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DECTRON INTERNATIONALE INC
Form 10-Q
September 14, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For The Quarter Ended July 31, 2004, or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For The Transition Period from _____to_____

Commission File Number 1-14503

DECTRON INTERNATIONALE INC.

(Exact name of registrant as specified in its charter)

Quebec, Canada

(State of Incorporation or other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employee)

4300 Poirier Blvd., Montreal

(Address of principal executive offices)

H

(Z

Registrant's telephone number, including area code: (514) 334 9609

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

APPLICABLE ONLY TO CORPORATE ISSUERS

As of September 10, 2004, there were 3,155,000 shares of common stock outstanding.

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DECTRON INTERNATIONALE INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein including, without limitation, those concerning (i) the strategy of Dectron Internationale Inc. ("Dectron"), (ii) Dectron's expansion plans and (iii) Dectron's capital expenditures, contain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") concerning Dectron's operations, economic performance and financial condition. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause such differences include, but are not limited to, those discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." Dectron undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made

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to reflect any future events or circumstances.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

See Pages F-1 through F-11.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- o Revenue Recognition
- o Deferred Revenue
- o Intangible Assets and Goodwill
- o Foreign currency translation
- o Accounting for Income Taxes

REVENUE RECOGNITION

We recognize revenue for finished products when the goods are shipped and title passes to the customer, provided that there are no uncertainties regarding customer acceptance, persuasive evidence of an arrangement exist; the sales price is fixed or determinable; and collectibility is deemed probable.

DEFERRED REVENUE

We have sold extended warranty contracts covering a period of four to nine years beyond the one year basic guarantee. The deferred revenue is recognized as income over the four to nine year period on a straight-line basis commencing one year from the sale of the contracts.

INTANGIBLE ASSETS AND GOODWILL

We account for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets", which we adopted on February 1, 2002. In accordance with that statement, goodwill and intangible assets with indefinite lives are no longer amortized, but rather tested for impairment at least annually. Intangible assets

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with estimable useful lives, consisting of patents, trademarks, and rights, are amortized on a straight-line basis over the estimated useful lives of 5 to 15 years, and are reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment of Long-Lived Assets".

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a purchase business combination. -. Goodwill and intangible assets with definite lives are tested annually for impairment in accordance with the provisions of SFAS 142.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Any impairment loss would be expensed in the consolidated statements of earnings. The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible assets with its carrying amount. When the carrying amount of the intangible assets exceeds its fair value, an impairment loss would be recognized for the difference.

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or assets group may not be recoverable in accordance with SFAS 144. Recoverability of intangible assets with estimable lives and other long-lived assets is measured by a comparison of the carrying amount of an assets or asset group to future net undiscounted pretax cash flows expected to be generated by the assets or asset group. If these comparisons indicated that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or the asset group exceeds the related estimated fair value.

FOREIGN CURRENCY TRANSLATION

We maintain our books and records in Canadian dollars. Foreign currency transactions are translated using the temporal method. Under this method, all monetary items are translated into Canadian funds at the rate of exchange prevailing at balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses are included in the determination of earnings for the year.

The translation of the financial statements from Canadian dollars into United States dollars is performed for the convenience of the reader. Balance sheet accounts are translated using closing exchange rates in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during each reporting period. No representation is made that the Canadian dollar amounts could have been, or could be, converted into United States dollars at the rates on the respective dates and or at any other certain rates. Adjustments resulting from the translation are included in the accumulated other comprehensive income in stockholder's equity.

INCOME TAXES

As part of the process of preparing our financial statements, we will be required to estimate our income taxes in each of the jurisdictions in which we operate. This process will involve estimates of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting

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purposes.

RESULTS OF OPERATIONS

Six month period ended July 31, 2004 compared to six month period ended July 31, 2003.

Revenues for the six month period ended July 31, 2004 were \$ 21,217,255, a 0.25% decrease over prior year revenues of \$ 21,271,441. Sales in the Canadian market were adversely affected by the Annual shutdown of work sites during the last 2 weeks of July.

Gross profit decreased by \$ 1,109,521 to \$ 6,015,964 over the same period. As a percentage of revenues, gross profit decreased from 33.5% to 28.35%. Gross profit was adversely affected by higher cost in raw material and the use of aggressive pricing strategies in the commercial HVAC markets

Selling expenses decreased by \$ 238,579 in the six month period ended July 31, 2004. As a percentage of revenues, selling and marketing expenses decreased from 12.46 to 11.36%.

General and administrative expenses decreased by \$ 138,708 to \$ 1,456,886. As a percentage of revenues, general and administrative decreased from 7.5% to 6.87%.

Selling and administrative expenses decreased due to an improvement in cost control exerted by Management.

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Amortization expenses increased to \$ 618,736 in the six month period ending July 31, 2004 compared to \$ 598,558 in 2003 following the acquisition of new machinery and equipment during the last fiscal year. As a percentage of revenues, amortization expenses increased from 2.81% to 2.92%.

Financing expenses increased from \$ 167,910 to \$ 601,250 due mainly to the effects of foreign exchange variations. As a percentage of revenues, financing expenses increased from 0.79% to 2.83%.

Provisions for Income tax as a percentage of taxable income decreased from 31.87% for the six months ended July 31, 2003 to 31.15% for 2004. Tax expenses have decreased by \$384,645 due to a decrease in taxable revenue.

Net earnings before discontinued operations was \$ 638,883. As a percentage of sales, net earnings before discontinued operations decrease from 6.77% to 3.01%.

Losses from discontinued operations net of taxes for the six month period ending July 31, 2004 was \$ 949,805 compared to \$ 1,359,816 in the corresponding period in 2003.

Gain on disposal of discontinued operations was \$ 550,676 for the six month period ended July 31, 2004 compared to \$48,320 in 2003. This increase results from the disposal of Ipac 2000 Inc.

As a result of the above factors, net earnings in the six month period ending July, 31,2004 was \$ 239,754 compared to earnings of \$128,494 in the corresponding period in 2003. The increase in earnings is partly due to the sales of discontinued operations of Ipac 2000 Inc.

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Three month period ended July 31, 2004 compared to Three month period ended July 31, 2003.

Revenues for the three month period ended July 31, 2004 were \$ 10,988,159, a 5.43% decrease over prior year revenues of \$ 11,619,589. Sales in the Canadian market were adversely affected by annual shut down of work sites during the last 2 weeks of July, and aggressive pricing in the commercial HVAC markets

Gross profit decreased by \$ 877,303 to \$ 2,745,525 over the same period. As a percentage of revenues, gross profit decreased from 31.18% to 24.99%. Gross profit was adversely affected by higher cost in raw material and the use of aggressive pricing strategies in the commercial HVAC markets

Selling expenses decreased by \$ 189,396 in the three month period ended July 31, 2004. As a percentage of revenues, selling and marketing expenses decreased from 11.91% to 10.87%.

General and administrative expenses decreased by \$ 40,140 to \$ 785,182. As a percentage of revenues, general and administrative increased from 7.1% to 7.15%.

Selling and administrative expenses decreased due to an improvement in cost control exerted by Management in these sectors.

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Amortization expenses increased to \$ 304,158 in the three month period ending July 31, 2004 compared to \$ 284,926 in 2003 following the acquisition of new machinery and equipment during the last fiscal year. As a percentage of revenues, amortization expenses increased from 2.45% to 2.77%.

Financing expenses decreased from \$ 122,185 to \$ 96,162 due mainly to a lower prime rate (3.75% compared to 4.75% during the same period last fiscal year). As a percentage of revenues, financing expenses decreased from 1.05% to 0.88%.

Provisions for Income tax as a percentage of taxable income decreased from 32.66% for the three months ended July 31, 2003 to 30.03% for 2004. Tax expenses have decreased by \$ 218,921 due to a decrease in taxable revenue.

Net earnings before discontinued operations was \$ 255,653. As a percentage of sales, net earnings before discontinued operations decrease from 5.83% to 2.33%.

Losses from discontinued operations net of taxes for the three month period ending July 31, 2004 was \$ 679,228 compared to \$ 657,304 in the corresponding period in 2003.

Gain on disposal of discontinued operations was \$ 550,677 in the three month period ended July 31, 2004 compared to \$ 48,320 in the corresponding period in 2003. This increase is due to the disposal of Ipac 2000 Inc.

As a result of the above factors, net earnings in the three month period ending July 31, 2004 was \$ 127,102 compared to earnings of \$ 68,724 in the corresponding period in 2003. The increase in earnings is due mainly to the

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disposal of Ipac 2000 Inc.

LIQUIDITY AND CAPITAL RESOURCES

We had a negative net change in cash of \$ 646,053 for the six month period ended July 31, 2004. The principal source of cash was from accounts payable in the amount of \$ 1,567,993. The principal uses of cash was repayments of bank loans in the amount of \$ 2,059,016 repayment of long term debt of \$ 1,166,513 and an increase in accounts receivable in the amount of \$ 1,425,720.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our significant contractual obligations as of July 31, 2004 are for debt and operating leases. Debt by year of maturity and future rental payments under operating lease agreements are presented below. As of July 31, 2004, we had an outstanding balance on our line of credit of \$ 11,943,203 and does not have any purchase obligations. We have not engaged in off-balance sheet financing, commodity contract trading or significant related party transactions.

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | |
|-------------------------|------------------------|---------------------|-----------|-----------|
| | Total | Less than 1 year | 1-3 years | 4-5 years |
| Balance of Sale | 112,824 | 42,874 | 69,950 | - |
| Other long term debt | 5,102,135 | 1,098,525 | 2,194,913 | 1,639,6 |
| Total Long term debt | 5,214,959 | 1,141,399 | 2,264,863 | 1,639,6 |
| Operating lease | 3,378,032 | 705,650 | 1,409,880 | 1,262,5 |

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Management believes that these commitments will be satisfied with current operating cash flow.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Risk Management

We are exposed to fluctuations in foreign currency exchange rates and interest rates. To manage certain of those exposures, we use futures, options and swaps. The instruments we utilize in our hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. Management believes that we satisfactorily diversify the counterparts used and monitor the concentration of risk to limit our counterpart exposure.

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Interest Rate Risk

We are exposed to market risk related to fluctuations in interest rates on its debt. Increase in prevailing interest rates could increase our interest payment obligations relating to variable rate debt. For example, a 100 basis point increase in interest rates would increase annual interest expense by \$125,000.

ITEM 4. CONTROLS AND PROCEDURES

We believe it is critical to provide investors and other users of our financial statements with information that is relevant, objective, understandable and timely, so that they can make informed decisions. As a result, we have established and we maintain accounting systems and practices and internal control processes designed to provide reasonable assurance that transactions are properly executed and recorded and that our policies and procedures are carried out appropriately.

Our management team is committed to providing high-quality, relevant and timely information about our businesses. Management performs reviews of each of our businesses throughout the year, addressing issues ranging from financial performance and strategy to personnel and compliance.

Management is responsible for implementing and maintaining adequate systems of internal and disclosure controls and procedures and for monitoring their effectiveness.

We evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" ("Disclosure Controls") pursuant to Rules 13a-14(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and our "internal controls and procedures for financial reporting" (Internal Controls) as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation was done under the supervision and with the participation of management.

- o Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer to allow timely decisions regarding required disclosure.
- o Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles in the United States Of America.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon our management's evaluation, our chief executive officer and chief financial officer have concluded that, as of July 31, 2004, the disclosure and internal accounting controls provide reasonable assurance that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported as and when required, including with specific reference that our assets are safeguarded, transactions are executed in accordance with management's authorizations and the financial records are reliable for the purpose of preparing financial statements.

There were no significant changes in our internal and disclosure controls or in other factors that could significantly affect such internal and disclosure controls subsequent to the date of their evaluation.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of the Chief Executive Officer filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DECTRON INTERNATIONALE INC.

September 14, 2004

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

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DECTRON INTERNATIONALE INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004

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DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 JULY 31, 2004

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DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED BALANCE SHEETS
 AS AT JULY 31, 2004 AND JANUARY 31, 2004
 (Amounts Expressed in United States Dollars)

PAGE 2

JULY 31, 2004

ASSETS

CURRENT

| | | |
|--|----|------------|
| Cash | \$ | 1,811,293 |
| Accounts receivable | | 12,476,377 |
| Inventory | | 9,515,329 |
| Prepaid expenses and sundry assets | | 773,140 |
| Loans receivable | | 17,706 |
| Current assets held by discontinued operations | | 192,071 |

24,785,916

LOANS RECEIVABLE

594,954

BALANCE OF SALES RECEIVABLES

250,000

PROPERTY, PLANT AND EQUIPMENT

7,341,313

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| | |
|---|---------------|
| INTANGIBLES | 91,160 |
| GOODWILL | 1,550,817 |
| DEFERRED INCOME TAXES | 374,784 |
| LONG-LIVED ASSETS HELD BY DISCONTINUED OPERATIONS | 3,505,790 |
| | ----- |
| | \$ 38,494,734 |
| | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED BALANCE SHEETS
 AS AT JULY 31, 2004 AND JANUARY 31, 2004
 (Amounts Expressed in United States Dollars)

PAGE 3

| | |
|---|---------------|
| | JULY 31, 2004 |
| | ----- |
| LIABILITIES | |
| CURRENT | |
| Bank loans | \$ 11,443,203 |
| Accounts payable and accrued expenses | 6,520,065 |
| Income taxes payable | 457,254 |
| Current portion of long-term debt | 1,141,399 |
| Deferred revenue | 3,616 |
| Current liabilities held by discontinued operations | 425,602 |
| | ----- |
| | 19,991,139 |
| LONG-TERM DEBT | 4,073,560 |
| DEFERRED REVENUE | 1,743,193 |
| | ----- |

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| | |
|--------------------------------------|---------------|
| | 25,807,892 |
| <hr/> | |
| STOCKHOLDERS' EQUITY | |
| CAPITAL STOCK | 7,671,904 |
| TREASURY STOCK | (88,780) |
| ACCUMULATED OTHER COMPREHENSIVE GAIN | 1,647,241 |
| RETAINED EARNINGS | 3,456,477 |
| | <hr/> |
| | 12,686,842 |
| | <hr/> |
| | \$ 38,494,734 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
 FOR THE SIX MONTH PERIOD ENDED JULY 31, 2004 AND 2003
 (Amounts Expressed in United States Dollars)

PAGE 4

| | |
|-------------------------------|----------------------------------|
| | SIX MONTH ENDED JULY 31, 2004 |
| | <hr/> |
| SALES | \$ 21,217,255 |
| Cost of sales | 15,201,291 |
| | <hr/> |
| GROSS PROFIT | 6,015,964 |
| | <hr/> |
| OPERATING EXPENSES | |
| Selling | 2,411,180 |
| General and administrative | 1,456,886 |
| Depreciation and amortization | 618,736 |
| Interest expense | 601,250 |
| | <hr/> |

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| | |
|---|------------|
| | 5,088,052 |
| | ----- |
| EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS | 927,912 |
| Income taxes | 289,029 |
| | ----- |
| EARNINGS BEFORE DISCONTINUED OPERATIONS | 638,883 |
| Loss from discontinued operations, net of tax | (949,805) |
| Gain on disposal of discontinued operations, net of tax | 550,676 |
| | ----- |
| NET EARNINGS | \$ 239,754 |
| | ===== |
| NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED | |
| Continuing operations | \$ 0.21 |
| Discontinued operations | (0.31) |
| Disposal of discontinued operations | 0.18 |
| | ----- |
| | \$ 0.08 |
| | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | |
| Basic and Diluted | 2,977,734 |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2004 AND 2003
(Amounts Expressed in United States Dollars)

PAGE 5

| | |
|--------------------|---------------------------------------|
| | THREE MONTH ENDED JULY 31, 2004 |
| | ----- |
| SALES | \$ 10,988,159 |
| Cost of sales | 8,242,634 |
| | ----- |
| SS PROFIT | 2,745,525 |
| | ----- |
| OPERATING EXPENSES | |

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| | |
|---|------------|
| Selling | 1,194,659 |
| General and administrative | 785,182 |
| Depreciation and amortization | 304,158 |
| Interest expense | 96,162 |
| | ----- |
| | 2,380,161 |
| | ----- |
| EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS | 365,364 |
| | |
| Income taxes | 109,711 |
| | ----- |
| EARNINGS BEFORE DISCONTINUED OPERATIONS | 255,653 |
| | |
| Loss from discontinued operations, net of tax | (679,228) |
| Gain on disposal of discontinued operations, net of tax | 550,677 |
| | |
| NET EARNINGS | ===== |
| | \$ 127,102 |
| | ===== |
| | |
| NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED | |
| | |
| Continuing operations | \$ 0.08 |
| Discontinued operations | (0.21) |
| Disposal of discontinued operations | 0.17 |
| | ----- |
| | \$ 0.04 |
| | ===== |
| | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | |
| Basic and diluted | 3,155,000 |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE SIX MONTH PERIOD ENDED JULY 31, 2004 AND 2003
 (Amounts Expressed in United States Dollars)

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 SIX MONTH
 ENDED
 JULY 31, 2004

OPERATING ACTIVITIES

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| | |
|---|----------|
| Net earnings from continuing operations | \$ 638,8 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 618,7 |
| Increase in accounts receivable | (1,425,7 |
| Increase in inventory | (307,2 |
| Increase in prepaid expenses and sundry assets | (87,9 |
| Decrease in deferred income taxes | 8 |
| Increase in accounts payable and accrued expenses | 1,567,9 |
| Increase (decrease) in income taxes payable | 97,6 |
| Increase in deferred revenue | 35,7 |
| | ----- |
| Net cash provided by operating activities | 1,138,8 |
| | ----- |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE SIX MONTH PERIOD ENDED JULY 31, 2004 AND 2003
 (Amounts Expressed in United States Dollars)

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SIX MONTH ENDED
 JULY 31, 2004

 INVESTING ACTIVITIES

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| | |
|---|-------------|
| Acquisition of property, plant and equipment | (228,687) |
| | ----- |
| Net cash used in investing activities | (228,687) |
| | ----- |
| FINANCING ACTIVITIES | |
| Advances to loans receivable | (18,075) |
| Advances from (repayments of) bank loans | (2,059,016) |
| Net advances from (repayments of) long-term debt | (1,166,513) |
| Issuance of shares | 543,750 |
| Advances for share purchase plan receivable | -- |
| Advances from balance of sales | (250,000) |
| | ----- |
| Net cash provided by (used in) financing activities | (2,949,854) |
| | ----- |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE ON CASH AND CASH EQUIVALENTS | 261,869 |
| | ----- |
| EFFECT OF DISCONTINUED OPERATIONS | 1,131,726 |
| | ----- |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE SIX MONTH PERIOD ENDED JULY 31, 2004 AND 2003
 (Amounts Expressed in United States Dollars)

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SIX MONTH ENDED
 JULY 31, 2004

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (646,053)

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| | |
|---|--------------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 2,457,346 |
| | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 1,811,293 |
| | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | |
| INTEREST PAID | \$ 479,849 |
| | ===== |
| INCOME TAXES PAID | \$ 187,969 |
| | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE SIX MONTH PERIOD ENDED JULY 31, 2004
 (Amounts Expressed in United States Dollars)

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| | NUMBER | AMOUNT | CUMULATIVE RETAINED EARNINGS | OTHER COMPREHE INCO |
|--------------------------|-----------|--------------|------------------------------------|---------------------------|
| | ----- | ----- | ----- | ----- |
| Balance January 31, 2001 | 2,795,000 | \$ 6,718,510 | \$ 3,730,950 | \$ (1 |

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| | | | | |
|--------------------------------|-----------|--------------|--------------|---------|
| Share purchase plan receivable | -- | \$ 34,423 | \$ -- | \$ -- |
| Foreign currency translation | -- | -- | -- | (57) |
| Net earnings for the year | -- | -- | 47,065 | -- |
| Balance January 31, 2002 | 2,795,000 | \$ 6,752,933 | \$ 3,778,015 | \$ (59) |
| Share purchase plan receivable | -- | \$ (119,010) | \$ -- | \$ -- |
| Issuance of shares | 124,500 | 502,300 | -- | 46 |
| Foreign currency translation | -- | -- | -- | -- |
| Net earnings for the year | -- | -- | 1,136,212 | -- |
| Balance January 31, 2003 | 2,919,500 | \$ 7,136,223 | \$ 4,914,227 | \$ (12) |
| Share purchase plan receivable | -- | \$ (170,819) | \$ -- | \$ -- |
| Issuance of shares | 54,250 | 162,750 | -- | 1,69 |
| Foreign currency translation | -- | -- | -- | -- |
| Net loss for the year | -- | -- | (1,697,504) | -- |
| Balance, January 31, 2004 | 2,973,750 | \$ 7,128,154 | \$ 3,216,723 | \$ 1,56 |
| Share purchase plan receivable | -- | \$ -- | \$ -- | \$ -- |
| Issuance of shares | 181,250 | 543,750 | -- | 8 |
| Foreign currency translation | -- | -- | -- | -- |
| Net earnings for the period | -- | -- | 239,754 | -- |
| Balance, July 31, 2004 | 3,155,000 | \$ 7,671,904 | \$ 3,456,477 | \$ 1,64 |

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.
 NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 JULY 31, 2004 AND JANUARY 31, 2004
 (Amounts Expressed in United States Dollars)

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PRESENTATION

These consolidated financial statements include the accounts of Dectron Internationale Inc., Dectron Inc. Consolidated, Circul-aire Group and International Water Makers Inc.

Dectron Inc. Consolidated is comprised of Dectron Inc. and of its wholly-owned subsidiaries, Refplus Inc., Thermoplus Air Inc., Dectron U.S.A. Inc., and IPAC 2000 Inc.

Circul-aire Group is comprised of Cascade Technologies Inc., and of its wholly-owned subsidiaries, Purafil Canada Inc. and Circul-aire Inc. and its wholly-owned subsidiary Tranzmetal Inc.

All inter-company profits, transactions and account balances have been eliminated.

b) FOREIGN CURRENCY TRANSLATION

The company maintains its books and records in Canadian dollars. The operation of the company's subsidiary in the United States is an integrated corporation. As a result, monetary assets and liabilities in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the average exchange rates in effect at transaction dates. Income and expenses in foreign currency are translated at the average rate effective during the year with the exception of depreciation and amortization, which is translated at the historical rate. Gains and losses resulting from the translation of foreign currency transactions are included in earnings.

The translation of the financial statements from Canadian dollars into United States dollars is performed for the convenience of the reader. Balance sheet accounts are translated using closing exchange rates in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during each reporting period. No representation is made that the Canadian dollar amounts could have been, or could be, converted into United States dollars at the rates on the respective dates and or at any other certain rates. Adjustments resulting from the translation are included in the accumulated other comprehensive income in stockholder's equity.

DECTRON INTERNATIONALE INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2004 AND JANUARY 31, 2004
(Amounts Expressed in United States Dollars)

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2. SEGMENTED INFORMATION

JULY 31,
2004

a) The breakdown of sales by geographic area is as follows:

| | | |
|--------------------------|----|----------|
| Canada | \$ | 11,715,0 |
| United States of America | | 8,572,6 |
| International | | 929,6 |

\$ 21,217,2
=====

b) The breakdown of identifiable assets by geographic area are as follows:

| | | |
|---------------|----|----------|
| Canada | \$ | 32,937,8 |
| United States | | 5,556,8 |

\$ 38,494,7
=====