839,176	1,780,589
Long-term assets	1,022,539	1,633,938
Long-term assets held for sale <sup>(1)</sup>	1,535,371	1,753,146
Shareholders' equity	26,327,090	33,063,010
	<b>\$ 35,678,536</b>	<b>\$ 42,675,110</b>

(1) Related to BLI.

(2) Related to BLI and buildings held for sale as at June 30, 2010, but solely to BLI as at June 30, 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 June 30, 2011 notably reflect the period's results, including the increase in accounts receivable, accounts payable and accrued liabilities, the loss on slow-turnover inventories, the impairment of intangible assets, the encashment of short-term investments and the disposal of two of the Company's buildings, as previously explained.

As at June 30, 2011, **total assets** amounted to \$35.7 million, down by \$7.0 million from June 30, 2010. This change mainly reflects the \$2.5 million loss on slow-turnover inventories and the \$1.5 million impairment of intangible assets. **Working capital** stood at \$10.0 million for a current ratio of 2.5:1, compared with \$12.8 million and a 3.1:1 ratio as at June 30, 2010.

**Shareholders' equity** totalled \$26.3 million as at June 30, 2011 compared with \$33.1 million as at June 30, 2010, resulting primarily from the \$7.9 million increase in capital stock and the \$0.5 million increase in the value of warrants on account of the issuance of Class A shares and warrants subsequent to the fiscal 2011 private placements, plus the \$0.5 million increase in contributed surplus reflecting the stock-based compensation charge, less a \$15.9 million increase in the deficit.

### Indebtedness

	June 30 2011	June 30 2010
Bank loans	\$ -	\$ 167,011
Current portion of long-term debt	350 345	475,432
Long-term debt	273 741	803,647
Total indebtedness <sup>(1)</sup>	<b>\$ 624 086</b>	<b>\$ 1,446,090</b>

(1) Excluding BLI.

**Total interest-bearing debt** (bank loans, current portion of long-term debt and long-term debt) amounted to \$0.6 million as at June 30, 2011, down by \$0.8 million from June 30, 2010. This reduction stemmed mainly from the repayments of principal on long-term debt, including the mortgage related to

the disposal of the McMasterville building of the subsidiary Epurair during fiscal 2011, and repayments of bank loans during the same period. It is to be noted that the total interest-bearing debt related to BLI, as detailed in note 5, "Discontinued Operations and Assets Held for Sale" accompanying the consolidated financial statements, amounted to \$3.0 million as at June 30, 2011.

### Capital Stock Information

During fiscal 2011, and subsequent to the private placements completed during the year, the Company issued 16,020,232 Class A shares for a cash consideration of \$8.4 million.

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

### Contractual Commitments

As at June 30, 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 \$7.0 million. The table below presents the breakdown of required minimum annual payments:

	2012	2013	2014	2015	2016	Thereafter
Leases	\$ 858,216	\$ 837,050	\$ 819,990	\$ 718,072	\$ 544,536	\$ 1,649,920,
Contractual obligations	\$ 426,063	\$ 313,390	\$ 64,992	\$ 56,659	\$ 56,659	\$ -
Other long-term obligations	\$ 350,345	\$ 146,808	\$ 81,933	\$ 45,000	\$ -	\$ -
<b>Total</b>	<b>\$ 1,634,624</b>	<b>\$ 1,297,248</b>	<b>\$ 966,915</b>	<b>\$ 819,731</b>	<b>\$ 601,195</b>	<b>\$ 1,649,920</b>

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 June 30, 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 fiscal 2011, an amount of \$3,150 was paid under the terms of this agreement, whereas a total of \$11,726 had been paid during fiscal 2010.

### Related-Party Transactions

During 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.

### Financial Instruments

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

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

### *Interest Rate Risk*

Interest rate risk is the risk the fair value or the future cash flows of a financial instrument fluctuate due to changes in market interest rates. If interest rates at that date were below or above 0.5%, assuming that all other variables remain constant, the impact on the Company's loss and comprehensive loss for the fiscal years ended June 30, 2011 and June 30, 2010 would have been negligible.

The Company has debts with fluctuating interest rates. These financial instruments represent a risk for the Company should the base interest rate fluctuate in the next years. However, the Company has the option to secure a fixed interest rate with its financial institution.

### *Currency Risk*

Currency risk is the risk that the future cash flows of foreign currency financial instruments will fluctuate due to changes in the foreign exchange rate of the Canadian dollar against foreign currencies. The Company is exposed to exchange risk due to its exports of goods manufactured in Canada and sold into the United States, Europe, Asia, Latin America and the Middle East. These risks are partly offset by its purchases of goods in U.S. dollars.

The Company is exposed to currency risk on its financial instruments denominated in either the U.S. dollar or Euro, as shown in the following table:

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

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

### *Counterparty Credit Risk*

The Company invests surplus cash in short-term investments, sells its products to clients on standard market credit terms and purchases derivative instruments where needed. These activities expose the Company to counterparty credit risk should the counterparty fail to meet its obligations in accordance with the terms and conditions of its contracts with the Company. As at June 30, 2011, the Company had not purchased any derivative instruments.

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

Surplus cash is only invested with counterparties meeting minimum credit quality requirements as well as issuer and concentration limits. Derivative transactions are executed only with approved high-quality counterparties under master netting agreements. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company's maximum counterparty credit exposure at year-end consists of the carrying amount of cash, accounts receivable and derivative instruments.

### Liquidity Risk

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

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

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

### Fair Value

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

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

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

	Level	June 30, 2011		June 30, 2010	
		Book value	Fair value	Book Value	Fair value
Short-term investments	1	\$ 1,146,201	\$ 1,146,201	\$ 2,145,631	\$ 2,145,631
Long-term debt <sup>(1)</sup>	n/a	624,086	617,950	1,279,080	1,245,006
Long-term liabilities held for sale	n/a	1,755,056	1,755,056	1,977,264	1,977,264

(1) Includes long-term debt and its current portion.

### Sources and Requirement of Funds

Since our inception, we have incurred significant operating losses related mainly to our product development and commercialization-related expenses, raising some uncertainty as to the use of the going concern assumption in conformity with GAAP, which assumption infers we will be able to carry on our business and fulfill our obligations in the normal course of business in the foreseeable future. As at June 30, 2011, our accumulated deficit amounted to \$103.4 million and we had \$1.8 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. During fiscal 2011, we completed private placements for aggregate gross proceeds of \$8.4 million, whereas during the first quarter of 2012, we closed a \$6 million financing, consisting of a credit facility of a maximum of \$4 million and convertible debentures in the amount of \$2 million. 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 June 30, 2011, and subsequent to the sale of Terrebonne building during fiscal 2011, the receivable purchase facility of \$500,000 from which Noveko benefited until then, formerly secured by an immovable hypothec subsequent on that building, was no longer available. ECM had a credit facility on demand of 50,000 € that was unused as at June 30, 2011. This credit bears interest at the prime rate of the financial institution plus 1.2%. Epurair had a credit facility on demand of \$400,000, of which \$300,094 was used as at June 30, 2011. This credit, bearing interest at the prime rate of the financial institution plus 1.5%, is 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 liquidity ratio of 1.3:1 and a maximum debt-to-equity ratio of 2:1. As at June 30, 2011, the subsidiary met these ratios. For its part, BLI had a credit facility on demand of \$1,350,000, of which \$1,227,247 was used as at June 30, 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 could raise a serious doubt about our ability to carry on our business.

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 growth. In this regard, the reader is also referred to Section 6 *Outlook* of this Management's Report. The going concern assumption depends on our ability to raise such supplementary funds, which, in turn, 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**

Effective July 1, 2011, in order to comply with the amendment of the regulatory legislation under the new Algerian Code on Government Procurement, we assigned 30% of the shares held in Noveko Algérie to an officer of the latter for a consideration of \$188,011.

On July 26, 2011, we announced the closing of an interim financing in the amount of \$670,000 obtained mainly from Company directors, officers and insiders. This interim financing by way of convertible debentures was used for working capital purposes up to the closing of the \$6 million financing described below. The debentures bearing interest at an annual rate of 12% will be redeemed using the net proceeds from the above-described financing.

On September 28, 2011, we proceeded with the closing of a \$6 million financing consisting of a credit facility of a maximum of \$4 million and convertible debentures in the amount of \$2 million. The credit facility will mature 24 months after the Closing (the "Maturity Date"), subject to the Company's right to terminate the credit facility after the first anniversary of the Closing. The credit facility and the debentures bear interest at an annual rate, compounded monthly, and paid monthly in arrears equal to a minimum of 12%, adjusted upward for any changes in a selected chartered bank rate. Maintenance fees at a 1% annual rate will also be due monthly on the unused portion of the credit facility. Debenture holders will have the right, at their sole discretion and at any time during the term, to convert, in whole or in part, the principal of the debentures into Class A shares of the Company, at a conversion price of \$0.60 per share. All advances under the credit facility, as well as the remaining non-converted portion of the debenture, will be reimbursed by the Company on the Maturity Date. The remaining portion of the debentures will then be redeemable at 1.5 times their par value. To secure its obligations under the credit facility and convertible debentures, the Company has granted hypothecs on all its assets, including the shares it holds in its subsidiaries. In addition, the Company's Canadian subsidiaries have each granted hypothecs on all their respective movable and immovable assets.

## 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 fiscal 2012 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 foresee that promising advances will continue to be realized in upcoming quarters in the commercialization of our new applications, especially in the real estate and transportation fields.

In the real estate segment, we believe there is great potential, within the near term, for us to win 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. We now also offer a more comprehensive range of filtration solutions that will allow us to meet the needs of an expanded client base. The agreements entered into in past quarters, the breakthroughs in the North American, European and Asian real estate markets, the ongoing pre-sale trials, as well as the numerous meetings and calls for tenders from real estate groups interested in our filtration solutions, enable us to look forward to such an outlook.

In *air filters for the transportation industry*, we believe that obtaining a 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. The spin-offs of these tests should gradually lead to substantial revenues over the medium and long term, although we do not anticipate any significant revenues in this regard within the near term. Furthermore, various parties in the rail transportation industry have indicated they are interested in our filtration solutions. In the aeronautics segment, obtaining a certificate for the Airbus 330 aircraft has paved the way for their commercialization worldwide. We have since initiated the certification process for the Airbus 340 and intend to have the entire Airbus fleet certified. Our Noveko IDP™ filters are attracting growing interest and we are in talks in this regard with various industry players, notably with a view to building distribution partnerships. Although we are confident we can further penetrate this market, it is difficult to foresee how long it will take for such procedures to materialize.

In *air filters for farm buildings*, our business is picking up somewhat, and that should continue in fiscal 2012. 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, while also pursuing commercialization activities directly, we are in talks with parties interested in our antimicrobial filtration technologies. Despite signs of a recovery, we cannot foresee what timeframe will be required for new marketing agreements to materialize and for our sales to pick up significantly. 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, and we are pursuing our efforts to stimulate a sustainable recovery. However, that could take longer than initially expected to come about. We continue to prioritize the promising hospital and institutional markets.

We expect that our *medical equipment* segment will further improve its sales and profitability. The Exago™ ultrasound scanner was launched in the human medicine market during the second quarter; subsequent to the forthcoming launch of the Exagyne™ ultrasound scanner, 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. As attested to by the new orders worth \$1.25 million won from the NOEAHP, we expect Noveko Algérie to continue reaping 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 during fiscal 2012. 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.

On account of the various factors previously mentioned in this Management's Report and to pursue our product development and marketing, as described under *Description of the Company – Operational Review*, we successfully raised additional funds for aggregate gross proceeds of \$8.4 million by way of private placements during fiscal 2011. In the first quarter of 2012, we also closed a \$6 million financing consisting of a credit facility of a maximum of \$4 million and convertible debentures in the amount of \$2 million.

## **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 June 30, 2011, an evaluation was carried out, under the supervision of and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer (it is to be noted that as of June 30, 2011, the Chairman of the Board and Chief Executive Officer was also acting as Interim 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 and annual consolidated financial statements for fiscal 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 and annual periods of fiscal 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 June 30, 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 June 30, 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 and annual consolidated financial statements for fiscal 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 currently in the process of implementing controls over program development and program changes.

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

**Inventory Management and Control**

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

**Segregation of Duties**

We have deficient controls within our accounting department over segregation of duties inherent to the department's size. Specifically, as a result of the limited number of personnel in the accounting department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization. To mitigate the risk, our management relies heavily on manual procedures and detection controls, 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 June 30, 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 June 30, 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 June 30, 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.

***Inventory Management and Control***

To ensure better control over the management of some of our inventories, we have implemented stricter control measures and reviewed all the inventory transactions that occurred during fiscal 2011. We are also in the process of hiring additional personnel in order to remedy this weakness.

***Inadequate Segregation of Duties***

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

***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 fiscal 2011. Further visits will also be needed and will be conducted during fiscal 2012 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 and annual consolidated financial statements for fiscal 2011 and 2010 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 period ended June 30, 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. You should carefully consider the risks and uncertainties described below before making any decision to purchase or to sell any of our securities. The risks and uncertainties below are not the only ones we may face. Additional risks and uncertainties not presently known to us or that we believe immaterial could turn out to be material and may adversely affect our business. If any of the following risks occur, our business, financial condition and results of operations could be seriously harmed and you could lose all or part of your investment. Further, if we fail to meet the expectations of the public market in any given period, the market price of our Class A shares could decline. The analysis provided below contains looking forward statements that may differ materially from future actual results.

### ***Risks Related to Our Financial Condition***

#### **We have no record of profit**

To date, we have not recorded a profit from operations. Our working capital is coming essentially from the sale of our securities. In fact, we have incurred significant losses to date and there can be no assurances that our future business activities will be profitable. Our ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including our ability to further develop our technologies and products, the pace of entry of our products into their respective target markets, the intensity of the competition we will experience, and the availability of additional capital to pursue our business plan). An inability to generate sufficient funds from operations will have a material adverse effect on the Company's business, results of operations and financial condition.

#### **We will require additional financing**

In the future, we will likely need to raise additional funding from lenders or the financial markets to sustain our growth. We may be unable to raise such additional funds on commercially reasonable terms. Our ability to arrange such financing in the future will depend on our business performance as well as prevailing capital markets conditions. If we are unable to raise additional funds when needed, the survival of our business will be jeopardized. Any equity financing may also be dilutive to existing shareholders.

### ***Economic Risks***

#### **Economic conditions**

An economic slowdown could result in a decrease in demand for our products. Growth in our clients' businesses is affected by the economic environment and could therefore impact the Company's results. During an economic slowdown, existing and potential clients may reduce or delay purchases or projects or defer contracts underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Increased competitive pressures during an economic downturn could also result in sales price decreases. Such factors may affect negatively our profitability.

#### **Foreign exchange risk**

We anticipate earning a significant portion of our revenues from operations outside Canada. Accordingly, a substantial portion of our revenues is earned in foreign currencies (mostly US dollars and Euro) while a substantial portion of our operating expenses is incurred in Canadian dollars. Fluctuations in the exchange rate between those foreign currencies and the Canadian dollar may have a material adverse effect on our operating results. In addition, we are exposed to unrealized exchange gains and losses with respect to the translation of monetary assets and liabilities held in currencies other than the Canadian dollar. Our actual largest exposure is with respect to the U.S. dollar.

### **We do business internationally**

Our subsidiaries are located in Canada, Europe, North Africa, China and Taiwan. We market a large proportion of our products outside Canada and expect our sales in foreign markets to increase in the future. These foreign operations require significant management attention and financial resources while additionally subjecting us to risks inherent in doing business internationally. International business activities entail inherent risks such as trade barriers, political risks, uncertainty as to the protection and use of intellectual property in foreign countries, increase in taxes (including value added taxes) and changes in law and policies affecting our operations. Our failure to properly comply or address any of the above factors could greatly mitigate the success of our international operations and have a material adverse effect on our operating performance and financial condition.

### **Members of our Group conduct intercorporate transactions**

We conduct business operations between members of our group and, sometimes, in various jurisdictions. Certain members of our Group provide products and services to, and may from time to time undertake certain significant transactions with other members. Our future income and cash may be adversely affected if any of the taxation authorities in these various jurisdictions were successful in challenging our transfer pricing policies.

### **Other tax issues**

Although we are of the view that all expenses and tax credits claimed by us, including research and development expenses and tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian or foreign taxation authorities will be in agreement with us. If these taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected. We may, directly or indirectly, through our subsidiaries, be subject to taxes with respect to our operations in foreign jurisdictions. Although we are of the view that our books and registers as well as our financial statements reflect adequately our liabilities with respect to such foreign taxes, these foreign jurisdictions could however challenge our liabilities for such foreign taxes, which could adversely affect our operating results.

## ***Business Risks***

### **Disclosure controls and procedures and internal controls over financial reporting**

The Company's management is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). In this Management Report, under section 7 *Disclosure Controls and Procedures and Internal Control over Financial Reporting*, the management identified material weaknesses in connection with its DC&P and ICFR and concluded that such DC&P and ICFR are not efficient. Even if the DC&P and ICFR material weaknesses that the management identified did not result in adjustments to our annual or any interim consolidated financial statements for fiscal 2011 and 2010, the weaknesses so identified constitute risk factors the reader should be aware of.

### **Risks related to the ability to meet the demand for antimicrobial masks and respirators and air filters**

The global market for antimicrobial surgical masks and respirators, and air filters holds significant potential that we intend to further develop considering the advantages related to our products' antimicrobial properties in a context of epidemic and pandemic threat. We have entered into different alliances for the production and marketing of our products. We are actively pursuing initiatives to build up a reliable antimicrobial surgical mask and respirators and air filters production and distribution capacity in order to meet demand. However, we have just started operating in this field and there are risks that we could be unable to meet the entire demand due, for instance in case of epidemic or pandemic, to a lack of production or distribution capacity, or due to regulatory issues.

### **Our capacity to protect our intellectual property**

The success of our group will depend, to a certain extent, upon our ability to protect our core technologies and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, trademarks, and copyrights, as well as customary contractual protections. A list of our various patents and pending patents are included in the *Fiscal 2011 Annual Information Form*. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow or amend our claims. Any patents granted to us may be contested, circumvented or invalidated over the course of our business, and we may not be able to prevent third parties from infringing these patents. Enforcing our intellectual property rights could cause us to incur substantial legal costs, distract our management from running our business, cause significant delays in the commercialization of our products. The outcome of any litigation or negotiation is unpredictable. Infringements may occur in jurisdictions where intellectual property rights are not protected as well as in North America. Therefore, the exact effect of the protection of these patents cannot be predicted with certainty. We could also face competition in jurisdictions where patents have not been yet granted to us.

We may also become subject to claims by third parties that we infringe their intellectual property rights. Any such claim of infringement, even those without merit, could involve the same consequences than those occasioned to protect our own intellectual property.

We also rely on trade secrets and know-how, which are not protected by patents. We try to protect this information by entering into confidentiality undertakings with parties that have access to it, such as our current and prospective third party product manufacturers, distributors, employees and consultants. Any of these parties may breach the undertakings and disclose our confidential information. Enforcing a claim that a third party illegally obtained our trade secrets or is using them, is difficult, expensive, time consuming and the outcome is unpredictable.

We believe that our antimicrobial filtration technology used in our antimicrobial surgical masks and respirators, and in some of our air filter products, have unique features. Our antimicrobial filtration technology is protected by various patents and pending patents applications. One of our patents has already been revised by the USPTO further to an anonymous request for an Ex Parte Reexamination. Our patent has been maintained but we cannot guarantee that such patent (or our other patents and patent applications) will not be contested again at the administrative level or before the Courts.

There are currently a few other manufacturing processes to make antibacterial masks, like soaking of masks into, or coating with, an antibacterial solution. However, we believe that our manufacturing process is more efficient and less costly than these other processes. In Noveko's proprietary manufacturing process, the chemical agents that inactivate bacteria and viruses are impregnated or molecularly bounded into the fibres. Other manufacturing processes for which chemical agents are not impregnated or molecularly bounded could be hazardous if the chemical agents are released in the air or immediate environment and could have a shorter lifespan than our products if the chemical compounds evaporate.

### **Several of our products are strictly regulated**

Several of our products are regulated as medical devices (masks, ultrasound scanners), as natural health products, cosmetics or as drugs (sanitizers, depending upon the jurisdiction) or otherwise regulated because some of them contain antimicrobial or chemical agents. Therefore, you should be aware of the risks, problems, delays, expenses and difficulties we may encounter in light of the extensive regulatory environment within which our business is carried out. Regulations are not the same in the several jurisdictions where we market or intend to market our products, which constitutes a further difficulty. Such regulations govern, among others, approval of manufacturing facilities, conditions applicable to the manufacturing processes, the procedures that may be required for testing the effectiveness or the safety of our products, or labelling and promotional materials requirements. This regulatory oversight also requires a strict adherence to applicable GMP (good manufacturing practices) and ISO standards. To obtain the required regulatory approvals is a lengthy, expensive and uncertain process. Any failure or delay in obtaining regulatory approvals could have a material adverse effect on our business, results and financial condition. Furthermore, product approvals may be

withdrawn or not renewed if compliance with regulatory standards is not maintained or if conditions attached to these approvals are not fulfilled.

### **Our products incorporating antimicrobial agents may not be accepted by potential clients**

Our antimicrobial surgical masks and respirators and air filters are new to the market. While we believe that our products provide significant advantages over the competition, there can be no assurance that we will be successful in commercializing them, especially as many competitors have substantially greater financial resources than ours. Potential lack of clients or delays in product acceptance would have a material adverse effect on our business, results and financial condition.

### **Supplier dependency for chemical compounds**

We depend on a few numbers of suppliers to provide us with the various components entering into our products. It is particularly important to maintain consistency in the chemical compounds used in our mask and respirator manufacturing. Changing the chemical compounds could require re-validation of their properties.

### **Raw material costs**

Raw materials represent a significant input into our manufacturing process. Although a wide variety of raw materials is used by our subsidiaries, polypropylene, polyethylene and some chemical additives are the main raw materials with respect to our surgical masks, respirators and filters. Polypropylene prices are correlated, among other things, to crude oil prices and polymer manufacturing capacity and demand. Significant increases in raw material prices could have a material adverse effect on our results and financial condition although our competitors will be affected similarly.

### **Air filtration products**

Even if we consider that the combination of our antimicrobial filtration technology to Purer Life's 3-D weaving technology allows us to offer a market proposal with significant advantages over the competition, our air filtration products are new on the market, and we are competing with corporations having substantially more resources than ours to commercialize their products. In order to successfully penetrate this huge market, our strategy consists in developing and commercializing air filters designed for specific applications, such as our air filters intended for the swine market, our filtration solutions for the real estate segment (office buildings, healthcare institutions and multifunctional buildings), as well as our filters for the rail and aeronautics transportation industries. However, we cannot guarantee that we will be able to penetrate these markets in a significant way.

There are many air quality products for the residential market similar to those produced by Epurair. Some of those similar products are manufactured by large corporations with substantially more resources than ours. Epurair holds no patents for these products.

### **Sanitizers**

There are manufacturers of sanitizers similar to the products commercialized by Noveko, some of which are multinationals with substantially more resources than ours. Noveko holds no patent for its sanitizers.

### **Risks related to ultrasound scanners**

Worldwide, there are numerous manufacturers of ultrasound scanners, some of which are multinationals with substantially more resources than ours. However, in the animal sector, these large corporations do not generally operate in ECM's niches and their products do not offer the same features as ECM's scanners, such as portability, individual standby power supply and competitive prices. That situation may change in the future. Several smaller-scale entities offer products with similar features to ECM's, particularly Chinese companies, and, as such, represent potential competitors in the various markets in which ECM is present. In the human sector, a new market for ECM, we are facing fierce competition from multinationals. In response to that competitive environment, we have adopted a highly selective market strategy, steadily improving our products' properties, minimizing manufacturing costs to offer competitively priced products. The market has not yet recognized the full potential of portable ultrasound scanners, mainly for the equine and pets sector. Our capacity to make known their features will be crucial for the growth of that sector.

**Risks related to steel processing operations**

Our subsidiary BLI is involved in the steel industry, which is subject to regular price fluctuations caused by supply and demand trends and to the economic situation in general.

BLI occupies a small niche in Canada, being the custom processing and distribution of steel products based on client specifications and designs. BLI has numerous competitors in that field. But, few others Canadian companies are as equipped as BLI to transform steel in a finished product, or are as self-sufficient in regard with steel cutting and machining. However, the reader should be aware that as BLI's activities are no longer strategic to our group's growth, we are pursuing our efforts to divest BLI. Consequently, BLI's activities have been treated as discontinued operations in our management's reports for fiscal 2011 and 2010. There can be no assurance that the sale of BLI will be completed on a short-time basis or at favourable conditions for the Company. On the other hand, we have received two related purchase offers in recent days, one for certain assets of BLI and the other for BLI's shares, which we consider serious and are currently reviewing. While no decision has been made in their regard and they could be accepted, refused or negotiated, we deemed it appropriate under the circumstances, in light of the divesting process initiated over two years ago and the filing of these two offers, to recognize a loss for eventual disposal of \$1.1 million under results from discontinued operations in our fiscal 2011 financial statements.

**We depend upon key personnel**

The management of the group is assured by a small number of key employees and the departure of any one of these employees could have an adverse impact on our activities. However, we partially offset such risk by recruiting several employees with experience in our various business components.

To ensure our success, management and key personnel must have sound knowledge of our products, our clients and of the markets where we are involved in. Given the current economic background, we must be able to retain our key personnel and attract new employees in order to continue growing. Our personnel are currently spread across the world through our subsidiaries. Such decentralization of human capital presents advantages but also disadvantages. Such disadvantages constitute additional risks, especially in connection with the successful operations of our business when concerted efforts are necessary.

The labor market being highly competitive, we may not be able to hire and retain the required employees, which could have a material adverse effect on our business, results and financial condition.

**Risk of legal proceedings**

In the normal course of business, the Company could be subject to lawsuits, claims and litigation for amounts superior to our liability insurance. As of June 30, 2011, the Company, Noveko and Magnum were being sued by an ex-employee of Noveko, who was invoking a breach of contract and seeking a consideration of \$101,539, plus \$10,000 as exemplary damages. Even though the Company deems this suit to be unfounded, there is no assurance that a judge will not decide otherwise.

**Capacity to identify and complete strategic acquisitions that will contribute to future growth**

Even though the Company is not considering additional acquisitions, in the long term or even before if the appropriate circumstances are met, we might have to proceed with strategic acquisitions to ensure our future growth. However, we may be unable to: (i) identify suitable acquisition targets available for sale at reasonable prices; (ii) properly evaluate the fair value of the target businesses or; (iii) complete any acquisition in a given timeframe. In addition, if we proceed with acquisitions, available cash may be used to complete such transactions, diminishing our liquidity and capital resources, or a share issue may be necessary which could cause significant dilution to our existing shareholders. Furthermore, identifying acquisitions and the completion of acquisitions *per se*, could divert management's attention and use significant financial resources that may negatively affect our business, operating results and financial situation.

**Conflict of interest**

Our directors and executive officers as a group, beneficially own, directly or indirectly, or exercise control or direction over 25,679,800 Class A shares or approximately 27.9% of the issued and outstanding Class A shares of the Company (without taking into account any convertible securities they might hold). Conflicts may arise between such individual interests as members of the Board of Directors or as members of the management team and their respective interests as shareholders. Such conflicts could arise, for instance, with respect to the setting of their respective remuneration, the granting of options and similar matters. However, our directors and officers have the legal duty to act in the best interests of the Company.

**Risks Related to Our Securities****There may be volatility in our Class A shares**

The market price for our Class A shares have been and could be subject to wide fluctuations. For instance, for fiscal 2011, the market price of our Class A shares ranged from \$0.31 to \$1.07 (closing price on June 30, 2011: \$0.66). Factors such as announcements of our annual and quarterly results and financial position, delays incurred in the approval of our regulated products, difficulty to penetrate certain markets, or failure to meet market expectations may adversely affect the market price of our Class A shares. The stock market has from time to time experienced extreme price and volume fluctuations, which were unrelated to any specific corporate operating performance.

**There may be dilution in our Class A shares**

There are currently several outstanding types of securities convertible into Class A shares, namely: stock options granted under the Company's stock option plans, warrants and options granted to the agents to purchase additional units and convertible debentures in connection with fiscal 2011 and 2010 private placements. During the life of these convertible securities, their respective holders can exercise the conversion privilege attached thereto and, as such, profit from an increase in the market price of our Class A shares. This would result in dilution of the interest of existing shareholders. In addition, as referred to before, we may need to raise additional funds through public or private equity financings. Any such equity financing would also be dilutive to existing shareholders.

The increase in the number of Class A shares in the market resulting from the exercise of convertible securities, the possibility of sale of such shares, and the possibility of public or private equity financings may have a depressive effect on the market price of the Class A shares. In addition, as a result of additional Class A shares being issued, voting power of the Company's existing shareholders will decrease proportionately.

**9. CHANGES IN ACCOUNTING POLICIES**

Effective July 1<sup>st</sup>, 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 1<sup>st</sup>, 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 1<sup>st</sup>, 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 for fiscal 2010. These amendments did not affect the consolidated financial results.

Effective July 1<sup>st</sup>, 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 progress 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 comparatives 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 1<sup>st</sup>, 2011 (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 1<sup>st</sup>, 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 1<sup>st</sup>, 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 1<sup>st</sup>, 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. We are now in the final stage of the changeover plan, specifically the review, validation and implementation of the impact of the IFRS changeover. A detailed analysis of the differences between the accounting policies applied by the Company and IFRS is therefore about to be completed and will give rise to a final report assessing the IFRS changeover impact 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 continued to review the IFRS standards and to assess their impact. When making IFRS choices, we selected the accounting policies we deemed most appropriate under the circumstances. During the first quarter of 2012, to allow preparation of our opening balance sheet under IFRS as at July 1<sup>st</sup>, 2010, we will finalize the quantification and review of the effects arising from the differences between our accounting policies and IFRS, the selection and approval of the related solutions where required, and finally, the preparation of our accounting systems accordingly.

#### **Material Differences Compared with Current Accounting Policies**

At this stage of the conversion project, 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 provides the differences between GAAP and IFRS we deem most relevant, but, at this stage, it should not be considered an exhaustive and definitive list.

#### **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:

<b>Exemption</b>	<b>Application</b>
<b>IFRS 2, Share-Based Payment</b>	<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 1<sup>st</sup>, 2010. We will also apply IFRS 2 to all equity instrument grants as of July 1<sup>st</sup>, 2010.</p>
<b>IFRS 3, Business Combinations</b>	<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 1<sup>st</sup>, 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>
<b>IAS 21, Effects of Changes in Foreign Exchange Rates</b>	<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.

<b>Standards</b>	<b>Comparison between GAAP and IFRS and Preliminary Assessments</b>
<b>IFRS 2, Share-Based Payment</b>	<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 continuing to assess 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>
<b>IFRS 3, Business Combinations</b>	<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 1<sup>st</sup>, 2011. We have opted for early adoption of Section 1582 for fiscal 2011. Accordingly, this section would apply to acquisitions completed as of July 1<sup>st</sup>, 2010, if any. Consequently, we avoided having to make accounting adjustments to account for the differences between GAAP and IFRS for business combinations that could have been completed, if any, between July 1<sup>st</sup>, 2010 and July 1<sup>st</sup>, 2011.</p>

<b>IAS 16, Property, Plant and Equipment</b>	<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 continuing to assess and to quantify 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>
<b>IAS 21, Effects of Changes in Foreign Exchange Rates</b>	<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>
<b>IAS 36, Impairment of Assets</b>	<p>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.</p>
	<p>We are continuing to assess and to quantify the impact of this standard on our current impairment testing models.</p>
<b>IAS 37, Provisions, Contingent Liabilities and Contingent Assets</b>	<p>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.</p>
	<p>Consequently, there may be possible obligations that would meet IFRS recognition criteria but would not be recognized under GAAP. We are continuing to assess and to quantify the impact of this standard, notably on our legal and implicit obligations.</p>

**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 is expected to 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 definitively quantify all their impacts on our financial statements and operational performance measures. Additional information will be provided in the management's report for the first quarter of 2012.

	<b>Key Activities</b>	<b>Milestones and Deadlines</b>	<b>Progress to Date</b>
<b>Accounting policies and financial statements</b>	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 final quantification of the significant effects to be completed during the first quarter of 2012 Final selection of accounting policy alternatives and quantification before the changeover date – during the first quarter of 2012	Preliminary identification of differences by third-party experts completed; review by management completed Assessment and selection of accounting policy alternatives about to be completed; certain choices have been made as to exemptions allowed under IFRS Final 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	Finalize during the first quarter of 2012	Underway
<b>Information technology and data systems</b>	Assess the impact of IFRS changes on data systems and processes Selection methods to address need for dual record-keeping (under GAAP and IFRS)	Changes to data systems and dual record-keeping to be finalized by the changeover date	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
<b>Internal control</b>	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, if any Implementation of required changes and of the Chief Executive Officer/Chief Financial Officer certification process by the first quarter of 2012	Design, review and implementation of necessary internal controls while monitoring the design of solutions to address IFRS differences

<b>Financial reporting and disclosure expertise and training</b>	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	Selected training for resources directly engaged in the changeover and general awareness to broader group of finance employees
		Regular communications on the effects of the changeover during fiscal 2010 and 2011 and by the first quarter of 2012	Periodic communications on the advancement of the work External experts have assisted us in the transition
<b>Business activities</b>	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 first quarter of 2012	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,  
Chief Executive Officer and  
Acting Interim Chief Financial Officer

September 28, 2011