



# **Management's Report**

**First Quarter 2012**

Three-Month Period Ended September 30, 2011

December 13, 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 operating results and financial position for the first quarter ended September 30, 2011 (the "first quarter of 2012"). Unless otherwise indicated, the comparative analysis of operating results and cash flows for the first quarter of 2012 is conducted with respect to the equivalent period ended September 30, 2010 (the "first quarter of 2011"), whereas the comparative analysis of the financial position as at September 30, 2011 is conducted with respect to the data as at June 30, 2011. The Management's Report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the first quarter of 2012, as well as with the audited consolidated financial statements and accompanying notes for fiscal 2011.

For the Company, the changeover to International Financial Reporting Standards ("IFRS") was required for the periods beginning July 1<sup>st</sup>, 2011 (the "changeover date"). **Consequently, the unaudited consolidated financial statements and accompanying notes for the first quarter of 2012 are the first interim financial statements presenting the Company's earnings and financial position in accordance with IFRS and they have been prepared in accordance with *International Accounting Standards IAS 34 Interim Financial Reporting*.** The Company's consolidated financial statements for the year ended June 30, 2012 will be the first annual IFRS consolidated financial statements, whereas previously the financial statements and accompanying notes were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Comparative data for the quarterly and annual financial statements for fiscal 2011, as well as for the opening statement of financial position as at July 1<sup>st</sup>, 2010, have been restated to reflect the retrospective adoption of IFRS effective July 1<sup>st</sup>, 2010 (the "transition date"). Consequently, any comparative financial information appearing in this Management's Report reflects the coherent retrospective application of IFRS. For further details regarding the transition to IFRS, the reader is referred to note 5 accompanying the consolidated financial statements for the first quarter of 2012.

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. also known under the corporate name "Noveko Filtration"; "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. All these subsidiaries are wholly owned by the Company, with the exception of Noveko Algérie which is 70% owned since July 1<sup>st</sup>, 2011. Also, the fiscal year ending June 30, 2012 and those ended June 30 of prior years are sometime 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 December 13, 2011, the date on which the Board of Directors approved the consolidated financial statements and Management's Report for the first quarter of 2012. 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.

## **Compliance with IFRS**

Unless otherwise indicated, the financial information presented in this Management's Report, including tabular amounts, is prepared in accordance with IFRS. The information contained in the Management's Report and certain other sections of this report also includes some figures that are not performance measures consistent with IFRS, such as operating earnings (loss) before amortization, net financial expenses and income taxes (or "EBITDA"). This measure is used because it 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 revenues from continuing operations or net earnings, an indicator of operating results or cash flows, or a measure of liquidity. As this measure is not established in accordance with IFRS, it might not be comparable to those of other companies.

## **Use of Estimates and Forward-Looking Statements**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the information provided in regard to contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such judgements, estimates and assumptions are periodically reviewed and, where necessary, adjustments are made to results for the period in which they become known.

Significant items for which actual results could differ from such estimates include the estimate of the allowance for doubtful accounts, the provision for obsolete inventories, the loss on slow-turnover inventories, the useful life of fixed and intangible assets which will be used for amortization purposes, the assumptions used for testing the impairment of property, plant and equipment, intangible assets and goodwill, the warranty provision, the income tax provision, the assumptions used in the determination of stock-based compensation, 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, forecasts, 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 the 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 amendments after that 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 the measures initiated during fiscal 2011 to improve the Group's operational efficiency and to better control operating costs in each of our business segments. A summary of the first quarter 2012 highlights with regard to the operations of the Group and its business segments is presented below in the light of our strategic priorities:

*Financing:* 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% were 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 (the "Credit Facility") 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 are also due on the portion of the Credit Facility not disbursed. Debenture holders 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. We also offer cleanable and recyclable filters, 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 first 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. 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. 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, we are carrying on the discussions with Bombardier Transportation in order to ensure that agreement binding us materializes. However, it is difficult to foresee the outcome of these initiatives. Consequently, we do not expect to generate any significant revenues in this regard within the near term.

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.

#### ***Official Breakthrough in the Aeronautics Segment***

We achieved our official breakthrough in the aeronautics segment by entering into an agreement 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 filtration (Ultra-Low Particulate Air) levels, provide a superior odour management solution, and last 50% longer than traditional filters. Exhibited for the first time in June 2011 at the International Paris Air Show at Le Bourget, Noveko-IDP™ brand filters are attracting growing interest in the industry due to these high value-added features. Having been granted a Supplemental Type Certificate (or "STC") allowing the installation of filters incorporating our filtration technologies in the Airbus A330 series aircraft, we intend to obtain the certifications for the entire Airbus fleet. Steps to that end are underway. We are also 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***

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

We continue to make progress in the North American, European and Asian real estate markets as various initiatives and talks are underway in these regions with major property managers and owners interested in our filtration solutions.

Our energy-efficient solutions are notably attracting great interest in Europe, where energy-related costs are particularly high. Subsequent to the breakthroughs achieved the previous year in Europe, we recently completed, through Teco Distribution, our distributor on the Swiss market, the sale of filters for the Mövenpick Hotel in Geneva. Following a period of conclusive tests finalized in the first quarter of 2012, this hotel opted for our filtration solutions in connection with the implementation of its eco-friendly program. The process of extending our filtration solutions to other hotels of the chain is continuing. Major retail chains and office buildings in the Swiss financial sector are currently conducting tests for pre-sale purposes. In addition, 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) paves the way for our penetration of a large potential European market. Noveko® filters have also been installed for pre-sale testing purposes in some of the most prestigious large-scale buildings worldwide, notably in New York, Geneva and Dubai. Furthermore, several bids are currently under review.

#### *Noveko Keeps Up its Momentum in the Greater Montreal Area*

The portfolio of Montreal area buildings that have opted for our air filtration solutions continues to grow and several projects and 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 pursuing active talks and projects 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.

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. 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.

#### *Recipient of the PINNACLE INNOVATION AWARD*

Having already won the prestigious PINNACLE INNOVATION AWARD granted at the local level by the Québec Building Owners and Managers Association (BOMA Québec) in connection with the BOMA AWARDS 2011-2012 in May 2011, Noveko Filtration was once again honoured at the BOMA Canada 2011 National Contest and named the big winner of the PINNACLE INNOVATION AWARD in Canada in September 2011. 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 and to accelerate our penetration of the air filtration market, Noveko Filtration expanded its filtration solutions offering by launching new innovative high-efficiency filters in the first quarter of 2012. 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 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. Aimed at an expanded client base, these new-generation filtration solutions are attracting considerable interest from a number of hog farmers who recognize that the adoption of a complete biosafety program, including air filtration as a key feature, proves profitable as it contributes to avoid the costs and devastating effects of airborne diseases such as the porcine reproductive and respiratory syndrome (PRRS) virus. The recent contracts totalling \$380,000 announced in November 2011 and won from four leaders in the Quebec swine industry attest to this fact and prove that the efforts of our veterinary partners who recommend our products are paying off. Furthermore, in line with our strategy of designing innovative applications derived from our patented air filtration technologies, we also diversified our offering targeted to the swine industry in order to extend it to the transportation segment. Our filters have thus been installed in trucks carrying hogs in order to protect them against the pathogens from outside air. Finally, we are 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.

### ***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 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, 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, mainly in Canada, which market we are further targeting, and also in Europe. 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 thanks primarily to the differentiation associated with our antimicrobial technologies. The order obtained in the first quarter of 2012 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. Based on their delivery, the revenues arising from this order will be recognized in the second quarter of 2012. 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 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. This certification adds to the FFP2 classification obtained during fiscal 2011 for our Noveko™ RD2 antimicrobial respirator, allowing its marketing in the European Union. The U.S. marketing of our antimicrobial masks and respirators remains subject to 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 to the FDA. We maintain our goal of filing an application meeting both the FDA’s requirements and our marketing imperatives. However, it is hard to predict how long it will take for this certification process to be completed. 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**

Several factors also slowed down the marketing of our sanitizers during fiscal 2011, whereas fiscal 2010 had benefited from the consequences of the A (H1N1) influenza pandemic. Despite the delay in executing our business plan in this segment, 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. Although our commercialization activities are picking up somewhat, they could take longer than initially expected to materialize, due notably to the significant inventories still accumulated industry-wide.

In this context, we continue to prioritize the most promising markets for our hand sanitizers, notably the healthcare niche, while focusing on further stimulating sales in the institutional and retail segments. The order obtained during the first quarter of 2012 from Dufort & Lavigne attests to renewed interest in our products in hospital facilities. The revenues arising from this order will be recognized in the second quarter of 2012. As distributor, Dufort & Lavigne will ensure the Quebec-wide sale and promotion of Microban® hand sanitizers to medical and dental clinics. Furthermore, whereas our client base already included prestigious institutions such as Montreal’s Sacré-Cœur Hospital and Santa Cabrini Hospital, major advances have been achieved since the beginning of 2011. Through our partner AMD Ritmed, under two to three-year agreements, 40 new Quebec hospital facilities have committed to purchase their hand sanitizers from Noveko. These new facilities include the Maisonneuve Rosemont Hospital, one of the university hospital centres affiliated with the Université de Montréal. The agreement with the Maisonneuve Rosemont Hospital was entered into in response to a call for tenders, subsequent to which our products replaced those of the competition. Our new clients also include the Laval Health and Social Services Centre. This is the largest such centre in Quebec, heading the Laval Cité-de-la-Santé Hospital as well as 18 facilities on Île Jésus that include CLSCs and extended-care centres. We are thereby raising our brand awareness and ensuring a source of recurring revenues arising from the sale of our hand sanitizers. We are also in talks with various parties interested in our products and are seeking other distributors in Canada, which market we are now further targeting. Finally, our partner Medicom is actively focusing on launching our Microban® sanitizers on the U.S. dental market in cooperation with major local distributors.

## **Medical Equipment**

### *Ultrasound Scanners*

ECM is successfully maintaining its dominant presence in portable ultrasound scanners for use in veterinary medicine thanks notably to its network of exclusive distributors in more than 50 countries worldwide. However, the crisis in the swine industry, and more generally the market instability in Europe, is adversely affecting ECM's sales efforts. Nevertheless, ECM 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™, for a total value of 5.7 million Euros over the term of the contract. As stipulated in the agreement, ultrasound scanners worth 900,000 Euros were delivered in the first year thereof. In addition, ECM, which continues to bring further innovations to its product offering, now sells an enhanced version of the Imagyne™ ultrasound scanner with new applications. The Imagyne™ 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 is still enjoying considerable success. The reader is reminded that at the beginning of fiscal 2011, ECM entered into agreements representing more than \$4 million over a three-year period with 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. ECM plans very shortly to bring to market the Exagyne™, as it were the portable version of the Imagyne™. It will thereby offer a complete line of ultrasound scanners responding to various clinical applications, thereby driving further penetration of the human medicine market. Its network of exclusive distributors for the human medicine market now extends to more than 30 countries.

### *Noveko Algérie*

Noveko Algérie continues to reap the benefits of supplying various medical devices. 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. The Company having divested 30% of the shares held in Noveko Algérie to an officer of the subsidiary effective July 1<sup>st</sup>, 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 in September 2011, the Algerian National Office of Equipment and Accessories for Handicapped People (the "NOEAHP") awarded Noveko Algérie new orders for the supply of medical devices worth approximately \$1.25 million. As of the date of this Management's Report, half of these orders have been delivered, whereas the delivery of the remaining orders will extend until March 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 INFORMATION

#### Statement of Earnings Data

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

Quarters Ended September 30 (unaudited)	2011 <sup>(1)</sup>	2010
Revenue	2,948	2,747
Gross profit	1,059	1,226
Operating profit before amortization, net financial expenses and income taxes <sup>(2) (3)</sup>	(1,321)	(2,497)
Net earnings from continuing operations	(1,670)	(2,893)
Net earnings from discontinued operations <sup>(4)</sup>	84	(88)
Net earnings	(1,586)	(2,981)
Earnings per Class A share (basic and diluted)		
From continuing operations	\$ (0.02)	\$ (0.04)
From discontinued operations <sup>(4)</sup>	\$ 0.00	\$ 0.00
Total	\$ (0.02)	\$ (0.04)
Weighted average number of outstanding Class A shares, basic and diluted (in thousands)	91,946	76,006

#### Statement of Financial Position Data

(in thousands of \$)

	September 30 2011	June 30 2011
Total assets	37,892	35,744
Equity	25,103	26,392
Total interest-bearing debt <sup>(5)</sup>	4,438	714
Cash, cash equivalents, cash in trust and short-term investments	4,627	1,830

- (1) The consolidated financial statements include the accounts of the Company and its subsidiaries.
- (2) Operating profit (loss) before amortization, net financial expenses and income taxes is not a measure established in accordance with IFRS. In this regard, the reader is referred to the paragraph titled *Compliance with IFRS* on page 3 of this Management's Report.
- (3) Including stock-based compensation of \$35,943 and \$307,916 respectively for the first quarters of 2012 and 2011, which have no impact on the cash balance.
- (4) Related to BLI's operations.
- (5) Including long-term debt and its current portion, bank loans, the term note and secured convertible debentures; excluding the data related to BLI.

### 4. OPERATING RESULTS

#### Analysis of Consolidated and Segmented Operating Results for the First Quarter of 2012 Compared with the First Quarter of 2011 (Unaudited)

Our segmented information is reported based on the following business segments: medical equipment ("medical equipment"), sanitizers ("sanitizers"), antimicrobial surgical masks and respirators ("masks") and filtration products ("filtration"). The item "other" has been added to make a reconciliation between the information relating to the various business segments and the information appearing in our consolidated financial statements. This item consists 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.

## Consolidated and Segmented Revenue

Quarters Ended September 30		2011	2010
Medical equipment	\$	1,979,493	\$ 2,274,980
Sanitizers		57,711	(127,923)
Masks		9,684	14,603
Filtration		900,918	585,268
<b>Total</b>	<b>\$</b>	<b>2,947,806</b>	<b>\$ 2,746,928</b>

**Consolidated revenue** for the first quarter of 2012 grew by \$0.2 million (7%) to \$2.9 million. Segmented changes primarily reflect:

- an increase of more than \$0.3 million (54%) in the filtration segment's sales resulting from the advances in the institutional and commercial markets, for which the revenue recognition generally extends over the term of the leasing agreements, as well as, to a lesser extent, the sales recorded in the swine industry;
- a positive variance of approximately \$0.2 million in the sanitizers segment in comparison with the corresponding period of fiscal 2011, which had been adversely affected by the rapid end of the pandemic period and the credits granted for merchandise returns, as well as relatively stable sales in the masks segment. Although 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, the new recently obtained orders attest to renewed interest in our products in the healthcare market (for further detail, the reader is referred to *Description of the Company – Operational Overview – Antimicrobial Masks and Respirators and Sanitizers*);
- a decline in sales of medical equipment of approximately \$0.3 million (13%) caused mainly by the fragile swine industry and the European market instability, which adversely affected ECM's sales efforts for the quarter. Delays in the delivery of orders, notably to the NOEAHP, also lowered Noveko Algérie's sales. However, as of the date of this Management's Report, half of these orders of \$1.25 million had been delivered, pointing to a growth in business during the second quarter of 2012.

**The gross margin** for the first quarter of 2012 stood at 35.9%, compared with 44.6% for the first quarter of 2011. This decline notably reflects the weighting of certain fixed costs in a context of rather low sales in the masks and sanitizers segments and more difficult conditions in the medical equipment segment.

**Selling and administrative expenses** (excluding amortization) decreased by \$0.8 million (25%) to \$2.4 million. This major reduction reflects the combination of measures taken since the beginning of fiscal 2011 in regard to cost control, which notably involved the restructuring of certain teams.

**Stock-based compensation**, which has no impact on the Company's cash balance, represented a positive amount of \$35,943 for the first quarter of 2012, reflecting a positive variance of more than \$0.3 million compared with the charge for the corresponding period of the previous year. This variance is due mainly to the cancellation of non-vested options of employees who are no longer with the Company and the adjustment of the previously recognized charge. To a lesser extent, the variance can also be explained by the fewer options granted in the past quarters, a lower exercise price for the more recently issued options and the gradual recognition of the compensation charge.

**Research and development expenses** less tax credits decreased by approximately \$0.2 million to \$0.1 million due to a reduction in development costs associated with the masks segment.

**Operating Profit (Loss) before Amortization, Net Financial Expenses and Income Taxes**

Quarters Ended September 30		
	2011	2010
Medical equipment	\$ (70,353)	\$ 433,319
Sanitizers	(178,612)	(811,866)
Masks	(39,522)	(235,874)
Filtration	(282,191)	(622,739)
Other	(750,064)	(1,259,637)
<b>Total</b>	<b>\$ (1,320,742)</b>	<b>\$ (2,496,797)</b>

In light mainly of the aforementioned factors, the **loss before amortization, net financial expenses and income taxes** was reduced significantly. It amounted to \$1.3 million for the first quarter of 2012, a decrease of \$1.2 million (47%) from the previous year. This distinct improvement is due primarily to the following factors:

- a decrease in total payroll subsequent to the aforementioned restructuring of teams and a reduction in the stock-based compensation of the parent company Noveko International (under the “other” item), representing a \$0.5 million reduction in the loss;
- decreases of \$0.2 million and \$0.6 million respectively in the losses attributable to the masks and sanitizers segments reflecting the positive impact of the cost-tightening measures;
- a \$0.3 million reduction in the filtration segment’s loss reflecting the advances achieved in this segment and the positive impact of the cost-control measures; and
- as a result of more difficult market conditions, the medical equipment segment reported a loss of \$0.1 million, while it had recorded a profit of \$0.4 million for the corresponding period of the previous year.

**Amortization** decreased by \$0.2 million to \$0.5 million, reflecting a reduction in amortization resulting from the major write-off of intangible assets recognized in the fourth quarter of 2011.

**Financial expenses less financial income and foreign exchange gain (loss)** represented income of \$22,634 for the first quarter of 2012, compared with income of \$0.3 million for the corresponding period of the previous year. This change is due primarily to the recognition of foreign exchange gains of \$0.4 million during the first quarter of 2011.

**Net Earnings (Loss) from Continuing Operations**

Quarters Ended September 30		
	2011	2010
Medical equipment	\$ (378,280)	\$ 166,049
Sanitizers	(196,424)	(942,831)
Masks	(64,870)	(194,025)
Filtration	(318,625)	(636,740)
Other	(711,788)	(1,285,871)
<b>Total</b>	<b>\$ (1,669,987)</b>	<b>\$ (2,893,418)</b>

In light mainly of the aforementioned factors, **the net loss from continuing operations** amounted to \$1.7 million for the first quarter of 2012, a major reduction of \$1.2 million (42%).

As detailed in note 7, “Discontinued Operations and Assets Held for Sale” accompanying the consolidated financial statements for the first quarter of 2012, a \$0.1 million profit from discontinued operations (BLI) was recognized, compared with a loss of \$0.1 million for the corresponding period of the previous year. Consequently, **the net loss** for the first quarter of 2012 amounted to \$1.6 million, compared with \$3.0 million for the first quarter of 2011, a major reduction of \$1.4 million (47%).

Considering a change in unrealized exchange gain or loss on translation of the financial statements of self-sustaining foreign operations, which represented a loss of \$43,567 for the first quarter of 2012, as

opposed to a gain of \$0.3 million for the corresponding period of the previous year, a net loss of \$1.6 million represented **comprehensive income** for the period, compared with \$2.7 million for the corresponding quarter of the previous year.

**The loss from continuing operations and total loss per Class A share (basic and diluted)** for the quarter both represented losses of \$0.02 on a weighted average of 91,946,144 outstanding shares, compared with a loss from continuing operations and total loss of \$0.04 per share on a weighted average of 76,006,347 shares for the corresponding period of the previous year. 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 20 accompanying the first-quarter financial statements.

**Principal Quarterly Financial Information<sup>(1)</sup>**

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2012</b>				
Revenue	<b>2,948</b>			
Net earnings from continuing operations	<b>(1,670)</b>			
Total comprehensive income	<b>(1,629)</b>			
Earnings per Class A share from continuing operations (basic and diluted)	<b>\$ (0.02)</b>			
<b>Fiscal 2011</b>				
Revenue	2,747	5,026	3,415	3,109
Net earnings from continuing operations	(2,893)	(2,760)	(2,679)	(6,330)
Total comprehensive income	(2,709)	(3,237)	(2,420)	(7,390)
Earnings per Class A share from continuing operations (basic and diluted)	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>	<b>\$ (0.08)</b>
<b>Fiscal 2010</b>				
Revenue	4,388	4,899	2,927	2,896
Net earnings from continuing operations	(3,503)	(4,798)	(4,678)	(7,737)
Total comprehensive income	(4,417)	(5,449)	(5,858)	(9,612)
Earnings per Class A share from continuing operations (basic and diluted)	<b>\$ (0.05)</b>	<b>\$ (0.06)</b>	<b>\$ (0.07)</b>	<b>\$ (0.10)</b>

(1) The Company adopted IFRS effective July 1<sup>st</sup>, 2011. Consequently, comparative quarterly data for fiscal 2011 have been restated to reflect the adoption of IFRS. However, quarterly data for fiscal 2010 are presented in accordance with GAAP.

## 5. FINANCIAL POSITION

### Analysis of Principal Cash Flows (unaudited)

Quarters Ended September 30	2011	2010
<b>Operating activities:</b>		
Net earnings	\$ (1,585,831)	\$ (2,981,002)
Adjustments for deferred taxes, imputed interest on secure convertible debentures, stock-based compensation, loss (gain) on disposal of property, plant and equipment, amortization, foreign exchange loss (gain) and cash-flows on discontinued operations	352,785	1,045,744
Change in non-cash working capital items	152,289	1,269,739
<b>Total</b>	<b>(1,080,757)</b>	<b>(665,519)</b>
<b>Investing activities</b>	<b>211,503</b>	<b>(867,707)</b>
<b>Financing activities</b>	<b>3,855,787</b>	<b>4,407,241</b>
Net increase in cash and cash equivalents	2,986,533	2,874,015
Foreign exchange rate change	(49,664)	(131,465)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,620,431</b>	<b>\$ 3,382,093</b>

For the first quarter of 2012, **operating activities after net change in non-cash working capital items** used cash flows of \$1.1 million, compared with a cash outflow of \$0.7 million for the corresponding quarter of the previous year. This change is due primarily to the reduction in the net loss, less adjustments for deferred taxes, imputed interest on convertible debentures, stock-based compensation, amortization, foreign exchange loss (gain) and cash flows on discontinued operations. Change in non-cash working capital items represented a cash inflow of approximately \$0.2 million, compared with a cash inflow of \$1.3 million for the corresponding quarter of the previous year. These changes are due primarily to an increase in accounts receivable and a decrease in accounts payable during the quarter, as opposed to a major increase in accounts payable during the same quarter of last year. These variances were not offset by the reduction in inventories

**Investing activities** provided cash flows of \$0.2 million, whereas they had used cash flows of \$0.9 million during the first quarter of 2011. This change is due primarily to an encashment of short-term investments and the divestment of 30% of the shares the Company held in its subsidiary Noveko Algérie totalling \$0.3 million during the first quarter of 2012, whereas the Company had acquired short-term investments for a net consideration of \$0.5 million subsequent to a private placement during the first quarter of 2011.

**Financing activities** provided cash flows of \$3.9 million, compared with \$4.4 million for the first quarter of 2011. This change primarily reflects the difference between, on the one hand, the net proceeds of \$4.4 million from the Credit Facility and the issue of convertible debentures in connection with the financing closed on September 28, 2011, less the principal repayments on long-term debt of \$0.5 million using the proceeds from this financing, and, on the other, the net proceeds of \$4.4 million from the private placement closed in the first quarter of 2011.

Consequently, aggregate cash inflows and outflows for the first quarter of 2012 provided **net cash flows** of \$3.0 million, whereas they had provided net cash flows of \$2.9 million for the first quarter of 2011. The Company closed the first quarter of 2012 with **cash and cash equivalents** of \$3.6 million, compared with \$3.4 million as at September 30, 2010.

## Analysis of Statement of Financial Position as at September 30, 2011

### Summary Statement of Financial Position

	September 30 2011	June 30 2011
Current assets <sup>(1)</sup>	\$ 18,446,060	\$ 15,851,533
Assets held for sale <sup>(2)</sup>	3,833,593	3,845,435
Non-current assets	15,612,697	16,046,567
	<b>\$ 37,892,350</b>	<b>\$ 35,743,535</b>
Current liabilities <sup>(3)</sup>	\$ 4,677,427	\$ 4,954,360
Liabilities held for sale <sup>(2)</sup>	3,225,574	3,374,547
Non-current liabilities	4,885,926	1,022,539
Equity	25,103,423	26,392,089
	<b>\$ 37,892,350</b>	<b>\$ 35,743,535</b>

(1) Excluding assets held for sale.

(2) Related to BLI.

(3) Excluding liabilities held for sale.

As at September 30, 2011, **total assets** amounted to \$37.9 million, up by \$2.1 million over June 30, 2011. The changes in the Company's statement of financial position between June 30, 2011 and September 30, 2011 notably reflect the period's results, including the increase in cash and cash equivalents resulting from the September 28, 2011 financing, as previously explained. **Working capital** stood at \$14.4 million for a current ratio of 2.8:1, compared with \$11.4 million and a 2.4:1 ratio as at June 30, 2011.

**Equity** totalled \$25.1 million as at September 30, 2011, compared with \$26.4 million as at June 30, 2011, mainly reflecting the \$0.2 million increase related to the equity component of the convertible debentures issued in connection with the September 28, 2011 financing, offset by the \$1.4 million increase in the deficit.

### Indebtedness

	September 30 2011	June 30 2011
Bank loans	\$ -	\$ -
Term note	-	90,000
Current portion of long-term debt	213,450	350,345
Long-term debt	2,607,437	273,741
Secured convertible debentures	1,617,526	-
Total indebtedness <sup>(1)</sup>	<b>\$ 4,438,413</b>	<b>\$ 714,086</b>

1) Excluding BLI.

**Total interest-bearing debt** amounted to \$4.4 million as at September 30, 2011, up by \$3.7 million over June 30, 2011. This increase is due primarily to the financing consisting of a credit facility and convertible debentures closed on September 28, 2011. It is to be noted that the total interest-bearing debt related to BLI, as detailed in note 7, "Discontinued Operations and Assets Held for Sale" accompanying the consolidated financial statements, stood at \$2.9 million as at September 30, 2011.

### Share Capital Information

The Company did not issue any Class A shares during the first quarter of 2012. The Company's share capital therefore has not changed since June 30, 2011 and consisted of 91,496,144 Class A shares as at September 30, 2011, as well as at the date of this Management's Report.

## Contractual Commitments

As at September 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 \$12.4 million. The table below presents the breakdown of required minimum annual payments:

	2012	2013	2014	2015	2016	Thereafter
Leases	\$ 849,998	\$ 837,380	\$ 786,919	\$ 694,479	\$ 509,815	\$ 1,532,068
Contractual obligations	\$ 566,952	\$ 245,992	\$ 64,992	\$ 56,659	\$ 51,937	\$ -
Other long-term obligations	\$ 213,450	\$ 6,000,000	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 1,630,400</b>	<b>\$ 7,083,372</b>	<b>\$ 851,911</b>	<b>\$ 751,138</b>	<b>\$ 561,752</b>	<b>\$ 1,532,068</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 September 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 the first quarter of 2012, an amount of \$334 was paid under this agreement, whereas no consideration had been paid during the first quarter of 2011.

## Sources and Requirements of Funds

Since our inception, we have incurred major operating losses associated primarily with our product development and commercialization-related expenses, raising a material uncertainty as to the use of the going concern assumption in conformity with IFRS, 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 September 30, 2011, our accumulated deficit totalled \$106.6 million and we had \$4.6 million in cash and cash equivalents and short-term investments. Up to now, we have primarily had recourse to private placements to finance our growth. 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.

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 (for further details, the reader is referred to *Description of the Company – Operational Review – Financing*). The interim financing in the amount of \$670,000 by way of convertible debentures obtained in July 2011 was repaid using the net proceeds from this financing. Also under the terms of this \$6 million financing, Epurair's operating credit on demand and the equipment loans from which it benefited were repaid using the net proceeds from the financing. Consequently, as at September 30, 2011, the used portion of the operating credit on demand of \$400,000 from which Epurair formerly benefited had been fully repaid and the operating credit was replaced by the Credit Facility. As for the Company's Credit Facility, \$3.0 million thereof was used as at September 30, 2011. According to the covenants of this Credit Facility, the Company must maintain a minimum liquidity ratio of 1.75:1 on a monthly basis. The Company met this ratio for the first quarter of 2011. The Company must also maintain a minimum EBITDA (calculated at the end of each period) as follows: (i) \$340,000 for the three-month period ending December 30, 2011; (ii) \$150,000 for the six-month period ending March 31, 2012; (iii) \$850,000 for the nine-month period ending June 30, 2012; and (iv) \$1,800,000 for the 12-month period ending September 30, 2012, as well as on a 12-month year-to-date basis for any subsequent quarter. For its part, ECM had a credit facility on demand of 50,000 €, of which 97,750 € was unused as at September 30, 2011. This overdraft is currently accepted by the lending financial institution. This

credit bears interest at the prime rate of the financial institution plus 1.2%. Finally, BLI had a credit facility on demand of \$1,350,000, of which \$1,211,844 was used as at September 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.

## 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 rail line in North America during fiscal 2011 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 STC certificate for the Airbus 330 aircraft and a first agreement has paved the way for their commercialization worldwide. We intend to have the entire Airbus fleet certified

and the process is underway in this regard. 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 has picked up somewhat, and that should continue during fiscal 2012. This outlook is based notably on the signing of new 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, and 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, particularly in the healthcare sector, and we are pursuing our efforts to stimulate a sustainable recovery. However, that could take longer than initially expected to come about.

We expect that our *medical equipment* segment will sustain its growth despite more difficult conditions in the first quarter of 2012. The Exago™ ultrasound scanner was launched in the human medicine market at the beginning of the second quarter of 2011 and, 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 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 during the first quarter of 2012.

## **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 September 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 September 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 consolidated financial statements for the first quarters of 2012 and 2011. 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 first quarters of 2012 and 2011.

#### ***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 September 30, 2011 for Purer Life acquired in August 2008. We determined that risks exist with respect to this entity 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 Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of this acquired entity 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 IFRS, 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 September 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 consolidated financial statements for the first quarter of 2012 and 2011. 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 September 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 September 30, 2011 for Purer Life. We determined that risks exist with respect to this entity 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 Purer Life as defined by NI 52-109. Accordingly, the controls, policies and procedures of this acquired entity 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 September 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 the first quarter of 2012. We have also hired 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 Purer Life 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 consolidated financial statements for the first quarters of 2012 and 2011 or any previous periods.

Other than the remediation efforts discussed above and the implementation of the Company's ICFR, there have been no changes in our ICFR that occurred during the first quarter of 2012 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer, has discussed these issues and remediation efforts with our Audit Committee.

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

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

## **8. RISKS AND UNCERTAINTIES**

An investment in our securities involves a high degree of risk and should be considered speculative due to the nature of our business and the businesses of our subsidiaries and their current respective stage of development. Before making any decision to purchase or to sell any of our securities, you should carefully consider the complete statement of the risk factors and uncertainties described in the Management's Report and Annual Information Form for fiscal 2011.

## **9. CHANGES IN ACCOUNTING POLICIES**

As at the date of this Management's report, certain new IAS 8.31 standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

### *IFRS 9 Financial Instruments:*

In October 2010, the IASB amended IFRS 9 *Financial Instruments*, which replaced IFRS 9 *Financial Instruments*, issued in November 2009, and IFRIC 9 *Reassessment of Embedded Derivatives*. The new standard provides guidance on classification, reclassification and measurement of financial liabilities and on the presentation of gains and losses, through profit or loss, of financial liabilities designated as measured at fair value.

The requirements for financial liabilities, added in October 2010, largely replicate the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, except with respect to changes in fair value attributable to credit risk for liabilities designated as measured at fair value through profit or loss, which would generally be recognized in other comprehensive income.

This new standard applies to fiscal years beginning on or after January 1, 2013. In July 2011, the IASB proposed postponing application until July 1, 2015 and an Exposure Draft is in process. Early application is permitted.

### *IFRS 10 Consolidated financial instruments:*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 provides a single consolidation model that identifies control as being the basis for consolidation. The new standard describes how to apply the principle of control to identify situations when a company controls another company and must therefore present consolidated financial statements. IFRS 10 also provides disclosure requirements for the presentation of consolidated financial statements. IFRS 10 cancels and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

*IFRS 12 Disclosure of Interests in Other Entities:*

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 12 incorporates, in a single standard, guidance on disclosing interests in subsidiaries, joint arrangements, associates and structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the basis of control, any restrictions on consolidated assets and liabilities, exposures to risks arising from interests in non-consolidated structured entities and the share of minority interests in the activities of consolidated entities.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

*IFRS 13 Fair Value Measurement:*

In May 2011, the IASB issued a guide to fair value measurement providing note disclosure requirements. The guide is set out in IFRS 13 "Fair Value Measurement," and its objective is to provide a single framework for measuring fair value under IFRS. It does not provide additional opportunities to use fair value.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

*IAS 1 Presentation of Financial Statements:*

In June 2011, the IASB amended IAS 1 *Presentation of Financial Statements* requiring entities preparing financial statements in accordance with IFRS to group together items of other comprehensive income (OCI) that potentially may be reclassified to the profit or loss section of the income statement and to separately group items that will not be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI be presented as either a single statement or two consecutive statements.

This new standard applies to fiscal years beginning on or after July 1, 2012. Early application is permitted.

The Company is currently assessing the impact of adopting these new standards on its consolidated financial statements and whether it will early adopt them.



**ANDRÉ LEROUX**

Chairman of the Board and Chief Executive Officer  
Acting Interim Chief Financial Officer

December 13, 2011