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DECTRON INTERNATIONALE INC
Form 10-Q
December 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 October 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

N/A

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

(I.R.S. Employer Identification No.)

4300 Poirier Blvd., Montreal

H4R 2C5

(Address of principal executive offices)

(Zip Code)

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

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As of December 8, 2004, there were 3,155,000 shares of common stock outstanding.

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 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 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.

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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 purposes.

RESULTS OF OPERATIONS

Nine month period ended October 31, 2004 compared to Nine month period ended October 31, 2003.

Revenues for the nine month period ended October 31, 2004 were \$ 32,237,998, a 1.94% increase over prior year revenues of \$ 31,623,783. Sales in

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the Canadian market were adversely affected by the Annual shutdown of work sites during the last 2 weeks of July 2004.

Gross profit decreased by \$ 1,365,388 to \$ 8,910,000 over the same period. As a percentage of revenues, gross profit decreased from 32.49% to 27.64%. 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 \$ 470,718 in the nine month period ended October 31, 2004. As a percentage of revenues, selling and marketing expenses decreased from 12.84% to 11.14%.

General and administrative expenses decreased by \$ 524,190 to \$ 2,213,347. As a percentage of revenues, general and administrative decreased from 8.66% 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 \$ 944,653 in the nine month period ending October 31, 2004 compared to \$ 934,157 in 2003 following the acquisition of new machinery and equipment during the last fiscal year. As a percentage of revenues, amortization expenses decreased from 2.95% to 2.93%.

Financing expenses increased from \$ 396,214 to \$ 1,184,161 due mainly to the effects of foreign exchange variations. As a percentage of revenues, financing expenses increased from 1.25% to 3.67%.

Provisions for Income tax as a percentage of taxable income decreased from 32.0% for the nine months ended October 31, 2003 to 31.05% for 2004. Tax expenses have decreased by \$383,346 due to a decrease in taxable revenue.

Net earnings before discontinued operations was \$ 674,294. As a percentage of sales, net earnings before discontinued operations decrease from 4.62% to 2.09%.

Losses from discontinued operations net of taxes for the nine month period ending October 31, 2004 was \$ 911,019 compared to \$ 1,385,019 in the corresponding period in 2003.

Gain on disposal of discontinued operations was \$ 731,512 for the nine month period ended October 31, 2004 compared to \$73,515 in 2003. This increase results from the disposal of Ipac 2000 Inc.

As a result of the above factors, net earnings in the nine month period ending October, 31,2004 was \$ 494,787 compared to earnings of \$148,367 in the corresponding period in 2003. The increase in earnings is partly due to the sale of discontinued operations of Ipac 2000 Inc.

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

Revenues for the three month period ended October 31, 2004 were \$ 11,020,743, a 6.46% increase over prior year revenues of \$ 10,352,342, due mainly to higher sales in the Canadian market.

Gross profit decreased by \$ 255,867 to \$ 2,894,036 over the same period. As a percentage of revenues, gross profit decreased from 30.43% to

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26.26%. 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 \$ 232,139 in the three month period ended October 31, 2004. As a percentage of revenues, selling and marketing expenses decreased from 13.63% to 10.70%.

General and administrative expenses decreased by \$ 385,482 to \$ 756,461. As a percentage of revenues, general and administrative decreased from 11.03% to 6.86%.

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

Amortization expenses decreased to \$ 325,917 in the three month period ending October 31, 2004 compared to \$ 335,599 in 2003. As a percentage of revenues, amortization expenses decreased from 3.24% to 2.96%.

Financing expenses increased from \$ 228,304 to \$ 582,911 due mainly to the effects of foreign exchange variation. As a percentage of revenues, financing expenses increased from 2.21% to 5.29%.

Provisions for Income tax as a percentage of taxable income decreased from 40.13% for the three months ended October 31, 2003 to 29.23% for 2004. Tax expenses have increased by \$ 1,299 due to an increase in taxable revenue.

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Net earnings before discontinued operations was \$35,411 compared to \$19,881 in 2003 the corresponding period. As a percentage of sales, net earnings before discontinued operations increase from 0.19% to 0.32%.

Gain from discontinued operations net of taxes for the three month period ending October 31, 2004 was \$ 38,786 compared to a loss of \$ 25,203 in the corresponding period in 2003.

Gain on disposal of discontinued operations was \$ 180,836 in the three month period ended October 31, 2004 compared to \$ 25,195 in the corresponding period in 2003.

As a result of the above factors, net earnings in the three month period ending October 31, 2004 was \$ 255,033 compared to earnings of \$ 19,873 in the corresponding period in 2003. The increase in earnings is due mainly to the gain on disposal of assets.

LIQUIDITY AND CAPITAL RESOURCES

We had a negative net change in cash of \$ 1,216,012 for the nine month period ended October 31, 2004. The principal sources of cash were from accounts payable in the amount of \$ 1,227,892 and depreciation and amortization in the amount of \$ 944,653. The principal uses of cash were from an increase in accounts receivable in the amount of \$1,639,612, re-payment of long term debt in the amount of \$1,311,636 and re-payments of bank loans in the amount of \$943,896

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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Our significant contractual obligations as of October 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 October 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	123,153	123,153	-	-
Other long term debt	4,946,683	1,023,104	2,264,863	1,639,654
Total Long term debt	5,069,836	1,146,257	2,264,863	1,639,654
Operating lease	3,153,391	641,453	1,254,778	1,257,160

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.

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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 October 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.

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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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SIGNATURES

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.

December 14, 2004

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2004

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

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

PAGE 2

OCTOBER 31,
2004

ASSETS

CURRENT

Cash	\$ 1,241,334
Accounts receivable	12,690,269
Inventory	10,090,998
Prepaid expenses and sundry assets	1,274,400
Loans receivable	19,328
Current assets held by discontinued operations	166,781

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	25,483,110
LOANS RECEIVABLE	834,807
BALANCE OF SALES RECEIVABLES	250,000
PROPERTY, PLANT AND EQUIPMENT	7,830,099
INTANGIBLES	99,505
GOODWILL	1,692,784
DEFERRED INCOME TAXES	396,165
LONG-LIVED ASSETS HELD BY DISCONTINUED OPERATIONS	3,728,395

	\$40,314,865
	=====

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

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

PAGE 3

	OCTOBER 31, 2004

LIABILITIES	
CURRENT	
Bank loans	\$12,558,323
Accounts payable and accrued expenses	6,179,964
Income taxes payable	356,307
Current portion of long-term debt	1,146,257
Deferred revenue	3,616
Current liabilities held by discontinued operations	221,061

	20,465,528
LONG-TERM DEBT	3,923,579
DEFERRED REVENUE	1,938,275

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	26,327,382

STOCKHOLDERS' EQUITY	
CAPITAL STOCK	7,671,904
TREASURY STOCK	(88,780)
ACCUMULATED OTHER COMPREHENSIVE GAIN	2,692,849
RETAINED EARNINGS	3,711,510

	13,987,483

	\$40,314,865
	=====

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

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

PAGE 4

	NINE MONTH ENDED OCTOBER 31, 2004

SALES	\$32,237,998
Cost of sales	23,327,998

GROSS PROFIT	8,910,000

OPERATING EXPENSES	
Selling	3,589,893
General and administrative	2,213,347
Depreciation and amortization	944,653
Interest expense	1,184,161

	7,932,054

EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	977,946

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Income taxes	303,652

EARNINGS BEFORE DISCONTINUED OPERATIONS	674,294
Loss from discontinued operations, net of tax	(911,019)
Gain on disposal of discontinued operations, net of tax	731,512

NET EARNINGS	\$ 494,787
	=====
NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED	
Continuing operations	\$ 0.22
Discontinued operations	(0.30)
Disposal of discontinued operations	0.24

	\$ 0.16
	=====
2004 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	
Basic and Diluted	3,037,254

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 OCTOBER 31, 2004 AND 2003
(Amounts Expressed in United States Dollars)

PAGE 5

	THREE MONTH ENDED OCTOBER 31, 2004

SALES	\$11,020,743
Cost of sales	8,126,707

GROSS PROFIT	2,894,036

OPERATING EXPENSES	
Selling	1,178,713
General and administrative	756,461
Depreciation and amortization	325,917
Interest expense	582,911

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	2,844,002

EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	50,034
Income taxes	14,623

EARNINGS BEFORE DISCONTINUED OPERATIONS	35,411
Gain (Loss) from discontinued operations, net of tax	38,786
Gain on disposal of discontinued operations, net of tax	180,836
	=====
NET EARNINGS	\$ 255,033
	=====
NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED	
Continuing operations	\$ 0.01
Discontinued operations	0.01
Disposal of discontinued operations	0.06

	\$ 0.08
	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	
Basic and diluted	3,037,254

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

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

PAGE 6

	NINE MONTH ENDED OCTOBER 31, 2004

OPERATING ACTIVITIES	
Net earnings from continuing operations	\$ 674,294
Adjustments to reconcile net earnings to net cash used in operating activities:	
Depreciation and amortization	944,653
Increase in accounts receivable	(1,639,612)
Increase in inventory	(882,933)
Increase in prepaid expenses and sundry assets	(589,258)
Increase in deferred income taxes	(20,552)
Increase in accounts payable and accrued expenses	1,227,892
Decrease in income taxes payable	(3,298)

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Increase in deferred revenue	230,867

Net cash used in operating activities	(57,947)

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

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

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	NINE MONTH ENDED OCTOBER 31, 2004

INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(237,985)

Net cash used in investing activities	(237,985)

FINANCING ACTIVITIES	
Advances to loans receivable	(259,550)
Advances from (repayments of) bank loans	(943,896)
Repayments of long-term debt	(1,311,636)
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	(2,221,332)

EFFECT OF FOREIGN CURRENCY EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	351,760

EFFECT OF DISCONTINUED OPERATIONS	949,492

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

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

PAGE 8

	NINE MONTH ENDED OCTOBER 31, 2004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,216,012)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,457,346
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,241,334
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
INTEREST PAID	\$ 700,515
INCOME TAXES PAID	\$ 443,940

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

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

PAGE 9

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

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Share purchase plan receivable	-	\$ (119,010)	\$ -	\$ -
Issuance of shares	124,500	502,300	-	-
Foreign currency translation	-	-	-	46
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	-	-
Foreign currency translation	-	-	-	1,69
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	-	-
Foreign currency translation	-	-	-	1,12
Net earnings for the period	-	-	494,787	-

Balance, October 31, 2004	3,155,000	\$ 7,671,904	\$ 3,711,510	\$ 2,69
=====				

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

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

PAGE 10

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.

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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
 OCTOBER 31, 2004 AND JANUARY 31, 2004
 (Amounts Expressed in United States Dollars)

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2. SEGMENTED INFORMATION

OCTOBER 31,
 2004

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

Canada	\$17,948,533
United States of America	13,371,611
International	917,854

	\$32,237,998
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b) The breakdown of identifiable assets by geographic area are as follows:

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Canada	\$36,138,365
United States	4,176,500

	\$40,314,865
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