

p u r i t y

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**dia**

designer indoor air

[di-zī-nər in-dōr aər] – 1. air within a structure, occupied by people, purified and conditioned to custom requirements. – 2. air designed to maximize human health, productivity, comfort and quality of life. – 3. air engineered by Dectron Internationale, world leading manufacturer of humidity and air temperature control, air purification, air detoxification and energy recycling systems.

## profile

For over three decades, Dectron Internationale has been leading the way in air quality control. Setting unprecedented new standards in the industry, Dectron continues to solidify its position as one of the most innovative and favourable companies in the market today.

Our exclusive systems shield buildings from excessive heat and humidity, industrial and vehicular emissions, and even the accidental or intentional release of toxic gases. The safety and well-being of those within the building is ensured, and your most important assets protected.

Industrial facilities, airports, hospitals, embassies and consulates all use Dectron Internationale's proprietary systems. Our systems have also been used to help safeguard priceless works of art and artifacts in museums and archives. Not only do our products ameliorate your environment but, furthermore, also aid industries throughout the world meet government emission standards.

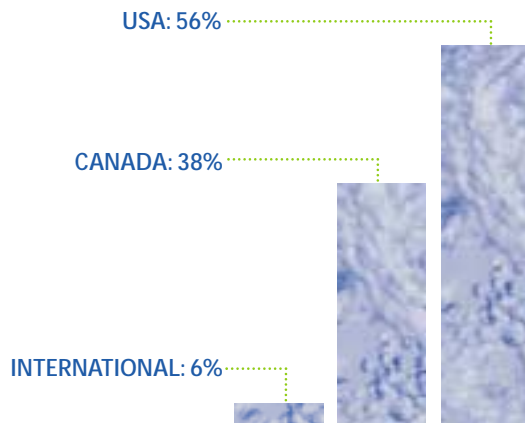
Dectron Internationale's innovative systems provide the consummate range of humidity and temperature, guaranteeing a healthy and comfortable environment. The systems also allow for the preservation of buildings, as well as the smooth functioning of electrical equipment, all while conserving valuable energy. The ideal combination of comfort, safety and efficiency is therefore achieved with our systems.

As the threat of hazards from outdoor and indoor contaminants continues to increase, Dectron Internationale finds itself in a unique position to make major contributions both in business and, more importantly, to the quality of people's lives on a worldwide scale.

Dectron Internationale manufactures **designer indoor air™** products that specialize in combining: **Air Purification, Humidity & Temperature Control and Energy Recovery**. As a fully integrated company, Dectron Internationale is poised to benefit from the huge potential of the indoor air quality market. In addition, Dectron Internationale's IWM (International Water Makers, Inc.) subsidiary possesses proprietary **water-generation-from-air** technology and products designed to provide pure, potable water for a variety of different applications and end-users.

Using state-of-the-art technology coupled with an unparalleled insight, Dectron Internationale is poised to extend their success to new heights for years to come.

### SALES BY REGION



Total 2003 sales: 36,9 million U.S.

*Public:* Since 1998  
*Listing:* NASDAQ: DECT  
*Shares Outstanding:* 2.9 Million  
*Fiscal Year:* January 31  
*Employees:* 450  
*Offices:* Montreal, Quebec  
Toronto, Ontario  
Niagara Falls, NY  
Atlanta, GA  
*Manufacturing Facilities:* Montreal, Quebec  
St-Hubert, Quebec  
Boucherville, Quebec  
Niagara Falls, NY  
St-Jérôme, Quebec



- ❖ *Since the launch of our initial public offering in 1998, Dectron Internationale has grown from a single product and single market company, into a group of companies that cover a full range of humidity control, Indoor Air Quality (IAQ), energy recycling and refrigeration products. The integration of this complete line of products — to penetrate all segments of the IAQ market — puts Dectron in a unique position to offer a single-source responsibility, and the most advanced solutions for environmental concerns.*
- In addition, Dectron Internationale is exploring various avenues for exploiting its unique water-generation-from-air technology in residential, commercial, industrial, and military application venues. This specialized course of action is consistent with the strategy of pursuing previously untapped markets and offering them unique solutions for applications requiring the use of pure water and air.

*Setting the stage by leveraging these new, advanced technologies, Dectron Internationale is poised for growth and prosperity by covering a wider spectrum of specific applications in air treatment and water generation. Market diversity, manufacturing flexibility, and product innovation, allowed Dectron Internationale to maintain a solid footing during the last year, and will continue to do so for years to come.*

#### Dectron's Future is in Focus

The Company has begun honing on the creation of synergies in a wide array of technologies, which allows it to meet fundamental objectives. It enables Dectron to increase its efficiency and potency by fuelling growth through the grouping of products and services. Furthermore, it reduces the impact of micro-market fluctuations by spreading ventures across a wider range of industries and market applications.

In order to attain goals and provide a clear sense of direction, Dectron Internationale will remain price competitive by constantly reinvesting in state-of-the-art equipment, embrace the cutting edge of technology throughout our manufacturing, marketing, distribution and administrative activities.

The future plans of Dectron Internationale Inc. are to focus on "world" demands for *pure water and pure air*. By capitalizing its Research and Development in "Gas Phase Filtration Technology", Dectron has become a major force in supplying solutions for toxic air and deficient IAQ problems. Hence, the **designer indoor air™** concept. Moreover, since Dectron is already a recognized leader in dehumidification, and the inventor of the indoor pool dehumidifier, it has through its engineering advances, synergized the IAQ, dehumidification and refrigeration technologies to produce, market and sell the "*water from air*" equipment to industry. The scope for "RELIABLE WATER" supply is endless.

#### Philosophy

True to the pledge of creating a stimulating work atmosphere for our employees that favors the emergence of a business culture that meshes perfectly with Dectron's environment, we continue to place a high value on training and professional development. The results are proof positive that this stimulates our employees' creativity and talents.

#### Management Team

The past year has been dedicated to the creation of a unified team of individuals whose diverse backgrounds enable a creative and focused approach to directing the Company. This dynamic technical strength will lead Dectron into the 2004 fiscal year with the ability to set the standard for unique engineered solutions of the future. Our team consists of recognized leaders in various engineering fields, some of whom are chairing various technical committees to establish industry-wide design guidelines, tailored to meet the world demand for humidity, temperature and air quality control.

#### Sales Network

A major strength has been the ability to build and maintain highly interactive relationships with our Representative Network. This network we serve, obliges us to deliver a quality product for the best price and service. Our success in dealing with agents, has translated into Dectron being a state-of-the-art supplier.

**In closing**, we would like to thank the dedicated people who have done so much to contribute to Dectron Internationale's successful and profitable year. We also thank you, our investors, for your confidence in us. The upcoming period will see our share price rise to reflect both our profitability and our strategic *vision* for the years ahead.



President and CEO



*Dectron Internationale – Targeting the Future*

*To grow and prosper, we continue to invest in Research and Development focusing on unique advanced technologies.*

*Two major problems facing the world are lack of clean water and acceptable indoor air quality. Our last fiscal year, ending January 2003, we made considerable strides in the development of designs and engineering for equipment relating to water generation and pure air.*



**Water From Air**

The United Nations World Water Development report of 2003 starts with the following:

*“At the beginning of the twenty-first century, the Earth, with its diverse and abundant life forms, including over six billion humans, is facing a serious water crisis.*

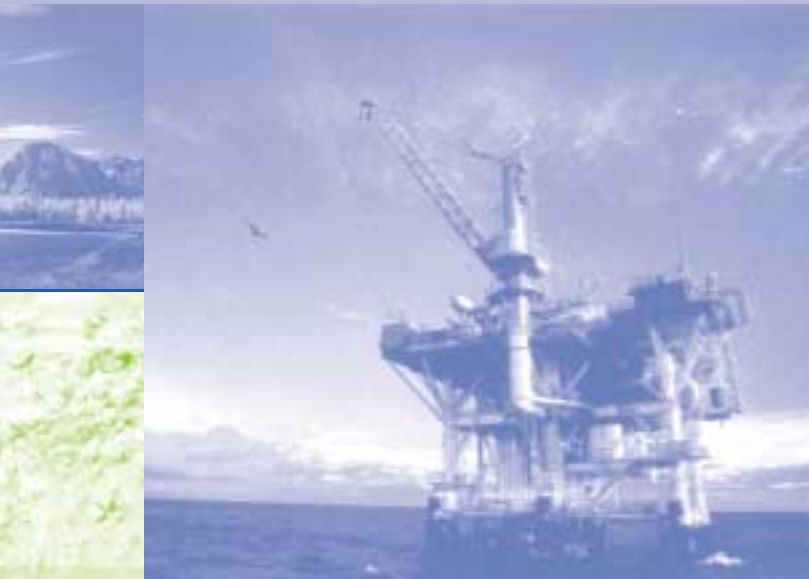
*All the signs suggest that it is getting worse and will continue to do so, unless corrective action is taken.”*

Our July 2002 acquisition of International Water Makers combined with the unique and proprietary air-filtration technologies of Circul-Aire Inc., as well as Dectron Inc.'s dehumidification knowledge, has resulted in a new patented technology that opened up an entirely new market segment for Dectron Internationale – **water generation from air.**

One of our first industry-specific water generation units, designed expressly for use on offshore oil platforms, was installed at one of ExxonMobil Corporation's offshore oil drilling platforms in the Gulf of Mexico.

Employing a unique proprietary filtration and deionization process, this totally self-contained system has completed its first year of operation. It has been generating, on the average, over 200 gallons of high-quality deionized and demineralized water on a daily basis throughout the four seasons.

ExxonMobil Production Co.'s U.S. East division, based in New Orleans, has tested the unit and determined using this technology to provide high quality water for turbine water washes is a [Best Practice for all its offshore and onshore Gulf of Mexico operations.](#)



The success of our initial real-life test, in a very harsh industrial environment, reaffirms Dectron Internationale's in-house research and development. Our water generation systems can successfully extract pure water out of air in a variety of different applications and environments ranging from residential, commercial, industrial, agricultural, to military.

## Pure Air

*Heightened public awareness centering around clean air, has led to increased demand for Dectron Internationale technologies. More than ever before, our daily lives are influenced by events related to poor indoor air quality. From controlling airborne pathogens in hospitals, to mold remediation in our homes, the quality of the air we breathe is no longer being taken for granted.*

*Over the past year, Dectron Internationale has focused on preparing for this major growth avenue. We undertook the expansion of our laboratory to augment our continuous development efforts for the improvement of existing filtration technologies. This expansion strengthens our Company's position as a unique supplier of indoor air quality solutions.*

## Moving Forward

*Always gearing towards the future, we remain committed to research and development as the foundation of our growth.*

*Our engineering, development knowledge and product manufacturing capacity, allow Dectron Internationale to take advantage of future business dynamics by providing solutions for two of the most essential and scarce elements for survival — **clean air and water.***

To the Stockholders of  
Dectron Internationale Inc.

We have audited the consolidated balance sheets of Dectron Internationale Inc. as at January 31, 2003 and 2002 and the related consolidated statements of earnings, cash flows and changes in stockholders' equity for each of the years ended January 31, 2003, 2002 and 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dectron Internationale Inc. as at January 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years ended January 31, 2003, 2002 and 2001, in conformity with generally accepted accounting principles in the United States of America.

Since the accompanying financial statements have not been prepared and audited in accordance with generally accepted accounting principles and generally accepted auditing standards in Canada, they may not satisfy the reporting requirements of Canadian statutes and regulations.

April 17, 2003



Chartered Accountants  
Schwartz Levitsky Feldman LLP  
1980 Sherbrooke West, 10<sup>th</sup> floor  
Montreal, Quebec H3H 1E8

CONSOLIDATED BALANCE SHEETS AS AT JANUARY 31, 2003 AND JANUARY 31, 2002

Amounts Expressed in United States Dollars

	2003	2002
<b>ASSETS</b>		
Current		
Cash	838,473	86,727
Accounts receivable (note 4)	9,917,100	8,056,304
Inventory (note 5)	9,525,297	9,186,114
Income taxes receivable	-	58,313
Prepaid expenses and sundry assets	538,145	555,327
Loans receivable (note 6)	21,164	-
Deferred income taxes	36,539	46,546
	20,876,718	17,989,331
Loans receivable (note 6)	472,977	517,164
Property, plant and equipment (note 7)	10,229,880	9,804,587
Intangibles (note 8)	169,000	139,048
Goodwill (note 9)	1,355,117	1,298,942
Deferred income taxes	1,297,745	811,566
	34,401,437	30,560,638
<b>LIABILITIES</b>		
Current		
Bank loans (note 10)	9,187,534	8,326,166
Accounts payable and accrued expenses (note 11)	4,835,993	4,341,533
Income taxes payable	684,578	-
Current portion of long-term debt (note 12)	1,090,576	1,336,058
Deferred revenue	4,732	-
	15,803,413	14,003,757
Long-term debt (note 12)	5,322,309	5,170,364
Loan payable	-	192,355
Deferred revenue	1,442,809	1,343,816
	22,568,531	20,710,292
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock (note 13)	7,136,223	6,752,933
Treasury stock	(88,780)	(88,780)
Accumulated other comprehensive loss	(128,764)	(591,822)
Retained earnings	4,914,227	3,778,015
	11,832,906	9,850,346
	34,401,437	30,560,638



Mauro Parissi  
Chief Financial Officer



Ness Lakdawala  
President and CEO

**CONSOLIDATED STATEMENTS OF EARNINGS FOR THE YEARS ENDING JANUARY 31**
*Amounts Expressed in United States Dollars*

	2003	2002	2001
<b>Sales</b>	36,883,064	31,939,002	33,958,558
Cost of sales	25,159,527	20,845,612	21,937,386
<b>Gross profit</b>	<b>11,723,537</b>	<b>11,093,390</b>	<b>12,021,172</b>
<b>Operating Expenses</b>			
Selling	4,894,448	5,369,842	5,318,464
General and administrative	3,655,127	3,092,319	3,035,320
Depreciation and amortization	1,356,364	1,568,065	1,521,158
Interest expense	1,050,620	1,341,308	1,434,588
	<b>10,956,559</b>	<b>11,371,534</b>	<b>11,309,530</b>
Earnings (loss) from operations	766,978	(278,144)	711,642
Write-off of loans receivable	132,342	-	-
Earnings (loss) before income taxes and discontinued operations	634,636	(278,144)	711,642
Income taxes (recovery) (note 14)	194,386	(229,879)	82,503
Earnings (loss) before discontinued operations	440,250	(48,265)	629,139
Earnings from discontinued operations, net of tax	105,276	95,330	228,287
Gain on disposal of discontinued operations, net of tax	590,686	-	-
<b>Net earnings</b>	<b>1,136,212</b>	<b>47,065</b>	<b>857,426</b>
<b>Net earnings per common share, basic and diluted</b>			
Continuing operations	0.15	(0.02)	0.23
Discontinued operations	0.04	0.04	0.08
Disposal of discontinued operations	0.21	-	-
	<b>0.40</b>	<b>0.02</b>	<b>0.31</b>
Adjusted net earnings, assuming the adoption of SFAS 142 for 2002 and 2001	1,136,212	248,710	1,068,139
Adjusted net earnings per common share, assuming the adoption of SFAS 142 for 2002 and 2001			
Basic and diluted	0.40	0.09	0.38
Weighted average number of common shares outstanding			
Basic	2,816,181	2,795,000	2,795,000
Diluted	2,848,729	2,795,000	2,795,000

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JANUARY 31**

*Amounts Expressed in United States Dollars*

	2003	2002	2001
<b>OPERATING EXPENSES</b>			
Net earnings	1,136,212	47,065	857,426
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	1,356,364	1,568,065	1,521,158
Decrease (increase) in accounts receivable	(1,860,796)	1,489,912	(1,919,376)
Decrease (increase) in income taxes receivable	58,313	294,010	(352,323)
Decrease (increase) in inventory	(516,484)	1,513,212	(2,529,719)
Decrease in prepaid expenses and sundry assets	17,182	210,991	296,655
Increase in deferred income taxes	(476,172)	(370,642)	(294,619)
Increase (decrease) in accounts payable and accrued expenses	494,460	(2,830,779)	2,075,335
Increase (decrease) in income taxes payable	684,578	-	(140,361)
Increase in deferred revenue	103,725	134,907	248,672
Gain from discontinued operations, before taxes	(789,354)	-	-
Net cash provided by (used in) operating activities	208,028	2,056,741	(237,152)
<b>INVESTING ACTIVITIES:</b>			
Acquisition of property, plant and equipment	(565,828)	(670,224)	(4,844,995)
Government grant received	-	-	200,000
Deposit on building	-	-	1,000,000
Acquisition of intangibles	(66,227)	(47,250)	(27,335)
Acquisition of goodwill	-	-	(91,134)
Proceeds from sale of division	961,640	-	-
Net cash provided (used in) investing activities	329,585	(717,474)	(3,763,464)
<b>FINANCING ACTIVITIES:</b>			
Repayments from (advances to) loans receivable	23,023	(128,903)	(208,322)
Advances from (repayments of) bank loans	861,368	(7,503)	2,717,502
Note payable	-	(83,394)	83,394
Advances from (repayments of) long-term debt	(884,960)	(1,296,591)	1,882,102
Advances from (repayments of) due to directors	-	(14,020)	(37,885)
Repayments of loans payable	(192,355)	(6,368)	(76,334)
Issuance of shares	502,300	-	-
Repayments of (advances for) share purchase plan receivable	(119,010)	34,423	(131,099)
Net cash provided by (used in) financing activities	190,366	(1,502,356)	4,229,358
Effect of foreign currency exchange rate on cash and cash equivalents	23,767	104,368	(303,856)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	751,746	(58,721)	(75,114)
Cash and cash equivalents, beginning of year	86,727	145,448	220,562
Cash and cash equivalents, end of year	838,473	86,727	145,448
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Interest paid	928,851	1,166,984	1,299,423
Income taxes paid	309,386	705,811	959,492

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED JANUARY 31

Amounts Expressed in United States Dollars

	Number	Amount	Cumulative Retained Earnings	Other Comprehensive Income	Treasury Stock
Balance January 31, 2000	2,795,000	6,849,609	2,873,524	289,121	(88,780)
Share purchase plan receivable	-	(131,099)	-	-	-
Foreign currency translation	-	-	-	(303,856)	-
Net earnings for the year	-	-	857,426	-	-
Balance January 31, 2001	2,795,000	6,718,510	3,730,950	(14,735)	(88,780)
Share purchase plan receivable	-	34,423	-	-	-
Foreign currency translation	-	-	-	(577,087)	-
Net earnings for the year	-	-	47,065	-	-
Balance January 31, 2002	2,795,000	6,752,933	3,778,015	(591,822)	(88,780)
Share purchase plan receivable	-	(119,010)	-	-	-
Issuance of shares	124,500	502,300	-	-	-
Foreign currency translation	-	-	-	463,058	-
Net earnings for the year	-	-	1,136,212	-	-
Balance January 31, 2003	2,919,500	7,136,223	4,914,227	(128,764)	(88,780)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JANUARY 31, 2003 AND JANUARY 31, 2002

Amounts Expressed in United States Dollars

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidated financial statements presentation

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

Dectron Inc. Consolidated is comprised of Dectron Inc. and of its wholly-owned subsidiaries, Refplus Inc., Thermoplus Air Inc., Fiber Mobile Ltd., Dectron U.S.A. Inc., IPAC 2000 Inc. and Le Groupe Prodapec (2000) Inc.

Circul-Aire Group is comprised of 9048-3140 Quebec Inc. and Cascade Technologies Inc., and of its wholly-owned subsidiaries, Circul-Aire Inc., Purafil Canada Inc. and 122248 Canada Inc.

On February 1, 2002 Fiber Mobile Ltd. and Le Groupe Prodapec (2000) Inc. were wound-up into Dectron Inc., 9048-3140 Quebec Inc. into Dectron Internationale Inc. and 122248 Canada Inc. into Circul-Aire Inc.

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

#### Principal activities

The company Dectron Internationale Inc., was incorporated on March 30, 1998. These companies are principally engaged in the production of dehumidification, refrigeration, indoor air quality (IAQ), ventilation, air conditioning and air purification systems in Canada and its distribution worldwide. The activities of Dectron Internationale Inc. and Cascade Technologies Inc., are immaterial in the aggregate, as their only activity is to hold the investments in the operating companies.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due to banks and any other highly liquid investments purchased with a maturity of three months or less. The carrying amounts approximate fair value because of the short maturity of these instruments.

**Inventory**

Inventory of raw materials is valued at the lower of cost and replacement cost and inventory of work-in-process and finished goods at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost and are depreciated or amortized on the basis of their estimated useful lives at the undernoted rates and methods:

<i>Building</i>	4 or 5%	Straight-line
<i>Machinery and equipment</i>	10%	Straight-line or 20% declining balance
<i>Furniture and fixtures</i>	15 or 20%	Straight-line or 20% declining balance
<i>Computer equipment</i>	15 or 30%	Straight-line or 20% declining balance
<i>Rolling stock</i>	30%	Straight-line or 20% declining balance
<i>Leasehold improvements</i>		Straight-line over term of the lease

Depreciation and amortization for assets acquired during the year are recorded at one-half of the indicated rates.

**Intangible assets and goodwill**

The company accounts for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets", which was adopted by the Company on February 1, 2003 in accordance with that statement, goodwill and intangible assets with indefinite 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. For the years 2002 and 2001, goodwill was amortized using the straight-line method, over a period of 10 years.

**Impairment of goodwill and long-lived assets**

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 asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset 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.

**Deferred revenue**

The company has 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.

**Research and development costs**

Research and development costs are charged to earnings in the year in which they are incurred, net of investment tax credits.

#### Deferred income taxes

The company maintains its 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.

#### Foreign currency transactions

The company uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Other assets and liabilities are translated at their historic rates. Items appearing in the statement of earnings, except for cost of inventory and depreciation and amortization are translated at average year rates. Exchange gains and losses are included in the statement of earnings.

#### Earnings per share

The company has adopted FAS No. 128, "Earnings per Share" which requires disclosure on the financial statements of "basic" and "diluted" earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to warrants for each year.

## 2. CHANGES IN ACCOUNTING POLICIES

In July 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. The company adopted the provisions of SFAS 142 on February 1, 2002. SFAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the new impairment testing provisions of SFAS 142. Statement also requires that intangible assets with estimated useful lives be amortized over their respective useful lives to their estimated residual values, and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The net impact of the adoption of SFAS 142 was a reduction of annual amortization expense of \$200,154 in 2003. No impairment losses were recognized due to the change in accounting principle.

The following table presents a reconciliation of net earnings, earnings per share and comprehensive income, as reported, to adjusted amounts that include the impact of the adoption of SFAS 142 for all periods presented.

	2003	2002	2001
Net earnings			
Net earnings, as reported	1,136,212	47,065	857,426
Add: Goodwill amortization, net of tax	-	201,645	210,713
Adjusted net earnings	1,136,212	248,710	1,068,139
Net earnings per common share			
Basic and diluted as reported	0.40	0.02	0.31
Add: Goodwill amortization, net of tax	-	0.07	0.07
Basic and diluted, adjusted	0.40	0.09	0.38
Comprehensive income (loss)			
Comprehensive income (loss), as reported	1,599,270	(530,022)	553,570
Add: Goodwill amortization, net of tax	-	201,645	210,713
Adjusted comprehensive income (loss)	1,599,270	(328,377)	764,283

3. **COMPREHENSIVE INCOME**

The company has adopted FAS No. 130 "Reporting Comprehensive Income" which requires new standards for reporting and display of comprehensive income and its components in the financial statements. However, it does not affect net income or total stockholders' equity. The components of comprehensive income are as follows:

	2003	2002	2001
Net income	1,136,212	47,065	857,426
Other comprehensive income (loss)			
Foreign currency translation	463,058	(577,087)	(303,856)
Comprehensive income (loss)	1,599,270	(530,022)	553,570

4. **ACCOUNTS RECEIVABLE**

	2003	2002
Trade	10,645,155	8,455,426
Allowance for doubtful accounts	(728,055)	(399,122)
	9,917,100	8,056,304

5. **INVENTORY**

	2003	2002
Raw materials	6,125,967	5,688,706
Work-in-process	1,427,982	1,269,579
Finished goods	1,971,348	2,227,829
	9,525,297	9,186,114

6. **LOANS RECEIVABLE**

	2003	2002
Private companies	464,141	487,290
Corporate shareholder	30,000	29,874
	494,141	517,164
Current portion	21,164	-
	472,977	517,164

Loan receivable from a private company in the amount of \$73,336 is secured by equipment, repayable in monthly instalments of \$21,164 plus interest at 6% per annum, maturing in April 2002.

The other loans receivable from private companies and the loan to a corporate shareholder are non-interest bearing and are not expected to be repaid prior to February 1, 2004.

	2003	2002
<b>7. PROPERTY, PLANT AND EQUIPMENT</b>		
Cost		
Land	472,772	453,173
Building	4,940,392	4,735,592
Machinery and equipment	10,263,530	8,879,849
Furniture and fixtures	793,274	715,182
Computer equipment	1,784,836	1,656,999
Rolling stock	151,448	140,319
Leasehold improvements	1,032,666	775,256
	<b>19,438,918</b>	<b>17,356,370</b>
Accumulated depreciation and amortization		
Building	835,780	640,652
Machinery and equipment	5,858,206	4,643,758
Furniture and fixtures	574,702	536,998
Computer equipment	1,336,276	1,219,883
Rolling stock	117,905	89,332
Leasehold improvements	486,169	421,160
	<b>9,209,038</b>	<b>7,551,783</b>
Net	<b>10,229,880</b>	<b>9,804,587</b>
Capital leases included above	1,224,593	548,540

Depreciation and amortization of property, plant and equipment for fiscal year 2003 amounted to \$1,336,819 (\$1,348,707 in 2002).

	2003	2002
<b>8. INTANGIBLES</b>		
Patents, trademarks and rights costs	239,511	166,101
Accumulated amortization	(70,511)	(27,053)
	<b>169,000</b>	<b>139,048</b>

Amortization of intangibles for fiscal year 2003 amounted to \$19,545 (\$17,713 in 2002).

	2003	2002
<b>9. GOODWILL</b>		
Cost	2,045,408	1,977,830
Accumulated amortization	(690,291)	(678,888)
	<b>1,355,117</b>	<b>1,298,942</b>

Amortization of goodwill for fiscal year 2003 amounted to \$ Nil (\$201,645 in 2002).

**10. BANK LOANS**

The company has an available line of credit of \$10,800,000 bearing interest at the Canadian prime lending rate plus 0.25% per annum of which \$1,600,000 remained unused as at January 31, 2003 and it is renegotiated annually.

Bank loans are secured by a first ranking moveable hypothec on accounts receivable, inventory and a first ranking universal hypothec in the amount of \$39,400,000 on the universality of the borrower's property, movable and immovable, present and future, corporeal and incorporeal. The company also provided a rider designating the Bank as loss payee of the proceeds of all-risk insurance on the property charged as security.

The average cost of financing for fiscal year 2003 is 6.90% (8.84% in 2002).

	2003	2002
<b>11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES</b>		
Trade payables	2,830,173	2,760,644
Accrued expenses	2,005,820	1,580,889
	4,835,993	4,341,533
<b>12. LONG-TERM DEBT</b>		
a) Government loans, without guarantee nor interest, repayable 15 years after their date of receipt, the first portion of \$30,233 is repayable in August 2002 and the second portion of \$30,233 is repayable in July 2004.	30,233	57,960
b) Immigration loans secured by a first ranking universal hypothec, bearing interest at variable rates from 5.21% to 5.59% per annum, due on various dates between November 2002 and May 2004. The loans are net of sinking funds since all amounts paid into them must be used to repay the loans. As at January 31, 2003, from the total immigration loans, \$291,611 was in process of being refinanced.	667,770	789,970
c) Bank term loans secured by a first ranking universal hypothec, bearing interest at variable rates from prime plus 0.75% and from 6.51% to 7.99% per annum, due on various dates from May 2005 to June 2014.	4,088,595	4,462,132
d) Mezzanine loan bearing interest at the bank's American prime rate plus 3% per annum, repayable in monthly capital repayments of \$17,213, due on May 2003.	472,000	670,000
e) Obligations under capital leases for machinery and equipment and rolling stock subject to various monthly repayments including imputed interest at variable rates between 6.03% to 8.48% per annum, up to various dates between April 2005 and October 2007.	1,128,176	515,212
f) Others	26,111	11,148
	6,412,885	6,506,422
Current portion	1,090,576	1,336,058
	5,322,309	5,170,364

Future payment obligations are as follows:

	Future principal payment obligations	Future minimal lease payments under capital leases	Interest included in future minimal lease payments	Total principal repayments
2004	815,916	345,797	71,137	1,090,576
2005	1,165,009	342,875	50,170	1,457,714
2006	1,791,937	272,559	28,672	2,035,824
2007	280,684	180,240	16,043	444,881
2008	1,129,073	159,943	4,301	1,284,715
thereafter	99,175	-	-	99,175
	5,281,794	1,301,414	170,323	6,412,885

		2003	2002
<b>13. CAPITAL STOCK</b>			
<b>Authorized</b>			
An unlimited number of preferred shares, non-cumulative, voting, no par value			
An unlimited number of common shares, voting, no par value			
<b>Issued</b>			
2,795,000 Common shares		<u>7,136,223</u>	<u>6,752,933</u>

During the fiscal year ended January 31, 2003, certain employees have exercised their options under the 1999 Stock Option Plan. Consequently, 74,500 common shares were issued for a total consideration of \$223,500 of which \$133,500 was receivable as at January 31, 2003.

On July 15, 2002 the company has issued 50,000 common shares with a value of \$235,000 and 60,000 warrants with a value of \$43,800 in consideration for the purchase of the assets of International Water Makers Inc., see note 17. The rights represented by the Warrants are exercisable until July 15, 2003 at a purchase price of \$3.61 per share. As at January 31, 2003, none of them have been exercised.

**Purchase warrants**

During the fiscal year 1999, Purchase Warrants ("Warrants") were issued pursuant to a Warrant Agreement between the company and J.P. Turner & Company, L.L.C. and Klein Maus and Shire Incorporated. Each Warrant entitles its holders to purchase, during the four year period commencing on October 5, 1999, one share of common stock at an exercise price of \$9.00 per share, subject to adjustment in accordance with the anti-dilution and other provision referred to below.

The Warrants may be redeemed by the company at any time commencing one year from October 5, 1999 (or earlier with the consent of the representatives) and prior to their expiration, at a redemption price of \$0.125 per Warrant, on not less than 30 days prior written notice to the holders of such Warrants, provided that the closing bid price of the common stock, if traded on the Nasdaq SmallCap Market, or the last sale price of the common stock, if listed on the Nasdaq National Market or on a national exchange, is at least 133% (\$12.00 per share, subject to adjustment) of the exercise price of the Warrants for a period of 30 consecutive trading days ending on the third day prior to the date the notice of redemption is given. Holders of Warrants shall have exercise rights until the close of the business day preceding the date fixed for redemption.

The exercise price and the number of shares of common stock purchasable upon the exercise of the Warrants are subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, combinations or classification of the common stock. The Warrants do not confer upon holders any voting or any other rights of shareholders of the company.

No Warrant will be exercisable unless at the time of exercise the company has filed with the Commission a current prospectus covering the issuance of common stock issuable upon the exercise of the Warrant and the issuance of shares has been registered or qualified or is deemed to be exempt from registration or qualification under the securities laws of the state of residence of the holder of the Warrant. The company has undertaken to use its best efforts to maintain a current prospectus relating to the issuance of shares of common stock upon the exercise of the Warrants until the expiration of the Warrants, subject to the terms of the Warrant Agreement. While it is the company's intention to maintain a current prospectus, there is no assurance that it will be able to do so.

**Employee stock option plan**

In 1999, the Company adopted a Stock Option Plan (the "1999 Plan") pursuant to which 650,000 shares of Common Stock are reserved for issuance, 241,500 options are currently issued and outstanding.

On September 2, 1999, the Board granted options under the Stock Option Plan to certain members of the Board and certain employees. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% of the total options per year for the following four years. Each of the options will be fully exercisable on November 4, 2003, and expire on November 4, 2004. The exercise price of the option is \$3.00.

In 2001, the Company also adopted the 2001 Stock Option Plan (the "2001 Plan") pursuant to which 500,000 shares of Common stock are reserved for issuance, 115,500 options are currently issued and outstanding.

On January 4, 2002, the Board granted options under the 2001 Plan to certain members of the Board and certain employees. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% per year of the total options granted for the following four years. Each of the options will be fully exercisable on January 4, 2006 and expire on January 4, 2007. The exercise price of the option is \$4.20.

The Plans are administered by the Board of Directors, who will determine, among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of shares of Common Stock issuable upon the exercise of the options and the option exercise price.

The 1999 Plan is effective for a period of five years expiring in 2004 and the 2001 Plan is effective for a period of ten years expiring in 2011. Options may be granted to officers, directors, consultants, key employees, advisors and similar parties who provide the company with their skills and expertise. Options granted under the 1999 Plan may be exercisable for up to five years, and ten years for the 2001 Plan, and shall be at an exercise price as determined by the Board. Options are non-transferable except by the laws of descent and distribution or a change in control of Dectron, as defined in the Plans, and are exercisable only by the participant during his or her lifetime. Change in control include (i) the sale of substantially all of the assets of Dectron and merger or consolidation with another company, or (ii) a majority of the Board changes other than by election by the stockholders pursuant to Board solicitation or by vacancies filled by the Board caused by death or resignation of such person.

If a participant ceases affiliation with Dectron by reason of death, permanent disability or retirement at or after age 70, the option remains exercisable for one year from such occurrence but not beyond the option's expiration date. Other types of termination allow the participant three months to exercise, except for termination for cause, which results in immediate termination of the option.

Option under the Plans must be issued within five years from the effective date of the 1999 Plan and ten years from the effective date of the 2001 Plan.

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by the company become available again for issuance under the Plans.

The Plans may be terminated or amended at any time by the Board of Directors, except that the number of shares of Common Stock reserved for issuance upon the exercise of options granted under the Plans may not be increased without consent of the stockholders.

**Share purchase plan receivable**

The SEC staff Accounting Bulletins require that accounts or notes receivable arising from transactions involving capital stock should be presented as deductions from shareholders' equity and not as assets. Accordingly, in order to comply with U.S. GAAP shareholders' equity has been reduced by \$119,010 at January 31, 2003 (increased by \$34,423 - 2002), to reflect the loans due from certain employees and officers, which relate to the purchase of common shares of the company.

	2003	2002	2001
<b>14. INCOME TAXES</b>			
a) Current	564,555	188,340	458,385
Deferred	(370,169)	(418,219)	(375,882)
	194,386	(229,879)	82,503
b) Income taxes at Canadian statutory rates:	197,753	(96,007)	270,906
Increase (decrease) resulting from:			
Large corporation tax	13,635	12,838	10,452
Manufacturing and processing deduction	(164,161)	(70,459)	(132,375)
Non-deductible expenses	61,183	44,102	31,113
Temporary differences	108,587	(642,097)	(166,255)
Application of losses carried forward	-	(64,921)	(302,094)
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	100,950	437,329	200,544
Adjustment for prior year's taxes	(51,334)	126,124	65,112
Other	(72,227)	23,212	105,100
Effective income taxes	194,386	(229,879)	82,503

c) Deferred income taxes represent the tax charges derived from temporary differences between amortization of property, plant and equipment and recognition of deferred revenue, and the actual amounts deducted from or added to the taxable income.

d) The company has operating losses of \$720,000, which can be used to reduce future taxable income. The potential tax benefits of \$220,000 relating to the losses have been recognized in the company's accounts. The deductibility of these losses expires in 2007.

e) The company has unused investment tax credits of \$336,500 which are deductible from the income taxes payable in future years. No deferred income tax asset regarding these investment tax credits has been accounted for.

**15. STATEMENT OF CASH FLOWS**

During the year, the company acquired capital assets for a total amount of \$1,357,251, including capital assets acquired for an amount of \$791,423 by means of capital leases. Cash payments of \$565,828 were made to purchase the capital assets.

**16. DISCONTINUED OPERATIONS**

On November 29, 2002, the company completed the sale of the Electric Heat Products Division for a total cash consideration of \$961,640 plus a balance of sale of \$440,979. Consequently, one of the subsidiaries' name changed from P.M. Wright Ltd. to Circul-Aire Inc. The sale resulted in a net gain of \$590,686 (net of tax of \$198,668).

The balance of sale bears interest at the bank's prime rate plus 1%, repayable in 11 monthly instalments of \$5,313 followed by 24 monthly instalments of \$15,939. Due to the uncertainty of the collectibility, a reserve for the full balance of sale has been accounted for.

The results from discontinued operations for the period ended January 31 were as follows:

	2003	2002	2001
Net sales	1,139,072	1,346,956	1,103,345
Earnings before income taxes	140,668	152,042	258,244
Income taxes	35,392	56,712	29,955
Net earnings	105,276	95,330	228,287

17. ACQUISITION

On July 15, 2002, the company acquired the assets of International Water Makers Inc. The net assets acquired and the purchase price are as follows:

Current assets	310,109
Property and equipment	11,200
Patents and trademarks	63,658
Current liabilities assumed	14,694
Long-term debt assumed	24,938
<b>Net assets acquired</b>	<b>345,335</b>
Purchase price	
Cash	66,535
50,000 common shares	235,000
60,000 warrants	43,800
	<b>345,335</b>

The acquisition was accounted for by the purchase method. The accompanying consolidated financial statements include the operations of the International Water Makers business from the date of acquisition.

18. COMMITMENTS

a) The company is committed to payments under operating leases for its premises totaling \$2,896,829. Annual payments for the next five years are as follows:

2004	632,105
2005	632,105
2006	524,099
2007	541,075
2008	567,445
	<b>2,896,829</b>

b) The company is committed to make monthly payments of \$7,379 into sinking funds, which are given as security against the immigration loans. The annual payments for the next two years are as follows:

2004	88,552
2005	10,253
	<b>98,805</b>

c) As at January 31, 2003 the company had outstanding letters of credit totaling \$15,600. These letters of credit were incurred in the normal course of business.

	2003	2002	2001
<b>19. SEGMENTED INFORMATION</b>			
a) The breakdown of sales by geographic area is as follows:			
Canada	14,235,583	6,223,981	8,207,435
United States of America	20,623,100	23,456,911	23,449,133
International	2,024,381	2,259,010	2,301,990
	<u>36,883,064</u>	<u>31,939,902</u>	<u>33,958,558</u>
b) The breakdown of identifiable assets by geographic area is as follows:			
Canada	26,391,369	21,435,449	26,337,494
United States	8,010,068	9,125,189	8,822,491
	<u>34,401,437</u>	<u>30,560,638</u>	<u>35,159,985</u>

**20. FINANCIAL INSTRUMENTS AND CREDIT RISK**
**Fair value of financial instruments**

The fair value of cash, accounts receivable, bank loans and accounts payable approximately correspond to their book value given their short-term maturity. The carrying amount of long-term debt approximates fair value because interest rates are close to market value.

**Credit risk**

The company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the company has adopted credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. In some cases, the company may require bank letters of credit.

**21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	9,049,105	10,496,214	10,193,297	7,144,448	36,883,064
Gross Profit	2,811,149	2,644,532	3,022,773	3,245,083	11,723,537
Operating earnings	600,291	486,281	547,342	183,684	1,817,598
Earnings from continuing operations before taxes	499,466	221,667	281,641	(368,138)	634,636
Discontinued operations, net of tax	-	-	-	105,276	105,276
Gain on disposal of discontinued operations, net of tax	-	-	-	590,686	590,686
Net earnings (loss)	226,447	159,601	202,781	547,383	1,136,212
<b>Net earnings (loss) per common share, basic and diluted:</b>					
Continuing operations	0.08	0.06	0.07	(0.06)	0.15
Discontinued operations	-	-	-	0.04	0.04
Disposal of discontinued operations	-	-	-	0.21	0.21
Net earnings	0.08	0.06	0.07	0.19	0.40
Average number of common shares outstanding	2,795,000	2,799,167	2,814,444	2,816,181	2,816,181

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	9,639,831	8,693,307	9,965,921	3,639,943	31,939,002
Gross Profit	3,361,825	3,178,350	3,599,576	953,639	11,093,390
Operating earnings	886,766	846,399	953,196	(1,623,197)	1,063,164
Net earnings (loss)	408,761	389,216	528,123	(1,279,035)	47,065
Earnings (loss) per common shares, basic and diluted	0.15	0.14	0.19	(0.46)	0.02
Average number of common shares outstanding	2,795,000	2,795,000	2,795,000	2,795,000	2,795,000

**22. SUBSEQUENT EVENT**

On February 1, 2003, the company acquired 100% interest in Tranzmetal Inc. for a total cash consideration of \$295,800. As at January 31, 2003, the company had the following balance with Tranzmetal Inc., which have arisen from the normal course of business:

Accounts receivable	155,000
Loan receivable	22,000
Accounts payable	14,000

**23. COMPARATIVE FIGURES**

Certain figures in the 2002 and 2001 financial statements have been reclassified to conform with the basis of presentation used in 2003.

*The following discussion and analysis should be read in conjunction with the selected historical financial data, financial statements and notes thereto and the other historical financial information of Dectron contained elsewhere in this Annual Report on Form 10-KSB. The statements contained in this Annual Report on Form 10-KSB that are not historical are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, including statements regarding Dectron's expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include Dectron's statements regarding liquidity, anticipated cash needs and availability and anticipated expense levels. All forward-looking statements included in this prospectus are based on information available to Dectron on the date hereof, and Dectron assumes no obligation to update any such forward-looking statement. It is important to note that Dectron's actual results could differ materially from those in such forward-looking statements.*

#### **Overview**

Dectron has been in operation since June 1977 and has grown from a single product and single market company into a group of manufacturers in order to address the three most important factors affecting indoor air conditions: temperature, humidity and contaminant control. We secure our contracts through a network of representatives. We are not dependent upon any major customer for a significant portion of its revenues.

Dectron's objective is to become a leading force in the IAQ market by addressing combined technology niche applications and by providing superior engineering services and product quality. Dectron intends to devote significant efforts to the development of equipment for the IAQ market. Management anticipates that the IAQ market will have enormous growth in the next 25 years. We believe that there is a need in the North American market for specialized IAQ equipment and this represents a tremendous opportunity. Notwithstanding the present economic slowdown, Management foresees a stable market demand, particularly in the humidity and temperature control side of the business.

Dectron has two subsidiaries that each specialize on a particular market segment of the IAQ market, Circul-Aire, a manufacturer of contaminant control solutions, and IPAC, a manufacturer of precision air conditioning equipment.

#### **Results of Operations**

*Fiscal year ended January 31, 2003 ("Fiscal 2003") compared to fiscal year ended January 31, 2002 ("Fiscal 2002")*

Revenues for the year ended January 31, 2003 were \$36,883,064, a 15.5% increase over prior year revenues of \$31,939,002.

Gross profit increased by \$630,147 to \$11,723,537 over the same period. In comparison to the 15.5% increase in revenue gross profit increased by 5.7%.

Operating expenses decreased by \$414,975 during fiscal year 2003.

Selling and marketing expenses decreased \$475,394 in Fiscal 2003. As a percentage of revenues, selling and marketing expenses decreased to 12.3% from 16.8%.

General and administrative expenses increased by \$562,808 to \$3,655,127. As a percentage of revenues, general and administrative increased to 9.9% from 9.7% of sales.

Depreciation decreased by \$211,701 to \$1,356,364. As a percentage of sales, depreciation decreased to 3.7% from 4.9%.

Financing expenses decreased by \$290,688 from \$1,341,308 to \$1,050,620. As a percentage of revenues, financing expenses decreased from 4.2% to 2.8%.

Earnings from operations increased by \$1,045,122 from a loss of \$278,144 to earnings of \$766,978.

Earnings before income taxes and discontinued operations increased to \$634,636 compared to a loss of \$278,144 for Fiscal 2002.

Tax expenses increased by \$424,265 because mainly of an increase in taxable income.

Earnings before discontinued operations in Fiscal 2003 was \$440,250, an increase of \$488,515 from Fiscal 2002 loss of \$48,265.

Earnings from discontinued operations net of taxes in Fiscal 2003 was \$105,276, an increase of \$9,946 from Fiscal 2002.

Gain on discontinued operations, net of taxes in Fiscal 2003 was \$590,686, compared to none in Fiscal 2002.

As a result, Dectron reported net income of \$1,136,212.

*Fiscal year ended January 31, 2002 ("Fiscal 2002") compared to fiscal year ended January 31, 2001 ("Fiscal 2001")*

Revenues for the year ended January 31, 2002 were \$31,939,002, a 5.9% decrease over prior year revenues of \$33,958,558.

Gross profit decreased by \$927,882 to \$11,093,390 over the same period. In comparison to the 5.9% decrease in revenue gross profit decreased by 7.7%.

Operating expenses increase by \$62,004 in 2002.

Selling and marketing expenses increased \$51,378 in Fiscal 2002. As a percentage of revenues, selling and marketing expenses increased to 16.8% from 15.6%.

General and administrative expenses increased by \$56,999 to \$3,092,319. As a percentage of revenues, general and administrative increased to 9.7% from 8.9% of sales.

Depreciation increased by \$46,907 to \$1,568,065 due to the addition of capital assets. As a percentage of sales, depreciation increased to 4.9% from 4.5%.

Financing expenses decreased by \$93,280 from \$1,434,588 to \$1,341,308. As a percentage of revenues, financing expenses remained stable at 4.2%.

Loss before income taxes and discontinued operations was \$278,144 for 2002 compared to earnings of \$711,722 in Fiscal 2001.

Tax expenses decreased by \$312,382 mainly because of the decrease in taxable income and loss carry forwards.

Loss before discontinued operations in Fiscal 2002 was \$48,265, a decrease of \$677,504 from earnings of \$629,239 in Fiscal 2001.

Earnings from discontinued operations net of taxes in fiscal 2002 was \$95,330, a decrease of \$132,957 from Fiscal 2001.

As a result, Dectron reported net income of \$47,065.

### Liquidity and Capital Resources

In Fiscal 2003, the Company generated a positive cash flow from operating activities of \$208,028 due mainly to depreciation and amortization. In Fiscal 2002, the Company generated a positive cash flow from operating activities of \$2,056,741 due mainly to lower accounts receivable and inventory level.

The principal sources of cash were depreciation and amortization in the amount of \$1,356,364 and income tax payable in the amount of \$684,578. The principal uses of cash were an increase in account receivable of \$1,860,796.

Cash flow from investing activities increased by \$329,585 mainly as a result of the proceeds from the sale of a division in the amount of \$961,640. The principal use of cash was for the acquisition of equipment for a total of \$565,828.

Financing activities provided net cash flow in the amount of \$190,366. The principal source of cash was from bank loans in the amount of \$861,368 and issuance of shares in the amount of \$502,300. The principal uses of cash flow from financing were repayments of long-term debt in the amount of \$884,960.

Net cash flow provided after all activities was \$751,746.

In Fiscal 2003, the Company's secured credit arrangement with National Bank of Canada remained in place as follows. This facility included an aggregated credit line of Cdn \$16,500,000 of which Cdn \$8,250,000 can be financed through Bankers Acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately Cdn \$7,500,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2003 amounted to 4.5%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

In April 2002, the Company renegotiated a mortgage note and an equipment note and replaced them with a new loan of \$1,983,330 with National Bank of Canada bearing interest at 7.18%.

In June 2002, the Company entered into a financial lease for an amount of \$400,000 bearing interest at 6.989%.

In August 2002, the Company entered into a financial lease for an amount of \$97,925 bearing interest at 6.025%.

In October 2002, the Company entered into a financial lease for an amount of \$267,896 bearing interest at 6.275%.

**Fiscal 2002**

In Fiscal 2002, the Company renewed a secured credit arrangement with National Bank of Canada. This new facility included an aggregated credit line of Cdn \$16,500,000 of which Cdn \$8,250,000 can be financed through Bankers Acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately Cdn \$7,500,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2002 amounted to 3.25%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

**Fiscal 2001**

In Fiscal 2001, the Company renewed a secured credit arrangement with National Bank of Canada. This new facility included an aggregated credit line of Cdn \$13,000,000 of which Cdn \$6,000,000 can be financed through Bankers Acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately \$5,000,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2001 amounted to 7.25%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

In Fiscal 2001, the Company also secured credit arrangement with National Bank of Canada in New York. This new facility included an aggregated credit line of US \$1,250,000. The amount available to the Company is equal to 80% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 60% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately \$625,000. Dectron's borrowings under the Line of credit bears interest at American prime plus .5%. Interest on any borrowings is payable monthly.

In February 2000, Dectron renegotiated a bank loan and replaced it with a term loan in the amount of \$2,527,000 USD bearing interest at the Bank's American Prime Rate plus 1% for a term of 5 years and a mezzanine loan in the amount of \$1,000,000 USD bearing interest at the Bank's American Prime Rate plus 3% for a term of three years.

In February 2000, the Company entered into a mortgage note in the amount US\$1,652,000 and equipment note in the amount of US\$406,000 with the National Bank of Canada both bearing interest at American prime plus .75%.

In August 2000, the Company entered into a note agreement with National Bank of Canada for the purchase of new equipment bearing interest at the American prime rate plus .75%.

In August 2000, the Company entered into two financial leases for a total amount of Cdn \$951,420 to finance equipment, both bearing interest at 8.48%.

In November 2000, the Company entered into two term loans for a total of \$ 700,000 to finance capital acquisitions bearing interest at prime plus .75%.

**Foreign Exchange**

The Company is a Canadian company with U.S. sales amounting to approximately 55% of its total sales while the majority of Dectron's expenses are incurred in Cdn \$. Due to the relatively high proportion of sales in U.S.\$, Dectron's results could be adversely affected by upward variations in the value of the Canadian dollar. As of January 31, 2003, the Company did not have a formal foreign exchange policy in effect.

 **independent auditors**

Schwartz Levitsky Feldman  
1980 Sherbrooke West, 10th floor  
Montreal, Quebec H3H 1E8

**legal counsel**

**United States Legal Counsel**  
Gersten, Savage & Kaplowitz, LLP  
101 East 52nd Street  
New York, NY 10022-6108

**Canadian Legal Counsel**  
Shaffer & Associates  
4150 Sherbrooke West, 3rd floor  
Montreal, Quebec H3Z 1C2

 **board of directors**

Ness Lakdawala  
*Chairman of the Board of Directors,  
President and Chief Executive Officer*

Roshan Katrak  
*Vice President of Human Relations and Director*

Mauro Parissi  
*Chief Financial Officer, Secretary and Director*

Leena Lakdawala  
*Executive Vice President and Director*

Liam Cheung  
*Director*

Gilles Richard  
*Director*

 **Transfer Agent and Registrar**  
**Continental Stock Transfer & Trust Company**  
17 Battery Place, New York, NY 10004

**Common Stock**  
Listed on the NASDAQ Small Cap Market  
Stock symbol: DECT

Listed on the Boston Stock Exchange  
Stock symbol: DEC

**Form 10-K**

*Upon written request, we will provide without charge to each shareholder a copy of our Annual Report on Securities and Exchange Commission Form 10-K for the fiscal year ended January 31, 2003.*

*Requests should be directed to:  
Secretary*

*Dectron Internationale  
4300 Poirier Blvd.  
Montreal, Quebec, H4R 2C5*

*This report is available on the internet via the Securities and Exchange Commission's EDGAR database at [www.sec.gov/edgarhp.htm](http://www.sec.gov/edgarhp.htm).*



dectron.com

USA > 10935 Crabapple Road, Suite 202-A, Roswell, Georgia 30075 > Tel.: (770) 649-0102 > Fax: (770) 649-0243  
CANADA > Corporate Headquarters 4300 Poirier Blvd, Montreal, Quebec H4R 2C5 > Tel.: (514) 334-9609 > Fax: (514) 334-9184