

Consolidated financial statements of

**NOVEKO INTERNATIONAL INC.**

Years ended June 30, 2008 and 2007

# NOVEKO INTERNATIONAL INC.

Consolidated financial statements

Years ended June 30, 2008 and 2007

## Financial statements

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



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Noveko International Inc. as at June 30, 2008 and 2007 and the consolidated statements of operations, comprehensive loss, deficit and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

Chartered Accountants

Montréal, Canada

September 26, 2008

# NOVEKO INTERNATIONAL INC.

Consolidated balance sheets  
June 30, 2008 and 2007

|  | 2008                   | 2007                 |
|--|------------------------|----------------------|
| <b>Assets</b>  |                        |                      |
| Current assets:  |                        |                      |
| Cash and cash equivalents  | \$ 11,594,335          | \$ 2,668,494         |
| Deposit for acquisition (note 31 g))                                   | 1,274,625              | -                    |
| Short-term investments (note 7)  | 12,516,884             | 14,291,887           |
| Accounts receivable (note 8)   | 5,092,191              | 2,494,052            |
| Inventories (note 9)   | 5,868,045              | 3,276,904            |
| Prepaid expenses   | 820,119                | 502,982              |
| Investment in Canadian Immigrant Investor Program (note 13)            | -                      | 3,087,423            |
|  | <b>37,166,199</b>      | <b>26,321,742</b>    |
| Fixed assets (note 10)   | 7,206,885              | 5,605,250            |
| Intangible assets (note 11)  | 2,572,372              | 1,656,586            |
| Other assets (note 12)   | 1,442,283              | 911,354              |
| Future income taxes (note 30)  | 762,311                | 680,706              |
| Goodwill (note 14)   | 13,708,240             | 7,067,385            |
|  | <b>\$ 62,858,290</b>   | <b>\$ 42,243,023</b> |
| <b>Liabilities and shareholders' equity</b>                            |                        |                      |
| Current liabilities:   |                        |                      |
| Bank advances (note 15)  | \$ 1,112,665           | \$ 18,287            |
| Bank loan (note 16)  | 561,435                | -                    |
| Accounts payable and accrued liabilities (note 17)                     | 4,318,727              | 2,422,273            |
| Loans under Canadian Immigrant Investor Program (note 21)              | -                      | 3,087,423            |
| Current portion of long-term debt (note 18)                            | 636,116                | 801,029              |
|  | <b>6,628,943</b>       | <b>6,329,012</b>     |
| Long-term debt (note 18)   | 3,086,827              | 3,158,442            |
| Secured convertible debentures (note 20)                               | 2,462,909              | 4,389,576            |
| Future income taxes (note 30)  | 906,464                | 1,014,814            |
| Shareholders' equity:  |                        |                      |
| Capital stock (note 22)  | 70,084,061             | 33,570,722           |
| Portion of secured convertible debentures included in equity (note 20) | 611,537                | 918,735              |
| Warrants (note 24)   | 85,983                 | 4,667,446            |
| Contributed surplus  | 7,967,778              | 1,325,504            |
| Accumulated other comprehensive income (loss) (note 25)                | 347,359                | (458,974)            |
| Deficit  | (29,323,571)           | (12,672,254)         |
|  | <b>49,773,147</b>      | <b>27,351,179</b>    |
| Commitments (note 26)  |                        |                      |
| Subsequent events (note 31)  |                        |                      |
|  | <b>\$ 62,858,290\$</b> | <b>\$ 42,243,023</b> |

See accompanying notes to consolidated financial statements.

On behalf of the board,

(signed) *André Leroux*, Director

(signed) *Leon Assayag*, Director

# NOVEKO INTERNATIONAL INC.

Consolidated statements of operations

Years ended June 30, 2008 and 2007

|   | 2008            | 2007          |
|---|-----------------|---------------|
| Revenues  | \$ 14,515,588   | \$12,844,715  |
| Cost of sales   | 9,527,597       | 8,074,095     |
|   | 4,987,991       | 4,770,620     |
| Operating expenses:   |                 |               |
| Administrative and selling expenses                                 | 10,823,974      | 6,396,320     |
| Stock-based compensation  | 7,427,627       | 707,333       |
| Research and development  | 1,336,758       | 262,175       |
| Research and development tax credits                                | (394,799)       | (186,410)     |
|   | 19,193,560      | 7,179,418     |
| Loss before the following items<br>and income taxes                 | (14,205,569)    | (2,408,798)   |
| Amortization (note 5)   | 932,645         | 901,193       |
| Financial expenses less investments revenues (note 5)               | 186,449         | 1,374,690     |
| Goodwill impairment charge  | 1,902,735       | -             |
|   | 3,021,829       | 2,275,883     |
| Loss before income taxes  | (17,227,398)    | (4,684,681)   |
| Income taxes (note 30):   |                 |               |
| Current (recovered)   | (157,859)       | 196,351       |
| Future  | (456,151)       | (257,810)     |
|   | (614,010)       | (61,459)      |
| Net loss  | \$ (16,613,388) | \$(4,623,222) |
| Basic and diluted earnings per share                                | \$ (0.30)       | \$ (0.11)     |
| Weighted average number of outstanding shares,<br>basic and diluted | 54,767,174      | 41,649,795    |

See accompanying notes to consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Consolidated statements of comprehensive loss

Years ended June 30, 2008 and 2007

|  | <b>2008</b>            | 2007           |
|--|------------------------|----------------|
| Net loss   | \$ <b>(16,613,388)</b> | \$ (4,623,222) |
| Other comprehensive income, net of income taxes:   |                        |                |
| Change in unrealized gains on translation of financial statements<br>of self-sustaining foreign operations | <b>806,333</b>         | 45,444         |
| Comprehensive loss   | \$ <b>(15,807,055)</b> | \$ (4,577,778) |

See accompanying notes to consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Consolidated statements of deficit and contributed surplus

Years ended June 30, 2008 and 2007

|  | 2008                  | 2007                  |
|--|-----------------------|-----------------------|
| DEFICIT  |                       |                       |
| Deficit, beginning of year   | \$(12,672,254)        | \$ (5,693,747)        |
| Restatement related to the new accounting policies<br>regarding financial instruments (note 2) | 3,161                 | -                     |
| Restated balance   | <u>(12,669,093)</u>   | <u>(5,693,747)</u>    |
| Net loss   | (16,613,388)          | (4,623,222)           |
| Share issuance fees  | (41,090)              | (2,355,285)           |
| Deficit, end of year   | <u>\$(29,323,571)</u> | <u>\$(12,672,254)</u> |
| CONTRIBUTED SURPLUS  |                       |                       |
| Contributed surplus, beginning of year   | \$ 1,325,504          | \$ 85,673             |
| Fair value of stock options granted  | 7,427,627             | 707,333               |
| Warrants expired   | 13,014                | 572,000               |
| Fair value of stock options exercised  | (798,367)             | (39,502)              |
| Contributed surplus, end of year   | <u>\$ 7,967,778</u>   | <u>\$ 1,325,504</u>   |

See accompanying notes to consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

## Consolidated statements of cash flows

Years ended June 30, 2008 and 2007

|  | 2008               | 2007                |
|--|--------------------|---------------------|
| <b>Cash flows from operating activities:</b>                             |                    |                     |
| Net loss   | \$ (16,613,388)    | \$ (4,623,222)      |
| Adjustments for:   |                    |                     |
| Future income taxes  | (456,151)          | (257,810)           |
| Accreted interest on secured convertible debentures                      | 455,444            | 436,995             |
| Stock-based compensation   | 7,427,627          | 707,333             |
| Gain on disposal of fixed assets   | (18,690)           | (6,037)             |
| Amortization of discounts on bonds                                       | -                  | 2,517               |
| Amortization (note 5 a))   | 932,645            | 901,193             |
| Amortization - deferred financing costs and write-off                    | -                  | 278,710             |
| Goodwill impairment charge   | 1,902,735          | -                   |
| Loss on fair value of short-term investments                             | 125,329            | -                   |
| Foreign exchange loss (gain)   | (1,653)            | 2,132               |
|  | <b>(6,246,102)</b> | <b>(2,558,189)</b>  |
| Net change in non-cash working capital                                   | <b>(3,488,701)</b> | <b>(311,478)</b>    |
|  | <b>(9,734,803)</b> | <b>(2,869,667)</b>  |
| <b>Cash flows from financing activities:</b>                             |                    |                     |
| Net changes in bank advances   | 1,030,290          | (1,663,661)         |
| Increase in bank loan  | 561,435            | -                   |
| Increase in long-term debt   | 241,533            | 1,063,824           |
| Grant receipt  | -                  | 45,001              |
| Repayment of long-term debt  | (853,255)          | (2,995,731)         |
| Interest paid on secured convertible debentures                          | (212,727)          | (416,000)           |
| Proceeds from convertible debentures issued                              | -                  | 2,200,000           |
| Proceeds from Class A shares and warrants issued                         | 21,002,580         | 23,950,502          |
| Class A shares issue expenses  | (41,090)           | (1,749,925)         |
|  | <b>21,728,766</b>  | <b>20,434,010</b>   |
| <b>Cash flows from investing activities:</b>                             |                    |                     |
| Business acquisition (note 4)  | (576,474)          | -                   |
| Acquisition of short-term investments                                    | (65,244,308)       | (14,288,718)        |
| Proceeds from disposal of short-term investments                         | 66,875,738         | -                   |
| Acquisition of fixed assets  | (2,174,981)        | (772,843)           |
| Proceeds from disposal of fixed assets                                   | 22,575             | 38,763              |
| Government assistance related to acquisition of fixed assets             | 47,500             | -                   |
| Acquisition of intangible assets   | (110,686)          | (38,007)            |
| Acquisition of other assets  | (368,883)          | -                   |
| Deposit for acquisition  | (1,274,625)        | -                   |
| Deferred financing fees  | -                  | (104,350)           |
| Deferred development costs, net of related research tax credits received | (348,154)          | (360,713)           |
|  | <b>(3,152,298)</b> | <b>(15,525,868)</b> |
| Foreign exchange gain on cash in foreign currencies                      | 84,176             | 3,925               |
| Increase in cash and cash equivalents                                    | 8,925,841          | 2,042,400           |
| Cash and cash equivalents, beginning of year                             | 2,668,494          | 626,094             |
| Cash and cash equivalents, end of year                                   | \$ 11,594,335      | \$ 2,668,494        |

Cash flows related to operating activities include interest paid of \$579,617 (\$776,607 in 2007) and income taxes paid of \$222,106 (\$331,249 in 2007).

For non-cash activities, see note 6.

See accompanying notes to consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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Noveko International Inc. ("the Company") is incorporated under the Canada Business Corporations Act and operates in the following reportable segments:

- development, manufacturing and marketing of medical equipment;
- custom processing and distribution of steel products; and
- development and marketing of products in the biomedical and environmental fields.

## 1. Significant accounting policies:

### a) Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Noveko Inc., S.A.S. ECM, Bolduc Leroux Inc., Laboratoire Syma Inc., Noveko Trading 2008 LLC and Magnum Pharmaceuticals Inc.

### b) Cash and cash equivalents:

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

### c) Short-term investments:

The short term investments, comprised of shares, bonds and term deposits, are financial instruments classified as held for trading, and as such, are valued at their value at each balance sheet date. Any variations are recorded to the net profit (loss) in the fiscal year where these variations occurs.

### d) Inventory:

Raw materials are valued at the lower of cost (average cost method for Noveko Inc. and S.A.S. ECM, and first in, first out method for Bolduc Leroux Inc. and Laboratoire Syma Inc.) and replacement cost.

Work in process and finished goods are valued at the lower of cost (standard cost method for Noveko Inc., S.A.S. ECM and Laboratoire Syma Inc. and actual cost method for Bolduc Leroux Inc.) and net realizable value.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 1. Significant accounting policies (cont'd):

### e) Fixed assets:

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

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

### f) Impairment of long-lived assets:

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

### g) Goodwill:

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

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 1. Significant accounting policies (cont'd):

### h) Intangible assets:

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

| Asset                  | Method        | Period        |
|------------------------|---------------|---------------|
| Web site               | Straight-line | 3 years       |
| Software               | Straight-line | 5 years       |
| Customer relationships | Straight-line | 5 and 7 years |
| Patent                 | Straight-line | 20 years      |
| Trademark              | Straight-line | 15 years      |

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### i) Research and development costs:

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

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

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

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 1. Significant accounting policies (cont'd):

### j) Convertible debentures:

Convertible debentures are classified according to their components. The financial liability representing the obligation to make the interest payments is classified as a long-term liability, and the equity component representing the conversion option and the warrants held by the holder is disclosed in shareholders' equity under "Portion of convertible debentures included in equity".

The value of the liability component of convertible debentures is obtained by discounting future interest and principal payments by using a rate equal to the rate of similar debentures having no conversion right. The book value of the equity component of the convertible debentures is obtained by deducting the liability component value from the consideration received for the secured convertible debentures.

Interest expenditure related to the liability component is charged to operations, and the difference between the interest expenditure and its related disbursement representing the increase in the liability component value is credited the debentures.

### k) Revenue recognition:

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

The revenues from commissions on sales to manufacturers are recognized when the sale to a third party is completed, the commission has been billed and recovery is likely.

### l) Warranty provision:

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

### m) Government assistance:

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

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 1. Significant accounting policies (cont'd):

### n) Foreign currency translation:

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

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

### o) Stock based-compensation:

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

### p) Income taxes:

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

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 1. Significant accounting policies (cont'd):

### q) Earnings per share:

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

### r) Comprehensive loss:

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

### s) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the estimate of allowance for doubtful accounts, the provision for obsolete inventories, the useful life of fixed assets and intangible assets which will be used in the amortization, depreciation and impairment of long-lived assets and goodwill, the warranty provision, the income taxes provision, the assumption used in the determination of the stock-based compensation charge, the fair value of financial instruments, the fair value of assets and liabilities acquired in business acquisition, and the fair value of goodwill. 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.

## 2. Changes in accounting policies:

On July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*. Changes in accounting policies in conformity with these new accounting standards are as follows:

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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

### a) Comprehensive Income

Section 1530, *Comprehensive Loss*, introduces the concept of comprehensive income, which is calculated by including other comprehensive income with net income. Other comprehensive income represents changes in shareholders' equity arising from transactions and other events with non-owner sources, such as unrealized gains and losses in financial assets classified as available-for-sale, changes in translation adjustment of self-sustaining foreign operations, and changes in fair value of effective portion of cash flow hedging instruments, in all cases, net of taxes. With the adoption of this section, the consolidated financial statements now include consolidated statements of comprehensive income. The comparative statements were restated solely to include the translation adjustment of self-sustaining foreign operations as provided by transition rules.

### b) Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3861, *Financial Instruments – Disclosure and Presentation* describe standards for the classification, recognition, measurement, disclosure and presentation of financial assets, financial liabilities and derivatives. Under this standard, financial instruments are now classified as: held-for-trading, financial assets available-for-sale, investments held-to-maturity, loans and receivables, or other financial liabilities. The financial assets and liabilities are initially recorded at fair value. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and presented as a reduction of the underlying financial instruments. Subsequent measurement and changes in fair value will depend on their initial classification.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes recognized in income. Available-for-sale financial assets are measured at fair value or at cost, in the case of financial assets that do not have a quoted market price in an active market, and changes in fair value are recorded in comprehensive income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, using the effective interest method amortization.

The new standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives instruments embedded into hosts contracts must be separately recorded at fair value if the economic characteristics and risks of the embedded derivative instrument and the host contract are not closely related and if the host contract is not already recorded at fair value. This change had no impact on the Company's consolidated financial statements.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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

### b) Financial instruments (cont'd)

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments:

- Cash and cash equivalents, short-term investments, investment in Canadian Immigrant Investor Program and loans under Canadian Immigrant Investor Program are classified as assets and liabilities held-for-trading. This change resulted in a decrease of \$19,105 in short-term investments and an increase of \$12,988, net of future income taxes in the opening deficit;
- Accounts receivable are classified as loans and receivables. This change had no impact on the Company's consolidated financial statements;
- Bank overdraft, bank advances, bank loan, accounts payable and accrued liabilities, long-term debt and secured convertible debentures are classified as other financial liabilities. This change resulted in a decrease of \$163,096 in deferred financing costs previously included in other assets, an increase of \$186,851 in secured convertible debentures and a decrease of the opening deficit of \$16,149, net of future income taxes..

### c) Equity

Section 3251, *Equity*, describes standards for the presentation of equity and changes in equity for the reporting period as a result of application of Section 1530, *Comprehensive Income*.

### d) Hedges

Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company's consolidated financial statements for the year ended June 30, 2008.

## 3. Future changes in accounting policies:

- a) In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian Generally Accepted Accounting Principles ("GAAP"), as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period to be completed by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will convert to these new standards according to the timetable set with these rules and will closely monitor changes arising from this convergence.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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

- b) In December 2006, the CICA issued a new accounting standard, Section 1535, *Capital Disclosures*, which requires the disclosure of qualitative information on the capital of the Company. This new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the effects of adopting this standard.
- c) In December 2006, the CICA issued two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, which require additional disclosures relating to financial instruments. These new standards apply to interim and annual financial statements relating to fiscal year beginning on or after October 1, 2007. The Company is currently evaluating the effects of adopting these standards.
- d) In March 2007, the CICA issued a new accounting standard, Section 3031, *Inventories*, which provides more extensive guidance on the recognition and measurement of inventories, and related disclosures. This new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the effects of adopting this standard.
- e) In January 2008, the CICA issued 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 standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of adopting this standard.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 4. Business acquisition:

- a) On July 26, 2007, the Company acquired 100% of the outstanding shares of Laboratoire Syma Inc., a company operating in the manufacturing of sanitizer products. The operations of this company were grouped in the segment of development and marketing of products in the biomedical and environmental fields. The acquisition was settled by a cash consideration of \$500,000 and by the issuance of 745,156 Class A shares amounting to \$4,932,933. The acquisition fees of \$16,976 are included in the acquisition price. The acquisition was accounted for under the purchase method, and the operating results of the subsidiary are included in the consolidated financial statements from the acquisition date.

The fair value of the net assets acquired is attributed as follows:

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|  |                                 |
|--|---------------------------------|
| Assets acquired:                         |                                 |
| Accounts receivable                      | \$ 58,166                       |
| Inventories                              | 117,922                         |
| Fixed assets                             | 78,824                          |
| Intangible assets                        | 575,840                         |
| Future income taxes                      | 62,157                          |
| Goodwill                                 | 5,196,559                       |
|  | <hr/>                           |
|  | 6,089,468                       |
| Liabilities assumed:                     |                                 |
| Bank overdraft                           | 8,427                           |
| Bank advances                            | 64,088                          |
| Accounts payable and accrued liabilities | 170,587                         |
| Long-term debt                           | 209,111                         |
| Future income taxes                      | 187,346                         |
|  | <hr/>                           |
|  | 639,559                         |
| <b>Net assets at fair value</b>          | <hr/> <b>\$ 5,449,909</b> <hr/> |
| Consideration:                           |                                 |
| Cash, including acquisition fees         | \$ 516,976                      |
| Class A shares issued (note 22 c))       | 4,932,933                       |
|  | <hr/>                           |
|  | <b>\$ 5,449,909</b> <hr/>       |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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#### 4. Business acquisition (cont'd):

- b) On June 10, 2008, the Company acquired 100% of the outstanding shares of Magnum Pharmaceuticals Inc., a management services company specialized in the commercialization of pharmaceutical and related products in Canada and worldwide. The operations of this company were grouped in the segment of development and marketing of products in the biomedical and environmental fields. The acquisition was settled by the issuance of 618,557 Class A shares amounting to \$3,009,279. The acquisition fees of \$35,444 are included in the acquisition price. The acquisition was accounted for under the purchase method, and the operating results of the subsidiary are included in the consolidated financial statements from the acquisition date.

The fair value of the net assets acquired is attributed as follows:

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|  |                    |
|--|--------------------|
| Assets acquired:                         |                    |
| Accounts receivable                      | \$ 93,112          |
| Prepaid expenses                         | 15,500             |
| Fixed assets                             | 5,018              |
| Intangible assets                        | 436,000            |
| Goodwill                                 | 2,748,872          |
|  | <hr/> 3,298,502    |
| Liabilities assumed:                     |                    |
| Bank overdraft                           | 15,627             |
| Accounts payable and accrued liabilities | 98,632             |
| Future income taxes                      | 139,520            |
|  | <hr/> 253,779      |
| Net assets at fair value                 | <hr/> \$ 3,044,723 |
| Consideration:                           |                    |
| Cash, including acquisition fees         | \$ 35,444          |
| Class A shares issued (note 22 c))       | 3,009,279          |
|  | <hr/> \$ 3,044,723 |

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# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 5. Information on operations:

|   | 2008              | 2007                |
|---|-------------------|---------------------|
| a) Amortization :   |                   |                     |
| Amortization of fixed assets  | \$ 701,000        | \$ 584,352          |
| Amortization of intangible assets   | 208,633           | 155,754             |
| Amortization of deferred development costs                                      | 23,012            | 161,087             |
|   | <b>\$ 932,645</b> | <b>\$ 901,193</b>   |
| b) Financial expenses:  |                   |                     |
| Interest on loans due to a company shareholder exercising significant influence | \$ 847            | \$ 15,757           |
| Interest on long-term debt  | 253,082           | 436,047             |
| Accreted interests on convertible debentures                                    | 455,444           | 436,995             |
| Amortization and write-off of deferred financing costs                          | -                 | 278,710             |
| Interest on bank loan and bank charges  | 105,824           | 189,352             |
| Foreign exchange loss   | 28,902            | 17,829              |
| Investment revenues   | (657,650)         | -                   |
|   | <b>\$ 186,449</b> | <b>\$ 1,374,690</b> |

## 6. Non-cash activities:

|   | 2008         | 2007       |
|---|--------------|------------|
| Issuance of 644,000 warrants to the brokers in consideration of share and warrant issuance fees           | \$ -         | \$ 605,360 |
| Compensation of an advance from a shareholder against an advance to be received from the same shareholder | \$ -         | \$ 150,000 |
| Conversion of convertible debentures into Class A shares  | \$ 2,124,586 | \$ 88,000  |
| Issuance of 1,363,713 Class A shares in partial consideration of a business acquisition                   | \$ 7,942,212 | \$ -       |
| Issuance of 60,000 Class A shares and of 30,000 warrants in consideration of an amount owed to a supplier | \$ -         | \$ 60,000  |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 7. Short-term investments:

|  | 2008                 | 2007                 |
|--|----------------------|----------------------|
| Corporate bonds with credit rating BBB, bearing interest between 2.28 % and 4.45%, maturing between July and November 2008 | \$ 11,587,222        | \$ 14,286,201        |
| Certificate of deposit bearing interest at 5.00%, maturing on October 16, 2008   | 1,000,000            | -                    |
| Foreign denominated currency contracts, maturing between July and December 31, 2008 <sup>(1)</sup> ;                       | (76,885)             | -                    |
| Shares of public companies   | 6,547                | 5,686                |
|  | <b>\$ 12,516,884</b> | <b>\$ 14,291,887</b> |

<sup>(1)</sup> Foreign denominated currency contracts :

The information regarding the foreign denominated currency contracts as at June 30, 2008 is summarized as follows:

| Foreign Currency To be sold | Currency to be purchased | Strike price \$ | Maturity date     | Fair Value \$ |
|-----------------------------|--------------------------|-----------------|-------------------|---------------|
| 8,250,000 US\$              | CDN \$                   | 1.01            | July 31, 2008     | (52,965)      |
| 800,000 Euro                | CDN \$                   | 1.57            | December 30, 2008 | (23,920)      |
| Total                       |                          |                 |                   | (76,885)      |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 8. Accounts receivable:

|   | 2008                | 2007                |
|---|---------------------|---------------------|
| Trade   | \$ 3,255,776        | \$ 1,898,335        |
| Trade – Company under common control                      | 782,360             | -                   |
| Sales taxes   | 208,428             | 113,203             |
| Research and development tax credits                      | 412,737             | 40,000              |
| Advances to shareholders exercising significant influence | 40,324              | 22,349              |
| Interests receivable                                      | 54,462              | 134,319             |
| Income taxes receivable                                   | 282,516             | 222,736             |
| Other   | 55,588              | 63,110              |
|   | <b>\$ 5,092,191</b> | <b>\$ 2,494,052</b> |

## 9. Inventories:

|                 | 2008                | 2007                |
|-----------------|---------------------|---------------------|
| Raw materials   | \$ 4,669,897        | \$ 2,679,019        |
| Work in process | 338,666             | 385,084             |
| Finished goods  | 859,482             | 212,801             |
|                 | <b>\$ 5,868,045</b> | <b>\$ 3,276,904</b> |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 10. Fixed assets:

|                                    |              |                             |                   | 2008 |
|------------------------------------|--------------|-----------------------------|-------------------|------|
|                                    | Cost         | Accumulated<br>amortization | Net book<br>value |      |
| Land                               | \$ 138,758   | \$ -                        | \$ 138,758        |      |
| Building                           | 3,846,039    | 310,535                     | 3,535,504         |      |
| Furniture and fixtures             | 255,862      | 76,556                      | 179,306           |      |
| Machinery and equipment            | 3,549,369    | 931,138                     | 2,618,231         |      |
| Computer equipment                 | 255,698      | 179,629                     | 76,069            |      |
| Leasehold improvements             | 380,041      | 43,559                      | 336,482           |      |
| Vehicles                           | 510,508      | 230,606                     | 279,902           |      |
|                                    | 8,936,275    | 1,772,023                   | 7,164,252         |      |
| Fixed assets under capital leases: |              |                             |                   |      |
| Machinery and equipment            | 53,557       | 10,924                      | 42,633            |      |
|                                    | \$ 8,989,832 | \$ 1,782,947                | \$ 7,206,885      |      |
|                                    |              |                             |                   | 2007 |
|                                    | Cost         | Accumulated<br>amortization | Net book<br>value |      |
| Land                               | \$ 87,158    | \$ -                        | \$ 87,158         |      |
| Building                           | 2,284,019    | 107,308                     | 2,176,711         |      |
| Furniture and fixtures             | 154,740      | 41,559                      | 113,181           |      |
| Machinery and equipment            | 2,896,040    | 585,643                     | 2,310,397         |      |
| Computer equipment                 | 184,487      | 129,684                     | 54,803            |      |
| Leasehold improvements             | 498,257      | 36,606                      | 461,651           |      |
| Vehicles                           | 493,355      | 139,376                     | 353,979           |      |
|                                    | 6,598,056    | 1,040,176                   | 5,557,880         |      |
| Fixed assets under capital leases: |              |                             |                   |      |
| Machinery and equipment            | 53,557       | 6,187                       | 47,370            |      |
|                                    | \$ 6,651,613 | \$ 1,046,363                | \$ 5,605,250      |      |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 11. Intangible assets:

|                        |                     |                             |                     | 2008 |
|------------------------|---------------------|-----------------------------|---------------------|------|
|                        | Cost                | Accumulated<br>amortization | Net book<br>value   |      |
| Web site               | \$ 21,000           | \$ 14,125                   | \$ 6,875            |      |
| Software               | 145,768             | 31,828                      | 113,940             |      |
| Customer relationships | 1,065,500           | 198,754                     | 866,746             |      |
| Patent                 | 1,097,942           | 62,594                      | 1,035,348           |      |
| Trademark              | 586,208             | 36,745                      | 549,463             |      |
|                        | <b>\$ 2,916,418</b> | <b>\$ 344,046</b>           | <b>\$ 2,572,372</b> |      |

|                        |                     |                             |                     | 2007 |
|------------------------|---------------------|-----------------------------|---------------------|------|
|                        | Cost                | Accumulated<br>amortization | Net book<br>value   |      |
| Web site               | \$ 13,500           | \$ 11,417                   | \$ 2,083            |      |
| Software               | 55,621              | 21,721                      | 33,900              |      |
| Customer relationships | 629,500             | 102,031                     | 527,469             |      |
| Patent                 | 1,153,923           | 60,789                      | 1,093,134           |      |
|                        | <b>\$ 1,852,544</b> | <b>\$ 195,958</b>           | <b>\$ 1,656,586</b> |      |

## 12. Other assets:

|  |                     |                             |                     | 2008              | 2007 |
|--|---------------------|-----------------------------|---------------------|-------------------|------|
|  | Cost                | Accumulated<br>amortization | Net book<br>value   | Net book<br>value |      |
| Deferred development costs <sup>(1)</sup>                    | \$ 1,498,887        | \$ 425,487                  | \$ 1,073,400        | \$ 748,258        |      |
| Deferred financing costs                                     | -                   | -                           | -                   | 163,096           |      |
| Deferred costs related to the upcoming business acquisitions | 368,883             | -                           | 368,883             | -                 |      |
|  | <b>\$ 1,867,770</b> | <b>\$ 425,487</b>           | <b>\$ 1,442,283</b> | <b>\$ 911,354</b> |      |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 12. Other assets (cont'd):

(1) Deferred development costs:

|   | 2008                | 2007              |
|---|---------------------|-------------------|
| Balance, beginning of year                    | \$ 748,258          | \$ 548,632        |
| Development costs capitalized during the year | 348,154             | 441,663           |
| Amortization of deferred development costs    | (23,012)            | (161,087)         |
| Research and development tax credits          | -                   | (80,950)          |
| <b>Balance, end of year</b>                   | <b>\$ 1,073,400</b> | <b>\$ 748,258</b> |

## 13. Investment in Canadian Immigrant Investor Program:

|  | 2008        | 2007                |
|--|-------------|---------------------|
| Cash   | \$ -        | \$ 722,548          |
| Fixed income term bonds with A- credit rating, bearing interest at an annual rate of 5.95 %, matured during the year | -           | 2,364,875           |
|  | <b>\$ -</b> | <b>\$ 3,087,423</b> |

The fair values of the term bonds were equivalent to their cost and were mortgaged as a guarantee for the reimbursement of the amounts lent by the investors (see note 21).

## 14. Goodwill:

|   |                     |                |                       | 2008                 |
|---|---------------------|----------------|-----------------------|----------------------|
|   | Medical Equipment   | Steel Products | Biomedical Activities | Total                |
| Balance, beginning of year              | \$ 5,164,650        | \$ 1,902,735   | \$ -                  | \$ 7,067,385         |
| Business acquisitions                   | \$ -                | \$ -           | \$ 7,945,431          | \$ 7,945,431         |
| Goodwill impairment charge              | \$ -                | \$ (1,902,735) | \$ -                  | \$ (1,902,735)       |
| Foreign currency translation adjustment | \$ 598,169          | \$ -           | \$ -                  | \$ 598,159           |
| <b>Balance, end of year</b>             | <b>\$ 5,762,809</b> | <b>\$ -</b>    | <b>\$ 7,945,431</b>   | <b>\$ 13,708,240</b> |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 14 Goodwill (con't):

|   |                   |                |                       | 2007         |
|---|-------------------|----------------|-----------------------|--------------|
|   | Medical Equipment | Steel Products | Biomedical Activities | Total        |
| Balance, beginning of year              | \$ 5,117,947      | \$ 1,902,735   | \$ -                  | \$ 7,020,682 |
| Foreign currency translation adjustment | \$ 46,703         | \$ -           | \$ -                  | \$ 46,703    |
| Balance, end of year                    | \$ 5,164,650      | \$ 1,902,735   | \$ -                  | \$ 7,067,385 |

## 15. Bank advances:

The Company has a credit facility on demand in the amount of \$2,000,000 which is unused as at June 30, 2008. This credit, bearing interest at the prime rate of the financial institution plus 0.5%, is secured by short-term investments and is renewable on an annual basis.

S.A.S. ECM has a credit facility on demand in the amount of €50,000 which is unused as at June 30, 2008. This credit is bearing interest at the prime rate of the financial institution plus 1.2%.

Bolduc Leroux Inc. has a credit facility on demand in the amount of \$1,350,000, of which \$980,557 is used as at June 30, 2008. This credit, bearing interest at the prime rate of the financial institution plus 0.6%, is secured by a movable hypothec on specific assets, by a guarantee of loan of 45% of Investissement Québec and by a shareholder exercising significant influence.

Laboratoire Syma Inc. has a credit facility on demand in the amount of \$150,000 of which \$132,108 is used as at June 30, 2008. This credit, bearing interest at the prime rate of the financial institution plus 3%, is secured by short-term investments owned by the Company and is renewable on an annual basis.

Magnum Pharmaceuticals Inc. has a credit facility on demand in the amount of \$50,000 which is unused as at June 30, 2008. This credit, bearing interest at the prime rate of the financial institution plus 3%, is secured by the universality of the assets, present and future, and is renewable on an annual basis.

## 16. Bank loan:

The bank loan, of an initial amount of €350,000 (\$561,435), bearing interest at prime rate of the financial institution plus 1.2 %, is payable in July and August 2008.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 17. Accounts payable and accrued liabilities:

|   | 2008                | 2007                |
|---|---------------------|---------------------|
| Trade   | \$ 3,095,630        | \$ 1,301,315        |
| Accrued liabilities   | 535,846             | 539,589             |
| Salaries and deductions at source payable                   | 640,998             | 581,369             |
| Advance from a shareholder exercising significant influence | 46,253              | -                   |
|   | <b>\$ 4,318,727</b> | <b>\$ 2,422,273</b> |

## 18. Long-term debt:

|   | 2008       | 2007         |
|---|------------|--------------|
| <b>S.A.S. ECM:</b>  |            |              |
| Loans payable in Euros, interest at variable rates varying between 2.70% to 4.56%, payable in monthly instalments of \$35,596 (€22,191), including interest, secured by vehicles, machinery and equipment, maturing between September 2009 and February 2012;   | \$ 894,223 | \$ 1,220,681 |
| Loan payable in Euros to a Company controlled by a shareholder exercising significant influence, repaid during the year;  | -          | 98,305       |
| Loans payable in Euros, non-interest bearing, maturing in December 2012;  | 336,861    | 115,007      |
| <b>Bolduc Leroux Inc:</b>   |            |              |
| Term loan of an initial amount of \$2,750,000, interest at prime rate plus 0.25%, payable in monthly instalments of \$17,000, plus interest, secured by a first rank property mortgage on the building as well as on the universality of present and future assets of Bolduc Leroux Inc. and guaranteed by a shareholder exercising significant influence, maturing in August 2019; | 2,278,000  | 2,482,000    |
| Term loan of an initial amount of \$33,000, interest at 7.84%, payable in monthly instalments of \$667, interest included, secured by machinery and equipment, maturing in June 2013;   | 33,000     | -            |
| Obligations under capital leases (note 19);   | 21,537     | 43,478       |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 18. Long-term debt (cont'd):

|  | 2008                | 2007                |
|--|---------------------|---------------------|
| <b>Laboratoire Syma Inc:</b>   |                     |                     |
| Loan bearing interest at 8.00%, payable in monthly instalments of \$3,386, interest included, secured by a movable hypothec on the universality of the assets, present and future and guaranteed by a director, maturing in March 2010;  | 66,146              | -                   |
| Loans payable bearing interest at the prime rate plus a rate varying between 2.00% to 3.00%, payable in monthly instalments of \$1,941, plus interest, secured by a movable hypothec on the universality of the assets, present and future and guaranteed by a director, due between April 2010 and July 2014. | 93,176              | -                   |
|  | <b>3,722,943</b>    | 3,959,471           |
| Current portion  | <b>(636,116)</b>    | (801,029)           |
|  | <b>\$ 3,086,827</b> | <b>\$ 3,158,442</b> |

The prime rate was 4.75% as at June 30, 2008 (6.00% in 2007).

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

|      |            |
|------|------------|
| 2009 | \$ 636,116 |
| 2010 | \$ 583,042 |
| 2011 | \$ 528,663 |
| 2012 | \$ 433,587 |
| 2013 | \$ 273,274 |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 19. Obligations under capital leases:

|  | 2008      | 2007      |
|--|-----------|-----------|
| Machinery lease contract, of a total amount of \$80,000, repaid during the year;   | \$ -      | \$ 12,925 |
| Vehicles lease contract, of a total amount of \$29,974, payable in monthly instalments of \$622, including interest, calculated at a rate of 9.12%, maturing in November 2010; | 18,038    | 25,502    |
| Vehicles lease contract, of a total amount of \$9,500, payable in monthly instalments of \$309, including interest, calculated at a rate of 10.50%, maturing in January 2009;  | 5,871     | 9,579     |
| Monitoring equipment lease contract, of a total amount of \$6,275, repaid during the year.   | -         | 853       |
|  | 23,909    | 48,859    |
| Interest included in instalments   | (2,372)   | (5,381)   |
| Balance of the obligations   | \$ 21,537 | \$ 43,478 |

## 20. Secured convertible debentures:

- i) On December 29, 2006, the Company issued convertible debentures having a face value of \$2,200,000. These convertible debentures bear interest at 8% and are convertible, totally or partially, at the holder's option, into Class A shares on the basis of one Class A share for each \$1.25 of principal until December 29, 2008, for \$1.38 until December 29, 2009, for \$1.52 until December 29, 2010 and for \$1.67 until its redemption date on December 29, 2011. During the year, \$197,925 of convertible debentures were converted into Class A shares (see note 22 c) v)). The convertible debentures are secured by a first ranking mortgage on all tangible and intangible assets of the Company. The principal is due in full on December 29, 2011. The interest is payable by monthly instalments of \$14,667 starting January 2008, the first twelve instalments having been paid on the subscription date.

The Company issued 750,000 warrants granting convertible debentures holders the right to purchase 750,000 Class A shares. These warrants can be exercised starting December 30, 2009 only if the average weighted market value of the share is less than \$1.50 during the 90 days preceeding that date. The exercise price will be \$1.51 per share from December 30, 2009 to December 29, 2010 and \$1.66 per share from December 30, 2010 to December 29, 2011.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 20. Secured convertible debentures (cont'd):

- ii) On March 31, 2005, the Company issued convertible debentures having a face value of \$3,000,000 of which \$2,000,000 had been subscribed on March 31, 2005 and \$1,000,000 on May 10, 2005. These convertible debentures bear interest at 8 % and are convertible, totally or partially, at the holders' option, into Class A shares on the basis of one Class A share for each \$0.80 of principal until March 31, 2007, for \$0.88 until March 31, 2008, for \$0.97 until March 31, 2009 and for \$1.07 until its redemption date on December 15, 2009. During the year 2008, \$1,926,661 (\$88,000 in 2007) of convertible debentures were converted into Class A shares (see note 22 c) v)). The convertible debentures are secured by a first ranking mortgage on all tangible and intangible assets of the Company. The principal is due in full on December 15, 2009. The interest is payable by monthly instalments of \$20,000 starting October 2005, the first six instalments having been paid on the subscription date.

## 21. Loans under Canadian Immigrant Investor Program:

On March 13, 2003, a subsidiary of the Company contracted loans from the Canadian Immigrant Investor Program for the financing of its inventories and expansion project.

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|  | 2008 | 2007         |
|--|------|--------------|
| Loans under the Canadian Immigrant Investor Program, bearing interest at a rate of 0.0001 %, secured by term bonds that have a similar value (note 13), repaid during the year | \$ - | \$ 3,087,423 |

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## 22. Capital stock:

- a) Authorized:

On June 30, 2008, the authorized capital stock includes the following:

Unlimited number of Class A shares, voting, participating, without par value;

Unlimited number of Class B shares, non-voting, non-participating, dividends at the Bank of Canada's prime rate plus a percentage varying from 0% to 5% of issuance value, cumulative or non-cumulative, at Board of Directors' discretion, dividend with priority rank to Class A shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

Unlimited number of Class C shares, non-voting, non-participating dividends at the Bank of Canada's prime rate plus a percentage varying from 0% to 5% of issuance value, cumulative or non-cumulative, at Board of Directors' discretion, dividend with priority rank to Class A and Class B shares, redeemable at the option of the Company at an amount equal to the consideration received at issuance, without par value;

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 22. Capital stock (cont'd):

b) Issued:

|  | 2008          | 2007          |
|--|---------------|---------------|
| 63,087,727 Class A shares (50,615,881 in 2007) | \$ 70,084,061 | \$ 33,570,722 |

c) Transactions during the year 2008:

- i) Issuance of 745,156 Class A shares for a total amount of \$4,932,933, in consideration of the acquisition of all the outstanding shares of Laboratoire Syma Inc.
- ii) Issuance of 618,557 Class A shares for a total amount of \$3,009,279, in consideration of the acquisition of all the outstanding shares of Magnum Pharmaceuticals Inc.
- iii) Issuance of 1,188,404 Class A shares following the exercise of 1,188,404 stock options for a cash consideration of \$1,182,380 and a transfer of \$798,367 from contributed surplus.
- iv) Issuance of 7,572,000 Class A shares following the exercise of 7,572,000 warrants for a cash consideration of \$19,820,200 and a transfer of \$4,568,449 from warrants.
- v) Issuance of 2,347,729 Class A shares following the exercise of conversion right of \$2,124,586 of convertible debentures. Amounts of \$1,894,533 and of \$307,198 were transferred from secured convertible debentures and from the equity component of secured convertible debentures included in equity, respectively.

d) Transactions during the year 2007:

- i) Issuance of 1,800,000 units for a total amount of \$900,000, of which \$840,000 in cash and \$60,000 in consideration of an amount owed to a supplier. Each unit includes one Class A share and one fifth of a warrant, each complete warrant allowing for the purchase of a single Class A share of the Company at a price of \$1.00 per share, and that, for a period of 24 months following its issuance. A value of \$144,000 was attributed to the warrants granted, and the difference of \$756,000 was recorded in the capital stock.
- ii) Issuance of 9,200,000 units for a total amount of \$23,000,000 in consideration of \$23,000,000 in cash. Each unit includes one Class A share and one half of a warrant, each complete warrant allowing for the purchase of a single Class A share of the Company at a price of \$3.35 per share, and that, for a period of 24 months following its issuance. Subsequently, the exercise period was reduced to June 30, 2008. A value of \$3,420,886 was attributed to the warrants granted, and the difference of \$19,579,114 was recorded in the capital stock.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 22. Capital stock (cont'd):

- iii) Issuance of 80,002 Class A shares following the exercise of 80,002 stock options for a cash consideration of \$58,502 and a transfer of \$39,502 from contributed surplus.
  - iv) Issuance of 52,000 Class A shares following the exercise of 52,000 warrants for a cash consideration of \$52,000 and a transfer of \$20,800 from warrants.
  - v) Issuance of 100,000 Class A shares following the exercise of the conversion right of \$88,000 of convertible debentures. Amounts of \$76,130 and of \$11,870 were transferred from secured convertible debentures and from a portion of secured convertible debentures included in equity, respectively.
- e) Escrowed shares:

In accordance with the requirements of the TSX Venture Exchange, all of the 7,000,000 issued Class A shares issued for the acquisition of Lapjack (Canada) Ltée were held in escrow under a securities escrow agreement. Under the terms of the agreement, 10% of Class A shares held in escrow have been released upon issuance of the Final Exchange Bulletin and 15% of the additional Class A shares have been released at six month intervals on the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> et 36<sup>th</sup> months following the initial release. As at June 30, 2008, no shares were held in escrow (4,200,000 Class A shares were still held in escrow as of June 30, 2007).

## 23. Stock option plan:

The Company instituted a fixed stock option plan for which options can be granted to its officers, directors, employees and to persons providing services on a continuous basis to the Company. Under this plan, 10,698,780 Class A shares were reserved. The exercise price of the options is equal to the Company's quoted share price at the preceding date on which the options are granted.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 23. Stock option plan (cont'd):

The following table summarizes the changes in the plan position for the years ended June 30, 2008 and 2007:

|  | 2008        |                                 | 2007      |                                 |
|--|-------------|---------------------------------|-----------|---------------------------------|
|  | Options     | Weighted average exercise price | Options   | Weighted average exercise price |
| Balance, beginning of year                                     | 4,394,998   | \$ 1.17                         | 225,000   | \$ 0.50                         |
| Granted  | 2,900,000   | 6.51                            | 4,250,000 | 1.19                            |
| Exercised  | (1,188,404) | 0.99                            | (80,002)  | 0.73                            |
| Expired  | (124,999)   | 2.12                            | -         | -                               |
| Balance, end of year   | 5,981,595   | \$ 3.77                         | 4,394,998 | \$ 1.17                         |
| Options that can be exercised at year-end                      | 3,539,930   | \$ 2.34                         | 1,303,333 | \$ 0.87                         |
| Weighted average fair value of options granted during the year |             | \$ 4.66                         |           | \$ 0.99                         |

The following table summarizes the information on the outstanding stock options as at June 30, 2008:

| Exercise price | Outstanding options |   | Exercisable options |  |
|----------------|---------------------|---|---------------------|--|
|                | Number              | Weighted average outstanding maturity period (year) | Number              |  |
| \$ 0.50        | 120,000             | 0.58  | 120,000             |  |
| 0.87           | 2,186,329           | 3.50  | 2,186,329           |  |
| 1.31           | 291,934             | 3.67  | 200,268             |  |
| 2.75           | 483,332             | 3.92  | 283,332             |  |
| 6.80           | 2,000,000           | 4.33  | 666,667             |  |
| 9.68           | 200,000             | 4.50  | 66,667              |  |
| 6.25           | 100,000             | 4.67  | 16,667              |  |
| 4.85           | 400,000             | 4.92  | -                   |  |
| 3.95           | 200,000             | 4.92  | -                   |  |
|                | 5,981,595           | 3.96  | 3,539,930           |  |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 23. Stock option plan (cont'd):

- a) Transaction during the year June 30, 2008:

The Company has granted 2,900,000 stock options allowing the acquisition of 2,900,000 Class A shares at a weighted average exercise price of \$6.51 with a vesting period extending over 18 months.

- b) Transaction during the year ended June 30, 2007:

The Company has granted 4,250,000 stock options allowing the acquisition of 4,250,000 Class A shares at a weighted average exercise price of \$1.19 with a vesting period extending over 18 months.

- c) Compensation costs:

Compensation costs related to the stock option plan amount to \$7,427,627 for the year ended June 30, 2008 (\$707,333 in 2007).

- d) Fair value of the options:

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

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|   | 2008      | 2007      |
|---|-----------|-----------|
| Weighted average expected dividend rate   | Nil       | Nil       |
| Weighted average volatility               | 95%       | 82%       |
| Weighted average risk-free interest rate  | 4.03%     | 3.99%     |
| Weighted average expected life of options | 60 months | 60 months |

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# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 24. Warrants:

The following table summarizes the changes in the warrants position for the years ended June 30, 2008 and 2007:

|                            | 2008           |              | 2007           |              |
|----------------------------|----------------|--------------|----------------|--------------|
|                            | Warrant Number | Amount       | Warrant Number | Amount       |
| Balance, beginning of year | 7,792,000      | \$ 4,667,446 | 3,915,000      | \$ 1,090,000 |
| Granted                    | -              | -            | 5,604,000      | 4,170,246    |
| Exercised                  | (7,572,000)    | (4,568,449)  | (52,000)       | (20,800)     |
| Expired                    | (17,500)       | (13,014)     | (1,675,000)    | (572,000)    |
| Balance, end of year       | 202,500        | \$ 85,983    | 7,792,000      | \$ 4,667,446 |

The following is a summary of the information on the outstanding warrants as at June 30, 2008:

| Exercise price | Number  | Weighted average outstanding maturity period (months) |
|----------------|---------|---|
| \$ 1.00        | 188,000 | 3   |
| \$ 3.35        | 14,500  | 1   |
|                | 202,500 | 3   |

### a) Transactions during the year ended June 30, 2007:

- i) Simultaneously with the issuance of 1,800,000 Class A shares, the Company granted 360,000 warrants allowing the purchase of 360,000 Class A shares at a price of \$1.00 per share until September 2008. A value of \$144,000 was attributed to the warrants granted.
- ii) Simultaneously with the issuance of 9,200,000 Class A shares, the Company granted 4,600,000 warrants allowing the purchase of 4,600,000 Class A shares at a price of \$3.35 per share until May 2009. A value of \$3,420,886 was attributed to the warrants granted. These warrants bear a provision for early exercise at the option of the Company, if the average price of Class A shares is or exceeds \$4.00 for 20 consecutive trading days commencing the 20<sup>th</sup> trading day prior to the expiry of the four month hold period to which those securities are subject.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 24. Warrants (cont'd):

a) Transactions during the year 2007 (cont'd):

iii) Simultaneously with the issuance of 9,200,000 Class A shares, the Company granted 644,000 warrants to the brokers allowing the purchase of 644,000 Class A shares at a price of \$3.35 per share until May 2009. A value of \$605,360 was attributed to the warrants granted.

The fair value of warrants issued and described at ii) and iii) is \$0.94 each. The fair value was estimated at the date on which they were granted by using the Monte Carlo's pricing model with the following assumptions:

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|                          |           |
|--------------------------|-----------|
| Expected dividend rate   | Nil       |
| Expected volatility      | 100%      |
| Risk-free interest rate  | 4.57%     |
| Expected life of options | 24 months |

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## 25. Accumulated other comprehensive income (loss):

The changes that occurred during the year ended June 30, 2008 were as follows:

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|   | 2008         | 2007         |
|---|--------------|--------------|
| Restated opening balance due to the new accounting policies adopted regarding financial instruments (note 2 a)) | \$ (458,974) | \$ (504,418) |
| Unrealized gain on translation of financial statements of self-sustaining foreign operations                    | 806,333      | 45,444       |
| Balance, end of year  | \$ 347,359   | \$ (458,974) |

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# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 26. Commitments:

- a) As at June 30, 2008, the balance of the commitments under the terms of leases for the rental of its business premises, maturing in 2016, totals \$1,023,706 and operating lease expenses for the year amounted to \$318,848 (\$226,263 in 2007). Minimum lease payments over the next five years are as follows:

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|      |            |
|------|------------|
| 2009 | \$ 407,323 |
| 2010 | \$ 218,398 |
| 2011 | \$ 70,470  |
| 2012 | \$ 68,951  |
| 2013 | \$ 68,951  |

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- b) The Company is committed to pay to a company shareholder exercising significant influence a quarterly royalty which represents the lower of \$45,000 or 25% of consolidated cash flows from operating activities if these cash flows exceed \$6,000,000. Under the terms of the agreement, the Company will continue to pay the royalties up to a maximum of \$520,000.
- c) The Company is committed to pay a quarterly royalty of 1% of the gross revenues to be generated by the patent acquired in connection with the acquisition of Bolduc Leroux Inc.

## 27. Related party transactions:

- a) Year 2008:
- i) The Company paid interest in the amount of \$847 (\$15,757 in 2007) to a company shareholder exercising significant influence. This amount was charged to financial expenses in the statement of operations. These transactions were concluded in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.
- ii) On July 17, 2007, the Company acquired a building from a company whose shareholders' directors exercise significant influence on the Company. This acquisition, not in the normal course of operations, was recorded at the market value determined by an independent real estate appraiser. The acquisition was settled by a cash consideration of \$1,200,000.
- iii) The Company sold medical equipment for an amount of \$772,290 to a company whose shareholders' directors exercise significant influence. This amount was recorded in revenues in the statement of operations. These transactions were concluded in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 27. Related party transactions (cont'd):

### b) Year 2007:

The Company paid interest in the amount of \$15,757 to a company shareholder exercising significant influence. This amount was charged to financial expenses in the statement of operations. These transactions were concluded in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

## 28. Financial instruments:

### a) Fair value:

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

The fair value of the term loan of an initial amount of \$2,750,000 and the loans that bear interest at the prime rate plus rate between 2.0% and 3.0% with a carrying value of \$93,177 corresponds to their book values as a result of the variable interest rates associated with these loans.

The fair value of other financial assets and liabilities is summarized as follows:

|  | 2008          |               | 2007          |               |
|--|---------------|---------------|---------------|---------------|
|  | Book value    | Fair value    | Book value    | Fair value    |
| Short –Term Investments  | \$ 12,516,884 | \$ 12,516,884 | \$ 14,291,887 | \$ 14,291,887 |
| Loans payable in Euros,<br>interest at variable rates<br>from 2.70% to 4.56% | \$ 894,223    | \$ 828,274    | \$ 1,220,681  | \$ 1,147,561  |
| Loan payable in Euros,<br>interest at 5%                                     | \$ -          | \$ -          | \$ 98,305     | \$ 97,959     |
| Loans payable in Euros,<br>without interest                                  | \$ 336,861    | \$ 246,709    | \$ 115,007    | \$ 103,625    |
| Convertible debentures   | \$ 2,462,909  | \$ 2,462,909  | \$ 4,389,576  | \$ 4,389,576  |
| Loans under the Canadian<br>Immigrant Investor<br>Program                    | \$ -          | \$ -          | \$ 3,087,423  | \$ 3,087,423  |
| Term loan of an initial amount\$<br>of \$33,000, interest at 7.84%           | \$ 33,000     | \$ 33,090     | -             | -             |
| Loan, interest at 8%   | \$ 66,146     | \$ 66,295     | -             | -             |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 28. Financial instruments (cont'd):

### a) Fair value (cont'd):

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

#### i) Short-term investments:

The fair value is determined using the market value.

#### ii) Loans payable in Euros and other loans bearing fixed interest rates:

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

#### iii) Convertible debentures:

The book value approximates the fair value since the debentures have been discounted using an interest rate that the Company can actually obtain on the market for similar debentures with no conversion right.

### b) Currency risk:

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

### c) Credit risk:

The Company extends credit to its customers in the normal course of its operations. Ongoing credit assessments are conducted. Furthermore, in order to reduce its credit risk, the Company insures an important part of its trade receivables.

### d) Interest rates risk:

The Company has a long-term debt 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.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 29. Segmented information:

Management has determined that the Company exercise its activities in three significant segments: development, manufacturing and marketing of medical equipment, custom processing and distribution of steel products and development and marketing of products in the biomedical and environmental fields.

These segments are managed separately and are assessed individually based on operating income before depreciation, amortization, financial expenses and income taxes. Most of the businesses were acquired as an operating unit, and management at the time of the acquisition was retained.

The accounting policies of each segment are identical to the policies used for the consolidated financial statements.

Information on the results and the assets of each segment:

|  | 2008                  | 2007                 |
|--|-----------------------|----------------------|
| Revenues from external clients:                        |                       |                      |
| Manufacturing and distribution of medical equipment    | \$ 6,768,110          | \$ 6,798,585         |
| Custom processing and distribution of steel products   | 7,087,625             | 5,977,558            |
| Development of biomedical and environmental activities | 659,853               | -                    |
| Other  | -                     | 68,572               |
|  | <b>\$ 14,515,588</b>  | <b>\$12,844,715</b>  |
| Profit (loss) before the other items and income taxes: |                       |                      |
| Manufacturing and distribution of medical equipment    | \$(1,425,159)         | \$ 159,212           |
| Custom processing and distribution of steel products   | (214,301)             | 123,086              |
| Development of biomedical and environmental activities | (3,830,535)           | (943,736)            |
| Other  | (8,735,574)           | (1,747,360)          |
|  | <b>\$(14,205,569)</b> | <b>\$(2,408,798)</b> |
| Depreciation and amortization:                         |                       |                      |
| Manufacturing and distribution of medical equipment    | \$ 174,060            | \$ 285,118           |
| Custom processing and distribution of steel products   | 571,590               | 558,380              |
| Development of biomedical and environmental activities | 115,060               | 57,695               |
| Other  | 71,935                | -                    |
|  | <b>\$ 932,645</b>     | <b>\$ 901,193</b>    |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 29. Segmented information (cont'd):

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

|  | 2008                  | 2007                  |
|--|-----------------------|-----------------------|
| Interest expense:                                      |                       |                       |
| Manufacturing and distribution of medical equipment    | \$ 79,348             | \$ 73,437             |
| Custom processing and distribution of steel products   | 243,569               | 434,468               |
| Development of biomedical and environmental activities | 20,374                | -                     |
| Other  | 471,906               | 570,246               |
|  | <b>\$ 815,197</b>     | <b>\$ 1,078,151</b>   |
| Income taxes:  |                       |                       |
| Manufacturing and distribution of medical equipment    | \$ (72,883)           | \$ 220,252            |
| Custom processing and distribution of steel products   | (390,250)             | (281,711)             |
| Development of biomedical and environmental activities | (155,771)             | -                     |
| Other  | 4,894                 | -                     |
|  | <b>\$ (614,010)</b>   | <b>\$ (61,459)</b>    |
| Net loss:  |                       |                       |
| Manufacturing and distribution of medical equipment    | \$(1,564,169)         | \$ (445,485)          |
| Custom processing and distribution of steel products   | (2,542,660)           | (588,051)             |
| Development of biomedical and environmental activities | (3,810,198)           | (1,001,431)           |
| Other  | (8,696,361)           | (2,588,255)           |
|  | <b>\$(16,613,388)</b> | <b>\$ (4,623,222)</b> |
| Assets:  |                       |                       |
| Manufacturing and distribution of medical equipment    | \$14,542,394          | \$10,947,119          |
| Custom processing and distribution of steel products   | 9,492,727             | 11,501,211            |
| Development of biomedical and environmental activities | 11,536,195            | 2,995,869             |
| Other  | 27,286,974            | 16,798,824            |
|  | <b>\$62,858,290</b>   | <b>\$42,243,023</b>   |
| Fixed asset expenditures:                              |                       |                       |
| Manufacturing and distribution of medical equipment    | \$ 658,533            | \$ 869,511            |
| Custom processing and distribution of steel products   | 355,475               | 275,729               |
| Development of biomedical and environmental activities | 10,581                | -                     |
| Other  | 1,978,115             | 26,323                |
|  | <b>\$ 3,002,704</b>   | <b>\$ 1,171,563</b>   |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 29. Segmented information (cont'd):

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

|        | 2008                | 2007                |
|--------|---------------------|---------------------|
| Canada | \$14,438,461        | \$ 6,984,628        |
| France | 6,476,664           | 5,688,007           |
|        | <b>\$20,915,125</b> | <b>\$12,672,635</b> |

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

|                 | 2008                | 2007                |
|-----------------|---------------------|---------------------|
| Canada          | \$ 7,807,610        | \$ 6,519,576        |
| Latin America   | 389,793             | 281,964             |
| United States   | 589,879             | 288,269             |
| Europe          | 4,147,760           | 4,461,707           |
| Africa and Asia | 1,580,546           | 1,293,199           |
| Total revenues  | <b>\$14,515,588</b> | <b>\$12,844,715</b> |

## 30. Income taxes:

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

|  | 2008                 | 2007               |
|--|----------------------|--------------------|
| Income taxes at the statutory tax rate of 31.46%<br>(32.01% in 2007) | <b>\$(5,419,739)</b> | \$(1,499,393)      |
| Unrecorded tax benefits  | <b>1,981,128</b>     | 1,846,391          |
| Non-deductible expenses and other                                    | <b>2,824,601</b>     | (408,457)          |
|  | <b>\$ (614,010)</b>  | <b>\$ (61,459)</b> |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

## 30. Income taxes (cont'd):

b) Future income taxes are as follows:

|  | 2008               | 2007         |
|--|--------------------|--------------|
| Future income tax assets:  |                    |              |
| Losses carried forward   | \$ 5,543,863       | \$ 3,465,311 |
| Capitalized development costs  | 271,955            | 245,772      |
| Deferred financing costs   | 420,736            | 545,074      |
| Fixed assets and other element   | 62,708             | -            |
|  | <b>6,299,262</b>   | 4,256,157    |
| Less valuation allowance   | <b>(5,536,951)</b> | (3,575,451)  |
| Future income tax assets recognized  | <b>762,311</b>     | 680,706      |
| Future income tax liabilities:   |                    |              |
| Excess of capital cost allowance over amortization<br>accounted for in the books for fixed assets<br>and intangible assets | <b>739,117</b>     | 779,693      |
| Convertible debentures   | <b>167,347</b>     | 235,121      |
| Future income tax liabilities recognized   | <b>906,464</b>     | 1,014,814    |
| Net future income taxes liabilities  | <b>\$ 144,153</b>  | \$ 334,108   |

Tax losses carried forward amount to \$17,548,906 at the federal level and to \$18,544,512 at the provincial level. An amount of \$81,605 has been recognized as future income tax assets during the year. These tax losses are summarized as follows:

|      | Federal             | Provincial          |
|------|---------------------|---------------------|
| 2010 | \$ -                | \$ 72,143           |
| 2011 | \$ 203,467          | \$ 336,853          |
| 2025 | \$ 3,087,343        | \$3,751,010         |
| 2026 | \$ 3,339,284        | \$3,304,236         |
| 2027 | \$ 4,015,850        | \$4,012,644         |
| 2028 | \$ 6,902,962        | \$7,067,626         |
|      | <b>\$17,548,906</b> | <b>\$18,544,512</b> |

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## 30. Income taxes (cont'd):

The Company has available a balance of non-deducted research and development expenses that could be used to reduce taxable income in future years of \$960,960 at the federal level (\$571,161 in 2007) and \$1,297,636 at the provincial level.

Finally, the Company has an amount of \$276,941 of investment tax credit that can be used to reduce federal taxes in the future. This credit has not been recorded.

## 31. Subsequent events:

- a) Between July 4 and September 15, 2008, 202,500 Class A shares were issued following the exercise of 202,500 warrants for a cash consideration of \$236,575 and a transfer of \$85,983 from warrants.
- b) On July 10, 2008 the Company acquired all the outstanding shares of Société internationale de gestion Unitam Inc. The acquisition was settled by a cash consideration of \$250,000 and by the issue of 500,000 Class A shares of the Company. These shares are subject to a mandatory holding period, in accordance with the applicable regulations.
- c) Between July 11 and October 6, 2008, 2,110,000 stock options were granted to employees allowing the purchase of 2,110,000 Class A shares of the Company.
- d) On July 14, 2008, \$500,000 of convertible debentures were converted into 400,000 of Class A shares.
- e) On July 17, 2008, the Company acquired all the outstanding shares of SARL Noveko Algérie. This acquired company was owned 50% by a company of which the shareholders directors exercise significant influence. The acquisition was settled by the issue of 240,000 Class A shares of the Company. These shares are subject to a mandatory holding period, in accordance with the applicable regulations.
- f) On July 18, 2008, the Company acquired all the outstanding shares of Groupe Conseils Micron-Air Inc. The acquisition was settled by a cash consideration of \$600,000 and by the issue of 600,000 Class A shares of the Company. These shares are subject to a mandatory holding period, in accordance with the applicable regulations.
- g) On August 1, 2008, the Company acquired all the outstanding shares of Purer Life Technology Co. Ltd and U-Bond Inc. These acquisitions were settled by a cash consideration of \$5,855,000 (including the deposit for acquisition of \$1,274,625 as at June 30, 2008). Purer Life Technology Co. Ltd's shares were acquired directly by the Company and U-Bond Inc.'s shares were acquired by a recently created subsidiary. One of the sellers of these companies subscribed to 1,100,000 Class A shares of the Company at the price of \$3.05 per share. These shares will be subject to a mandatory holding period, in accordance with the applicable regulations.

# NOVEKO INTERNATIONAL INC.

Notes to consolidated financial statements

Years ended June 30, 2008 and 2007

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## **31. Subsequent events (cont'd):**

- h) On August 26, 2008, \$500,000 of convertible debentures were converted into 400,000 Class A shares.
- i) On October 16, 2008, 400,000 Class A shares were issued following the exercise of 400,000 stock options for a cash consideration of \$348,000 and a transfer of \$244,000 from contributed surplus.

## **32. Comparative figures:**

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