DECTRON INTERNATIONALE INC
Form 10-Q
September 14, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For The Quarter Ended July 31, 2005, 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 [X] No [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of September 14, 2005, there were 3,155,000 shares of common stock outstanding.

DECTRON INTERNATIONALE INC.

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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.

PART I. FINANCIAL INFORMATION

ITEM 1...FINANCIAL STATEMENTS

See Pages F-1 through F-15.

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

FOR THE SIX MONTHS ENDED JULY 31, 2005
ALL FIGURES IN US DOLLARS UNLESS OTHERWISE SPECIFIED

Management's Discussions and Analysis of Financial Conditions and Results of Operations ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended July 31, 2005 and the audited consolidated financial statements and MD&A for the year ended January 31, 2005. This MD&A is based on reported earnings in accordance with United States generally accepted accounting principles (GAAP).

Dectron's interim consolidated financial statements have been prepared using the same accounting policies as described in note 1 of Dectron's audited consolidated financial statements for the year ended January 31, 2005. Please refer to Note 2 of the interim consolidated financial statements for the six months ended July 31, 2005 for further information.

Quarterly reports, the annual report and supplementary information filed with the U.S. Securities and Exchange Commission, including the annual report on Form 10-K and the quarterly report on Form 10-Q and with the Canadian Securities regulatory authorities, can be found on-line at www.sedar.com and www.sec.gov respectively, as well as on our corporate Web site at www.dectron.com.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute 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. Forward-looking statements include, but are not limited to, Dectron Internationale's statements regarding liquidity, anticipated cash needs and availability and anticipated expense levels. All forward-looking statements included in this MD&A are based on information available to Dectron Internationale on the date hereof, and Dectron Internationale assumes no obligation to update any such forward-looking statement. Dectron Internationale's actual results could differ materially from those in such forward-looking statements.

CRITICAL ACCOUNTING POLICIES

Dectron's 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

Dectron recognizes 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

Dectron 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.

INTANGIBLE ASSETS AND GOODWILL

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

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

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

FOREIGN CURRENCY TRANSLATION

Dectron 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.

ACCOUNTING FOR 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.

SELECTED FINANCIAL INFORMATION

	July 31, 2005	January 31, 2005
FINANCIAL POSITION		
Cash and cash equivalents	1,190,041	1,075,220
Total Assets	34,176,971	35,687,918
Total Debt	2,093,570	4,719,783
Shareholder's equity	10,929,529	11,317,367
- per common share	3.46	3.59
Working capital	3,045,476	4,417,339
Working capital ratio	1.2:1	1.2:1
Weighted average number of common shares outstanding (basic and diluted)	3,155,000	3,066,851
Common shares outstanding	3,155,000	3,155,000

RESULTS OF OPERATIONS

Six-month period ended July 31, 2005 compared to six-month period ended July 31, 2004.

Revenues for the six-month period ended July 31, 2005 were $ 23,807,274, a 12,21% increase over prior year revenues of $ 21,217,255.

Dectron's sales growth reflects revenues arising primarily from its stronger presence in the Canadian market for commercial HVAC products and related services.

Gross profit decreased by $ 453,449 to $ 5,562,515 over the same period. As a percentage of revenues, gross profit decreased from 28.35% to 23.36%. Despite certain productivity gains, the gross profit margin was adversely affected by higher raw material costs and aggressive pricing strategies in certain HVAC markets.

Selling expenses increased by $ 222,834 in the six-month period ended July 31, 2005 from $ 2,411,180 to $2,634,014. As a percentage of revenues, selling and marketing expenses decreased from 11.36% to 11.06%.

6

General and administrative expenses increased by $ 116,104 to $ 1,735,612 compared to $ 1,619,508 for the period ended July 31, 2004. As a percentage of revenues, general and administrative decreased from 7.63% to 7.29%.

Amortization expenses slightly increased to $ 644,290 in the six-month period ending July 31, 2005 compared to $ 618,736 in the six-month period ending July 31, 2004 following the acquisition of new machinery and equipment during the last fiscal year. As a percentage of revenues, amortization expenses decreased from 2.92% to 2.71%.

Financing expenses decreased from $ 438,628 to $ 398,145, a decrease of $ 40,483. As a percentage of revenues, financing expenses decreased from 2.07% to 1.67%. The lower interest expense is due primarily to repayments of short-term debt and long-term debt during the last fiscal year.

Provisions for income tax as a percentage of taxable income decreased from 31.15% for the six months ended July 31, 2004 to 26.88% for the six months ended July 31, 2005. Tax expenses have decreased by $248,585 due to a decrease in taxable revenue.

Mostly as a result of a lower margin and higher selling and administration expenses, net earnings before discontinued operation was $ 110,010 for the six-month period ending July 31, 2005 compared to $ 638,883 for the six-month period ending July 31, 2004. As a percentage of sales, net earnings before discontinued operations decrease from 3.01% to 0.46%.

Losses from discontinued operations net of taxes for the six-month period ending July 31, 2005 was $ 777,058 compared to $ 949,805 in the corresponding period in 2004, both resulting from the discontinued operations of Liberty Drive Property, Inc.

Gain on disposal of discontinued operations was $ 125,933 for the six-month period ending July 31, 2005 compared to $ 550,676 for the corresponding period in 2004.

As a result of the above factors, net losses for the six-month period ending July 31, 2005 was $ 541,115 compared to earnings of $ 239,754 for the corresponding period in 2004. .

Three months ended July 31, 2005 compared to three-month period July 31, 2004.

Revenues for the three-month period ended July 31, 2005 were $ 12,896,631, at 17.37% increase over prior year revenues of $ 10,988,159. Dectron's sales growth reflects revenues arising primarily from its stronger presence in the Canadian market for commercial HVAC products and related services.

Gross profit decreased by $ 178,823 to $ 2,566,702 over the same period. As a percentage of revenues, gross profit decreased from 24.99% to 19.90%. Despite certain productivity gains, the gross profit margin was adversely affected by higher raw material costs and aggressive pricing strategies in certain HVAC markets.

Selling expenses increased by $ 114,743 in the three-month period ended July 31, 2005, from $ 1,194,659 to $ 1,309,402 for the corresponding period ended July 31, 2004. As a percentage of revenues, selling and marketing expenses decreased from 10.87% to 10.15%.

General and administrative expenses decreased by $ 54,086 to $ 731,096 compared to $ 785,182 for the period ended July 31, 2004. As a percentage of revenues, general and administrative decreased from 7.15% to 5.67%.

Amortization expenses slightly increased to $ 320,928 in the three-month period ending July 31, 2005 compared to $ 304,158 in 2004 following the acquisition of new machinery and equipment during the last fiscal year. As a percentage of revenues, amortization expenses decreased from 2.77% to 2,49%.

Financing expenses increased from $ 96,162 to $ 164,495 an increase of $ 68,333. As a percentage of revenues, financing expenses decreased from 0.88% to 1.28%.

Provisions for Income tax as a percentage of taxable income increased from 30.03% for the three months ended July 31, 2004 to $ 31.17% for the period ended July 31, 2005. Tax expenses have decreased by $ 97,000 due to a decrease in taxable revenue.

Mostly as a result of a lower margin and higher selling and administration expenses, net earnings before discontinued operation was $ 28,070 for the three-month period ending July 31, 2005 compared to $ 255,653 for the three-month period ending July 31, 2004. As a percentage of sales net earnings before discontinued operations decrease from 2.33% to 0.22%.

Losses from discontinued operations net of taxes for the three-month period ending July 31, 2005 was $678,731 compared to $ 679,228 in the corresponding period in 2004, both resulting from the discontinued operations of Liberty Drive Property, Inc.

Gain on disposal of discontinued operations was $ 62,357 for the three-month period ending July 31, 2005 compared to $ 550,677 for the comparative period in 2004.

As a result of the above factors, net losses in the three-month period ending July 31, 2005 was $ 588,304 compared to earnings of $ 127,102 in the corresponding period in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Dectron had a positive net change in cash of $ 114,821 for the six-month period ended July 31, 2005. The principal sources of cash were from the disposal of discontinued assets in the amount of $ 2,585,985, from accounts payables in the amount of $ 1,359,352 and from inventory in the amount of $ 1,206,898. The principal uses of cash were re-payment of long-term debt in the amount of $

2,626,213 and an increase in accounts receivables of $ 2,514,143.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our significant contractual obligations as of July 31, 2005 are for debt and operating leases. Debt by year of maturity and future rental payments under operating lease agreements are presented below. As of July 31, 2005, we had an outstanding balance on our line of credit of $ 11,854,748 and do 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	122,539	122,539	-	-
Other long term debt	1,971,031	422,591	959,210	293,415
Total Long term debt	2,093,570	545,130	959,210	293,415
Operating lease	5,854,844	913,623	1,566,473	1,561,557

9

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

Dectron is 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.

Interest Rate Risk

Dectron is exposed to market risk related to fluctuations in interest rates on its debt. Increases 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.

OUTLOOK

While the demand for its products has held steady due to a favorable economic environment in recent years, the Company has nevertheless faced fierce competition in the North American HVAC industry, a significant appreciation in the Canadian dollar and a sharp rise in raw material costs. What's more, the initially established manufacturing capacity based on greater demand notably from the high-technology sector had to be reduced. Dectron's results have therefore been adversely affected by several divestitures in recent years.

Management believes that the Canadian dollar and raw material prices have stabilized and that progress has been made in regard to productivity. In fact, various manufacturing operations have been consolidated and certain non-strategic low-yielding assets have been sold and others will be sold shortly. Accordingly, the Company does not expect to incur any significant losses from discontinued operations for the current fiscal year.

Based on selective price increases and further improvements in efficiency, management is confident that the Company will increase profit margins to historical levels as of the current fiscal year (from 27.46% currently to approximately 30%). In addition, Dectron's growth avenues, namely indoor air security and water generation, are expected to bring substantial sales, which would have a direct impact on the Company's overall profitability. All in all, management feels that Dectron now benefits from a stronger foundation to drive sustained growth and profitability.

ITEM 4. CONTROLS AND PROCEDURES

Dectron believes it is critical to provide investors and other users of its financial statements with information that is relevant, objective, understandable and timely, so that they can make informed decisions. As a result, Dectron has 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.

Dectron's management team is committed to providing high-quality, relevant and timely information about its businesses. Management performs reviews of each of its 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.

Dectron's evaluate the effectiveness of the design and operation of its "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 Dectron's 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 management, including the Chief Executive Officer to allow timely decisions regarding required disclosure.

- Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) Dectron's transactions are properly authorized; (2) its assets are safeguarded against unauthorized or improper use; and (3) transactions are properly recorded and reported, all to permit the preparation of Dectron's 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 management's evaluation, Dectron's chief executive officer and chief financial officer have concluded that, as of July 31, 2005, 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 Dectron's 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 internal and disclosure controls or in other factors that could significantly affect such internal and disclosure controls subsequent to the date of their evaluation.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None.

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

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

32 Certification of the Chief Executive Officer and Chief Financial

Officer furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

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.

September 14, 2005

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

[Dectron internationale Logo]

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2005

DECTRON INTERNATIONALE INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2005

TABLE OF CONTENTS

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED BALANCE SHEETS

AS AT JULY 31, 2005 AND JANUARY 31, 2005

(Amounts Expressed in United States Dollars)

	JULY 31, 2005	JANUARY 31, 2005
ASSETS		
CURRENT		
Cash	$ 1,190,041	$ 1,075,220
Accounts receivable	12,194,393	9,680,250
Income taxes receivable	251,683	87,805
Inventory	8,837,296	10,044,194
Prepaid expenses and sundry assets	615,395	568,976
Loans receivable	69,099	68,836
Current assets held by discontinued operations	82,191	3,414,543
	23,240,098	24,939,824
LOANS RECEIVABLE	1,762,943	1,210,989
PROPERTY, PLANT AND EQUIPMENT	7,163,292	7,541,579
INTANGIBLES	71,042	79,963
GOODWILL	1,684,348	1,661,144
DEFERRED INCOME TAXES	255,248	254,419
	$34,176,971	$35,687,918

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED BALANCE SHEETS

AS AT JULY 31, 2005 AND JANUARY 31, 2005

(Amounts Expressed in United States Dollars)

	JULY 31, 2005	JANUARY 31, 2005
LIABILITIES		
CURRENT		
Bank loans	$ 11,854,748	$ 11,642,981
Accounts payable and accrued expenses	7,543,522	6,184,170
Current portion of long-term debt	545,130	2,348,870
Deferred revenue	4,580	4,580
Current liabilities held by discontinued operations	246,642	341,884
	20,194,622	20,522,485
LONG-TERM DEBT	1,548,440	2,370,913
DEFERRED REVENUE	1,504,380	1,477,153
	23,247,442	24,370,551
STOCKHOLDERS' EQUITY		
CAPITAL STOCK (NOTE 3)	6,873,335	6,873,335
TREASURY STOCK	(88,780)	(88,780)
ACCUMULATED OTHER COMPREHENSIVE INCOME	2,457,772	2,304,495
RETAINED EARNINGS	1,687,202	2,228,317
	10,929,529	11,317,367
	$ 34,176,971	$ 35,687,918

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE SIX MONTH PERIOD ENDED JULY 31, 2005 AND 2004

(Amounts Expressed in United States Dollars)

	SIX MONTH ENDED JULY 31, 2005	SIX MONTH ENDED JULY 31, 2004

SALES	$ 23,807,274	$ 21,217,255
Cost of sales	18,244,759	15,201,291
GROSS PROFIT	5,562,515	6,015,964
OPERATING EXPENSES		
Selling	2,634,014	2,411,180
General and administrative	1,735,612	1,619,508
Depreciation and amortization	644,290	618,736
Interest expense	398,145	438,628
	5,412,061	5,088,052
EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	150,454	927,912
Income taxes	40,444	289,029
EARNINGS BEFORE DISCONTINUED OPERATIONS	110,010	638,883
Loss from discontinued operations, net of tax	(777,058)	(949,805)
Gain on disposal of discontinued operations, net of tax	125,933	550,676
NET EARNINGS (LOSS)	$ (541,115)	$ 239,754
NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED		
Continuing operation	$ 0.03	$ 0.21
Discontinued operation	(0.24)	(0.31)
Disposal of discontinued operations	0.04	0.18
	$ (0.17)	$ 0.08
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic and Diluted	3,155,000	2,977,734

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH PERIOD ENDED JULY 31, 2005 AND 2004

(Amounts Expressed in United States Dollars) PAGE 5

	THREE MONTH ENDED JULY 31, 2005	THREE MONTH EN JULY 31, 200
SALES	$ 12,896,631	$ 10,988,15
Cost of sales	10,329,929	8,242,63
GROSS PROFIT	2,566,702	2,745,52
OPERATING EXPENSES		
Selling	1,309,402	1,194,65
General and administrative	731,096	785,18
Depreciation and amortization	320,928	304,15
Interest expense	164,495	96,16
	2,525,921	2,380,16
EARNING BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	40,781	365,36
Income taxes	12,711	109,71
EARNINGS BEFORE DISCONTINUED OPERATIONS	28,070	255,65
Loss from discontinued operations, net of tax	(678,731)	(679,22
Gain on disposal of discontinued operations, net of tax	62,357	550,67
NET EARNINGS (LOSS)	$ (588,304)	$ 127,10
NET EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED		
Continuing operation	$ 0.01	$ 0.0
Discontinued operation	(0.22)	(0.2
Disposal of discontinued operations	0.02	0.1
	$ (0.19)	$ 0.0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic and Diluted	3,155,000	2,977,73

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED JULY 31, 2005 AND 2004

(Amounts Expressed in United States Dollars) PAGE 6

	SIX MONTH ENDED JULY 31, 2005	SIX JUL
OPERATING ACTIVITIES		
Net earnings from continuing operations	$ 110,010	$
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	644,290	
Increase in accounts receivable	(2,514,143)	(
Decrease (increase) in inventory	1,206,898	
Increase in prepaid expenses and sundry assets	(46,419)	
Decrease (increase) in deferred income taxes	(829)	
Increase in accounts payable and accrued expenses	1,359,352	
Increase in income taxes receivable	(163,878)	
Increase in income taxes payable	--	
Increase in deferred revenue	27,227	
Net cash provided by operating activities	622,508	

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTH PERIOD ENDED JULY 31, 2005 AND 2004

(Amounts Expressed in United States Dollars) PAGE 7

	SIX MONTH ENDED JULY 31, 2005	SIX MONTH ENDED JULY 31, 2004
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(154,970)	(228,687)
Net cash used in investing activities	(154,970)	(228,687)
FINANCING ACTIVITIES		

Advances to loans receivable	(552,217)	(18,075)
Advances from (repayments of) bank loans	211,767	(2,059,016)
Repayments of long-term debt	(2,626,213)	(1,166,513)
Issuance of shares	--	543,750
Advance from balance of sales	--	(250,000)
Net cash used in financing activities	(2,966,663)	(2,949,854)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	27,961	261,869
EFFECT OF DISCONTINUED OPERATIONS	2,585,985	1,131,726

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTH PERIOD ENDED JULY 31, 2005 AND 2004

(Amounts Expressed in United States Dollars)

	SIX MONTH ENDED JULY 31, 2005	SIX MONTH ENDED JULY 31, 2004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	114,821	(646,053)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,075,220	2,457,346
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,190,041	$ 1,811,293
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
INTEREST PAID	$ 399,436	$ 479,849
INCOME TAXES PAID	$ 281,380	$ 187,969

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

DECTRON INTERNATIONALE INC.

INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTH PERIOD ENDED JULY 31, 2005

(Amounts Expressed in United States Dollars) PAGE 9

	NUMBER	AMOUNT	CUMULATIVE RETAINED EARNINGS	OTHER COMPREHEN INCOM
Balance January 31, 2002	2,795,000	$ 6,752,933	$ 3,778,015	$ (591,
Share purchase plan receivable	--	$ (119,010)	$ --	$ -
Issuance of shares	124,500	502,300	--	-
Foreign currency translation	--	--	--	463,
Net earnings for the year	--	--	1,136,212	-
Balance January 31, 2003	2,919,500	$ 7,136,223	$ 4,914,227	$ (128,
Share purchase plan receivable	--	$ (170,819)	$ --	$ -
Issuance of shares	54,250	162,750	--	-
Foreign currency translation	--	--	--	1,692,
Net loss for the year	--	--	(1,697,504)	-
Balance January 31, 2004	2,973,750	$ 7,128,154	$ 3,216,723	$ 1,564,
Share purchase plan receivable	--	$ (798,569)	$ --	$ -
Issuance of shares	181,250	543,750	--	-
Foreign currency translation	--	--	--	740,
Net loss for the year	--	--	(988,406)	-
Balance, January 31, 2005	3,155,000	$ 6,873,335	$ 2,228,317	$ 2,304,
Share purchase plan receivable	--	$ --	$ --	$ -
Issuance of shares	--	--	--	-
Foreign currency translation	--	--	--	153,
Net loss for the period	--	--	(541,115)	-
Balance, July 31, 2005	3,155,000	$ 6,873,335	$ 1,687,202	$ 2,457,

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

DECTRON INTERNATIONALE INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2005 AND JANUARY 31, 2005

(Amounts Expressed in United States Dollars)

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1. NOTICE OF NO AUDITOR REVIEW OF THE INTERIM CONSOLIDATED FINANCIAL

The interim consolidated financial statements are the responsibility of the Company's management and have been approved by its Board of Directors. The Company's independent auditor has not performed a review of these Interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with United State generally accepted accounting principles, using the same accounting principles as those mentioned in Note 1 to the consolidated financial statements for the year ended January 31, 2005. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended January 31, 2005. These consolidated financial statements require management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the notes thereto. Actual results could differ from these estimates.

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 Liberty Drive Property, Inc. (formely Ipac 2000 Inc).

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

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

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION (CONTINUED)

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.

RECENT ACCOUNTING CHANGES

a) On December 16, 2004, the FASB issued SFAS 123 (R), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) must be adopted no later than August 1, 2005. Early adoption is permitted. The Company expects to adopt SFAS 123(R) on August 1, 2005, utilizing the modified retrospective method. The modified retrospective method requires compensation costs to be recognized beginning with the effective date based on the requirements of SFAS 123(R) for all (a) share-based payments granted after the effective date and (b) awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. Amounts for prior years will be restated based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of the adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

b) In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB No.43, Chapter 4," which requires companies to expense abnormal freight, handling costs, or spoilage in the period incurred and to allocate fixed overhead based on normal capacity, with adjustment if production is abnormally high. This standard becomes effective for the Company on August 1, 2005, with early adoption permitted. The Company currently accounts for abnormal freight, handling costs, and spoilage consistent with the standard. The Company plans to adopt the provisions early, on a prospective basis, as they relate to capitalization of fixed overhead expenses in the first quarter of 2006. The Company is currently evaluating the effects of implementing this standard. Based on a preliminary analysis, the Company does not expect that there will be a material effect on 2006 total Company results. There may be an impact on the results of certain quarters at the segment or total Company level.

(Amounts Expressed in United States Dollars) PAGE 12

3. CAPITAL STOCK

Authorized

An unlimited number of preferred shares, cumulative, voting, no par value

An unlimited number of common shares, voting, no par value

Issued

	JULY 31, 2005	JANUARY 31, 2005
3,155,000 Common shares	$6,873,335	$6,873,335

During the fiscal year ended January 31, 2005, certain employees have exercised their options under the 1999 Stock Option Plan. Consequently, 181,250 common shares were issued for a total consideration of $543,750.

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, no options are currently issued and outstanding since the plan expired in November 2004.

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 were 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, 108,500 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, 2011. 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.

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3. CAPITAL STOCK (CONTINUED)

EMPLOYEE STOCK OPTION PLAN (CONTINUED)

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.

DECTRON INTERNATIONALE INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2005 AND JANUARY 31, 2005

(Amounts Expressed in United States Dollars) PAGE 14

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3. CAPITAL STOCK (CONTINUED)

EMPLOYEE STOCK OPTION PLAN (CONTINUED)

A summary of the status of the company's stock option plans are as follows:

	JULY 31, 2005		JANUARY 31, 2005	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTE AVERAG EXERCIS PRICE
Outstanding, beginning of year	108,500	$ 4.20	295,750	$ 3
Granted	--	--	--	-
Exercised	--	--	(181,250)	3
Cancelled	--	--	(6,000)	3
Outstanding, end of year	108,500	$ 4.20	108,500	$ 4
Options, exercisable, end of year	81,375		81,375	

The following table summarizes information about fixed stock options outstanding:

	JULY 31, 2005			
	OPTIONS OUTSTANDING			OPTIONS EXERCI
Exercisable price	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING YEARS OF CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS

$ 3.00	--	--	--	--	
4.20	108,500	5.9	4.20	81,375	
	108,500	5.9	$ 4.20	81,375	$

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, stockholders' equity has been reduced by $798,569 at January 31, 2005 (reduced by $170,819 - 2004), to reflect the loans due from certain employees and officers, which relate to the purchase of common shares of the company.

DECTRON INTERNATIONALE INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2005 AND JANUARY 31, 2005

(Amounts Expressed in United States Dollars) PAGE 15

4. SEGMENTED INFORMATION

	JULY 31, 2005
a) The breakdown of sales by geographic area is as follows:	
Canada	$14,504,081
United States of America	8,937,736
International	365,457
	$23,807,274
b) The breakdown of identifiable assets by geographic area are as follows:	
Canada	$33,474,004
United States	702,967
	$34,176,971