



## **Quarterly Statement**

*For the Third Quarter  
Ending May 31, 2009*

### **CORPORATE DIRECTORY**

#### **DIRECTORS**

Jordan B. Grant  
*Chairman of the Board*

Martin J. Hauschild

Harry J. Marshall

Neil Milton

#### **OFFICERS**

Martin J. Hauschild  
*President & CEO*

Matthew Anderson  
*Vice President, Finance*

Lysane Bolduc  
*Chief Technology Officer*

Wilf Stefan  
*Vice President, Manufacturing and  
Production*

#### **REGISTRAR AND TRANSFER AGENTS**

Computershare Investor Services  
Toronto, Ontario

#### **LEGAL COUNSEL**

Miltons LLP  
Ottawa, Ontario

#### **INVESTOR RELATIONS**

Matthew Anderson  
Seprotech Systems Incorporated

#### **COMMON SHARES**

The Common Shares of the  
Company are traded on the TSX  
Venture Exchange under the  
symbol SET

The accompanying unaudited consolidated interim financial statements of Seprotech Systems Incorporated have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountant for a review of interim financial statements by an entity's auditor.

[SIGNED]  
Martin J. Hauschild  
President & CEO

[SIGNED]  
Matthew Anderson  
Vice President, Finance

*Thank you for your interest in*

SEPROTECH SYSTEMS INCORPORATED  
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# *Seprotech Systems Incorporated*

## Consolidated Balance Sheet

Unaudited

	May 31 2009	August 31 2008
<b>CURRENT ASSETS</b>		
Cash	\$ 76,292	\$ 322,578
Accounts receivable	2,191,090	1,927,756
Unbilled revenues	181,006	260,569
InterCompany Receivables		0
Inventories (Note 4)	108,812	163,215
Prepaid expenses and deposits	47,268	127,491
	<b>2,604,468</b>	2,801,609
PROPERTY, PLANT AND EQUIPMENT (Note 5)	229,248	213,006
INTANGIBLE ASSETS (Note 6)	435,404	446,049
GOODWILL (Note 19)	2,136,247	2,002,737
	<b>\$ 5,405,367</b>	<b>\$ 5,463,401</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,415,870	\$ 1,651,412
Obligation under capital leases	4,695	4,373
Deferred revenue	576,751	1,188,179
Bank Indebtedness (Note 7)	690,000	920,200
Note Payable (Note 8)	207,071	51,517
	<b>3,894,386</b>	3,815,681
OBLIGATION UNDER CAPITAL LEASES (Note 9)	3,824	7,386
NOTE PAYABLE (Note 8)	156,394	130,418
	<b>4,054,604</b>	3,953,485
CONTINGENCIES (Notes 1, 21)		
SHAREHOLDERS' EQUITY (Note 10)		
Share capital	11,730,032	11,321,030
Warrants	443,298	443,298
Contributed Surplus	422,242	353,147
Deficit	(11,244,809)	(10,607,559)
	<b>1,350,763</b>	1,509,916
	<b>\$ 5,405,367</b>	<b>\$ 5,463,401</b>

# Seprotech Systems Incorporated

## Consolidated Statement of Operations and Deficit and Comprehensive Income

Unaudited

	9 Months Ended		3 Months Ended	
	May 31 2009	May 31 2008	May 31 2009	May 31 2008
Sales (Note 16)	6,508,538	5,304,913	1,213,824	1,301,467
Cost of sales	4,227,328	3,794,184	729,480	967,538
Gross margin	2,281,210	1,510,729	484,342	333,929
Operating expenses				
Sales and marketing	657,488	631,421	197,908	213,342
General operations and administrative	1,547,684	1,583,735	474,065	518,663
EOI Operation	453,145		294,103	
R&D (Note 13)	198,585	211,583	46,128	183,789
Investment tax credits related to prior years R&D	(34,896)	(107,590)	(25,679)	(57,590)
Interest expense (Note 14)	51,168	51,951	17,347	18,160
Amortization of property, plant and equipment	40,050		13,463	
Amortization of intangible assets	46,635		15,742	
Amortization of discount on note payable	14,864		4,472	
Total operating expenses	2,974,723	2,371,100	1,037,547	876,364
Operating profit / (loss)	(693,514)	(860,371)	(553,205)	(542,435)
Other income and expenses				
Interest revenue	4,516	6,972	11	372
Gain / (loss) on translation of foreign currencies	51,746	(3,900)	(2,161)	(2,035)
NET PROFIT / (LOSS)	(637,252)	(857,299)	(555,355)	(544,098)
DEFICIT, BEGINNING OF YEAR	(10,607,559)	(9,145,941)	(10,689,456)	(9,459,141)
DEFICIT, END OF YEAR	(11,244,811)	(10,003,240)	(11,244,811)	(10,003,239)
Net Loss per basic and diluted share (Note 12)	-0.01	0	-0.01	0
Weighted average number of basic and diluted shares outstanding	45,447,184	43,941,797	45,447,184	43,941,797

# *Seprotech Systems Incorporated*

## Net Inflow (Outflow) of Cash Related to the following activities:

	9 Months Ended		3 Months Ended	
	May-09	May-08	May-09	May-08
<b>OPERATING</b>				
Net Loss	(637,252)	(857,299)	(555,355)	(544,099)
Items not affecting cash				
Amortization of capital assets	40,050	42,477	13,463	18,904
Amortization of intangible assets	46,635	9,153	15,741	3,052
Amortization of discount on note payable	14,864		4,471	
Stock-based compensation expense	69,094	112,506	23,031	10,118
	(466,609)	(693,163)	(498,649)	(512,025)
Changes in non-cash operating working capital items				
Accounts receivable	156,032	(691,588)	(187,035)	(890,628)
Unbilled receivables	71,588	(1,862,037)	(5,460)	66,532
Inventories	(54,403)	104,507	(132,499)	67,491
Prepaid expenses and deposits	(80,223)	(4,304)	(159,068)	(38,330)
Accounts payable and accrued liabilities	764,459	1,710,945	210,081	836,317
Deferred Revenue	(611,428)	(167,356)	479,003	354,781
	(220,584)	(1,602,996)	(293,627)	(115,862)
<b>INVESTING</b>				
Purchase of property, plant and equipment	139,069	(65,534)	147,065	(45,633)
Patents filed	35,992	(51,049)	68,096	(49,462)
Cash provided by EOI acquisition	91,328		0	
Purchase of Envirosearch Operations Inc.	(100,000)		0	
Purchase of assets from PJ Hannah Equipment Sales		(267,647)	0	
	166,389	(384,230)	215,161	(95,095)
<b>Financing</b>				
Repayment of capital lease	(3,557)	(14,979)	(1,422)	(1,007)
Increase/(decrease) in operating loan	(230,200)	850,200	(90,000)	370,000
Increase in long-term debt	41,666		25,000	
Issuance of shares on private placement		455,230	0	
	(192,091)	1,290,451	(66,422)	368,993
<b>NET CASH INFLOW/ (OUTFLOW)</b>	<b>(246,286)</b>	<b>(696,775)</b>	<b>(144,888)</b>	<b>158,036</b>
Cash position, Beginning of period	322,578	912,040	221,180	57,229
Cash position, End of period	76,292	215,265	76,292	215,265

# Notes to the Consolidated Financial Statements

## 1. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. However, certain adverse conditions and events cast substantial doubt upon the validity of this assumption.

Seprotech Systems Incorporated ("the Company") has incurred significant operating losses over the past several years and currently has an accumulated deficit of \$11,244,809. The Company's continued existence is dependent upon attaining profitable operations and continuing to satisfy creditors, see Note 7.

If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying amounts of assets and liabilities, the accumulated deficit and the balance sheet classifications used.

## 2. DESCRIPTION OF BUSINESS

The Company specializes in packaged systems that provide customers with an integrated, single source solution to solve diverse water quality problems. These include water treatment equipment, wastewater treatment and purification process applications. The Company's proprietary technology, ROTORDISK®, is a proven technology that has been applied in every type of environment from municipal wastewater treatment to high-end mining applications. Installation environments range from the equator to the arctic using equipment that is simple and cost-effective to operate. In 2007, the Company introduced its proprietary CrystalBlue™ technology that converts wastewater to potable quality water for a variety of water recycle and reuse applications.

In December 2007, the Company acquired the business of P.J. Hannah Equipment Sales Corporation (PJH) of Surrey, B.C. by way of asset purchase. With this acquisition, the Company gains additional sales opportunities and a presence in western Canada.

In January 2009, the Company acquired the business of Envirosearch Operations Incorporated (EOI) of Milton, Ontario by way of share purchase. With this acquisition, the Company expands its water treatment services to include plant operations.

The Company also develops, manufactures, markets and provides services related to the industrial wastewater treatment marketplace and has particular expertise in the application of a wide range of membrane technologies.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

### *Basis of presentation*

The financial statements are for the Company and its wholly-owned subsidiary, Envirosearch Operations Inc. All inter-company transactions have been eliminated.

### *Inventories*

Inventories, consisting of raw materials and work in progress (WIP), are stated at the lower of cost and replacement cost with cost being determined on a first-in, first-out basis. The raw materials consist of components used to manufacture ROTORDISK® while the WIP inventory consists of wastewater treatment equipment as well as costs associated with Parts and Service contracts that are in progress.

# Notes to the Consolidated Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Property, plant & equipment*

Property, plant and equipment are stated at cost. Amortization is calculated using the diminishing-balance method over the anticipated lives of the assets as follows:

Test and demonstration systems	25%
Tools, dies and equipment	20 - 40%
Computer hardware and software	30%
Leased computer software	30%
Office furniture and equipment	20%
Automotive equipment	30%

### *Asset impairment*

The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the present value of future cash flows expected to result from the use of the assets and their eventual disposition and record an impairment loss if required.

### *Intangible assets*

Intangible assets are recorded at cost and are amortized on a straight-line basis over their expected useful lives as follows:

Patents	25 years
Trademarks	17 years
Customer lists	5 years
Acquired trade names	3 years
Technology	3 years

### *Goodwill*

Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, and recognizes any impairment in carrying value in the period of impairment.

### *Revenue recognition*

Revenue from sales of products, consulting and analysis services is recognized at the time of shipment or upon completion of the service. The Company secures contracts with purchase orders and significant deposits or letters of credit to provide reasonable assurance of collectibility. A provision for potential warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience. Revenue from long-term manufacturing contracts is recognized on the percentage of completion basis, comparing costs incurred to the estimated final cost to complete the contract. Amounts received in advance of revenue recognition are recorded as deferred revenue. Revenue recognized but not yet invoiceable, per the terms of the contract, is recorded as unbilled revenue.

### *Research and development costs and investment tax credits*

Research and development activities are expensed in the year incurred. Costs incurred pursuant to specific contracts with third parties for which the Company is obligated to deliver a product are charged to cost of sales in the same period as the related revenue is recognized. Costs incurred pursuant to research and development activities that do not involve sales contracts with third parties are expensed in the year incurred and captured on the financial statements under the heading "Research and development expenses". The Company participates in the Government of Canada's Scientific Research and Experimental Development (SR&ED) Program and enlists the services of an independent firm to file SR&ED claims. Monies received or estimated to be receivable related to current year

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

activities are netted against the current year expenditures and presented under the heading "Research and Development". Monies received as a result of SR&ED claims related to prior year activities are presented on the financial statements under the heading "Investment tax credits related to prior years R&D" and are shown net of fees paid to the independent firm. Such claims are accrued when there is reasonable assurance amounts will be collected.

#### *Foreign currency translation*

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the time of the transaction. Non-monetary assets and liabilities are translated into Canadian dollars at the historical exchange rate. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date and the resulting foreign exchange gains and losses are included in earnings.

#### *Foreign exchange risk*

The Company has contract sales which call for payment in United States (U.S.) dollars. The resulting foreign exchange exposure is partially offset by the Company purchasing material from U.S. suppliers. The net foreign exchange risk has historically not been hedged.

#### *Credit risk*

The Company provides credit to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses, which when realized, have been within the range of management's expectations.

#### *Interest rate risk*

The Company has current debt with interest rates subject to fluctuations with the prime rate. The Company's note payable bears a fixed interest rate and therefore the Company is not exposed to risk in cash flows. The Company is not exposed to other significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

#### *Use of accounting estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented.

Estimates are used when accounting for items and matters such as long-term contracts, allowance for uncollectible accounts receivable, inventory obsolescence, product warranty, amortization, asset valuations, impairment assessments, valuation of warrants, stock-based compensation, income taxes, future income taxes, revenue recognition under percent completion, investment tax credits and contingencies. Actual results could differ from the estimates made by management.

#### *Income taxes*

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the expected future tax consequences of differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

#### *Stock-based compensation*

The Company uses the Black-Scholes option pricing model and amortizes the fair value of the stock options on a straight-line basis over the vesting period. Previously recognized expense for stock options exercised during the period is transferred from contributed surplus to share capital.

# Notes to the Consolidated Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Warrants*

The Company uses the Black-Scholes option pricing model to determine the fair value of the warrants.

### *Earnings per share*

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method and assumes that if a dilutive effect is produced, all dilutive securities had been exercised at the later of the beginning of the fiscal period and the security issue date.

### *Changes in accounting policies*

On September 1, 2007, the Company adopted the following accounting standards for Canadian generally accepted accounting principles:

#### *Handbook Section 1530, Comprehensive Income*

This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, and unrealized foreign currency translation amounts. Accordingly, the Company now reports consolidated comprehensive income. The comparative statements did not require restatement to reflect the application of this Section.

#### *Handbook Section 3251, Equity*

The Company adopted Section 3251, Equity, replacing Section 3250, Surplus. This Section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive income.

#### *Handbook Section 3855, Financial Instruments – Recognition and Measurement*

Under this standard, all financial instruments are classified as one of the following: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition or adoption of this standard.

The Company has implemented the following classification:

- a) Cash is designated as a financial asset held-for-trading and measured at fair value through net income at each period end.
- b) Accounts receivable and unbilled revenues, classified as loans and receivables and accounts and other payables, classified as other financial liabilities, are measured at amortized cost, which due to their short-term nature, approximates fair value.
- c) Notes payable, bank indebtedness and convertible debentures are classified as other liabilities and recorded at amortized cost using the effective interest method.

### *Transaction costs*

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

# Notes to the Consolidated Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Effective interest method*

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The adoption of standards pursuant to these new Handbook Sections has had no significant impact on the financial statements.

### **Inventories**

In June 2007, the Canadian Institute of Chartered Accountants (CICA) issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company adopted the new standards for this fiscal year beginning September 1, 2008. The new CICA standard 3031 – Inventory contains changes to the accounting for inventory, including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of “cost” to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. The adoption of the standard did not result in any adjustments to the value of inventory.

### **Financial instruments**

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company has adopted the new standards for its fiscal year beginning September 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity’s financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity’s objectives, policies and processes for managing capital. The adoption of these new Sections has not had a material impact on its consolidated financial results.

### *New Standards – not adopted yet*

#### **Goodwill and intangible assets**

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Handbook Sections 3062, Goodwill and Other Intangible Assets and 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to the financial statements relating to fiscal years beginning January 1, 2009. Accordingly, the Company expects to adopt the new standards for its fiscal year beginning September 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets by profit-oriented enterprises.

## 4. INVENTORIES

	May 31, 2009	August 31, 2008
Raw materials	\$ 53,595	\$ 67,444
Work in progress	55,217	95,771
	<u>\$ 108,812</u>	<u>\$ 163,215</u>

## Notes to the Consolidated Financial Statements

### 5. PROPERTY, PLANT & EQUIPMENT

	May 31, 2009			August 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Test and demonstration systems	\$ 158,796	\$ 150,862	\$ 7,934	\$ 152,617	\$ 149,181	\$ 3,436
Tools, dies and equipment	295,806	194,484	101,322	283,602	174,278	109,324
Computer hardware	90,357	53,575	36,782	79,860	38,232	41,628
Computer software	122,149	104,578	17,571	120,281	98,730	21,551
Office furniture and equipment	254,385	211,962	42,424	195,786	170,478	25,308
Leased office furniture and equipment	21,217	12,660	8,557	21,217	9,458	11,759
Automotive equipment	49,723	35,066	14,658			
Leasehold improvements	20,153	20,153	-	20,153	20,153	-
	<b>\$ 1,012,586</b>	<b>\$ 783,340</b>	<b>\$ 229,248</b>	<b>\$ 873,516</b>	<b>\$ 660,510</b>	<b>\$ 213,006</b>

### 6. INTANGIBLE ASSETS

	May 31, 2009			August 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	\$ 157,022	\$ 21,226	\$ 135,796	\$ 122,574	\$ 15,004	\$ 107,570
Trademarks	212,660	56,648	156,012	211,823	50,277	161,546
Acquired trademarks	21,886	10,583	11,303	21,181	5,170	16,011
Technology	2,979	1,472	1,507	2,979	727	2,252
Customer lists	185,894	55,108	130,786	185,894	27,224	158,670
	<b>\$ 580,441</b>	<b>\$ 145,037</b>	<b>\$ 435,404</b>	<b>\$ 544,451</b>	<b>\$ 98,402</b>	<b>\$ 446,049</b>

### 7. CREDIT FACILITY AND BANK INDEBTEDNESS

On October 30, 2007, the Company signed an agreement with a Canadian Credit Union establishing a \$1,000,000 revolving term loan and a \$1,500,000 stand-by wholesale lease line. Draw down on the facility is subject to satisfaction of conditions, financial ratios and security documentation. Under the terms of the loan agreement, the Company was required to make ten monthly principal repayments of \$10,000 starting January 1, 2008 and ten monthly principal repayments of \$30,000 starting November 1, 2008. All principal and interest repayments have been made as per the the agreement and the loan balance was \$690,000 at the end of the third quarter. The Company has signed a non-compliance waiver with the creditor. The financing is secured by a general security agreement over the Company's assets. The revolving term loan bears interest at prime plus one and one quarter percent (1.25%), with a minimum interest rate of 5.25% and the stand-by wholesale lease line will bear interest at the posted residential mortgage rate at the time of the draw-down for the chosen term plus one and one quarter percent (1.25%).

# Notes to the Consolidated Financial Statements

## 8. NOTES PAYABLE

On December 06, 2007, the Company completed the acquisition of assets of PJH. This acquisition was partially financed by the issuance of a \$400,000 promissory note bearing interest at 4% per annum, compounded semi-annually, repayable in four equal, annual installments of principal and interest. The terms of the note allowed for a dollar for dollar reduction of the principal and interest for any SR&ED refund or income tax credit received by the seller after June 1, 2007 as well as any indemnity owed to the Company pursuant to the asset purchase agreement. The Company has reduced this obligation by \$175,680 pertaining to SR&ED refunds received by the seller. The note has been discounted using an interest rate of 7.25%.

On January 27, 2009, the Company completed the acquisition of EOI. This acquisition was partially financed by the issuance of a \$150,000 promissory note, \$100,000 repayable on September 30, 2009 and the remaining \$50,000 due on September 30, 2010. In conjunction with the acquisition of EOI, the Company entered into a consulting services agreement with Envirossearch Ltd. ("LTD") and its principal, Glen Pearce. The agreement calls for the deferral of payments to LTD whereby the first \$50,000 of services earned will be paid on September 30, 2010. The next \$100,000 of services earned will be paid on September 30, 2011 and the final \$100,000 will be paid on September 30, 2012.

The amount owed to LTD is recorded as the services are provided. As of May 31, 2009, \$41,666 is included as a long-term note payable due on September 30, 2010.

	<u>May 31, 2009</u>	<u>August 31, 2008</u>
Current portion of promissory notes	\$ 207,071	\$ 51,517
Long-term portion	183,915	172,803
	<u>390,986</u>	<u>224,320</u>
Less discount	(27,521)	(42,385)
	<u>\$ 363,465</u>	<u>\$ 181,935</u>

Principal repayments required in each of the next four years are as follows:

2009	\$ 51,517
2010	122,220
2011	57,776
2012	59,473

## 9. OBLIGATION UNDER CAPITAL LEASES

	<u>May 31, 2009</u>	<u>August 31, 2008</u>
Capital lease repayable in monthly installments of principal and interest of \$417, bearing interest at 9.5%. The capital lease is secured by the underlying capital assets and is due to be repaid February 2011.	\$ 10,815	\$ 13,518
Less interest	(1,191)	(1,759)
	<u>9,624</u>	<u>11,759</u>
Less current portion	(4,695)	(4,373)
Long-term portion	<u>\$ 4,929</u>	<u>\$ 7,386</u>

# Notes to the Consolidated Financial Statements

## 10. SHAREHOLDERS' EQUITY

### *Share Capital*

#### Authorized

An unlimited number of common shares.

An unlimited number of special shares, non-voting, issuable in series with rights, privileges, restrictions and conditions to be determined by the Board of Directors without shareholder action. These may rank senior to common shares if so determined by the Board of Directors.

#### Issued and outstanding

	Common Shares	
	<u>Number</u>	<u>Amount</u>
Shares outstanding August 31, 2007	39,183,047	10,504,237
Shares issued pursuant to conversion of convertible subordinated debentures (Note 10)	3,333,750	466,725
Shares issued pursuant to private placement, net of issuance costs	2,000,000	175,230
Shares issues pursuant to acquisition of P. J. Hannah Equipment Sales Corporation (Note 20)	850,000	174,838
<hr/>		
Shares outstanding August 31, 2008	45,366,797	11,321,030
Shares issues pursuant to acquisition of EOI (Note 19)	400,000	26,149
Shares outstanding May 31, 2009	45,766,797	\$ 11,347,179

On December 3, 2007, the Company announced that it had agreed to a \$500,000 private placement with a Toronto-based investment firm. The private placement consisted of 2,000,000 Units at \$0.25 per Unit. Each Unit consisted of one common share of the Company and one share purchase warrant. The common shares were subject to a hold period, which expired on April 10, 2008. Each share purchase warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.50 for a period of 24 months.

On July 12, 2007, the Company announced that it had agreed to a \$396,000 private placement with a Toronto-based investment firm. The private placement consisted of 1,800,000 Units at \$0.22 per Unit. Each Unit consisted of one common share of the Company and one-half of a share purchase warrant. The common shares were subject to a hold period, which expired on November 24, 2007. Each share purchase warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.30 until July 22, 2009.

The value attributed to the warrants was \$280,000 (2007 - \$163,298). The value of all warrants, described below, was calculated using the Black-Scholes model with the following assumptions: Risk-free interest rate 4.5%, 2-year expected life, volatility of 136%.

## Notes to the Consolidated Financial Statements

### 10. SHAREHOLDERS' EQUITY (Continued)

#### *Warrants*

As at May 31, 2009, the Company had 2,900,000 share purchase warrants outstanding related to private placements.

Warrants	Exercise Price	Value	Expiry Date
900,000	\$ 0.30	\$ 163,298	July 22, 2009
2,000,000	0.50	280,000	December 3, 2009
2,900,000		\$ 443,298	

#### *Stock options*

The Company has established a stock option plan applicable to directors, officers, employees and consultants of the Company. The options are granted at the then current fair market value of the common shares of the Company under terms and conditions determined by the Board. The Company's stock option plan was amended at the Annual and Special meeting held February 7, 2008. Under terms of the amendment, the Company may issue up to 5,000,000 of its outstanding common shares through stock options. The options carry a five-year life and typically vest over a three-year period.

Activity in the stock option plan is summarized as follows:

	Options Number	Price	Weighted Average Exercise Price
Options outstanding, August 31, 2007	2,300,000	\$0.10 - \$0.26	\$0.13
Granted	1,335,000	\$0.26	\$0.26
Exercised	-	-	-
Expired	(120,000)	\$0.10 - \$0.26	\$0.13
Forfeited	-	-	-
Options outstanding, August 31, 2008	3,515,000	\$0.10 - \$0.26	\$0.18
Expired	(50,000)	\$0.10 - \$0.26	\$0.26
Options outstanding, May 31, 2009	3,465,000	\$0.10 - \$0.26	\$0.18

These options expire at various dates between March 2009 and April 2013, with a weighted average remaining life of 2.66 years (2008 – 3.56 years).

## Notes to the Consolidated Financial Statements

### 10. SHAREHOLDERS' EQUITY (Continued)

A summary of share options outstanding at May 31, 2009 is as follows:

Exercise Price	Total Outstanding		Total Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Number of Options	Weighted Average Remaining Contractual Life
\$0.10	775,000	2.44	516,667	2.44
\$0.11	200,000	0.90	200,000	0.90
\$0.12	565,000	1.44	565,000	1.44
\$0.14	500,000	2.90	500,000	2.90
\$0.25	100,000	0.08	100,000	0.08
\$0.26	1,325,000	3.54	591,833	3.62
	<b>3,465,000</b>	<b>2.66</b>	<b>2,473,500</b>	<b>2.42</b>

#### *Stock-based compensation*

As disclosed in note 3, the fair value of employee stock options granted after September 1, 2002 is recognized as compensation cost. There were no options granted during the period. The weighted average fair value of options granted during the previous year was \$0.20 per option. The weighted average fair value of options granted was calculated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Risk free interest rate	-	4.5%
Expected life in years	-	5
Expected volatility	-	98%
Expected dividend rate	-	-

#### *Contributed surplus*

	Amount
Opening balance August 31, 2007	\$ 217,609
Stock-based compensation expense for vesting options	135,538
Stock options exercised	-
Stock options forfeited	-
	<hr/>
Opening balance August 31, 2008	353,147
Stock-based compensation expense for vesting options	69,094
Stock options exercised	-
Stock options forfeited	-
	<hr/>
Closing balance May 31, 2009	\$ 422,241

## Notes to the Consolidated Financial Statements

### 11. INCOME TAXES

The reported income taxes differ from the amount computed by applying the Canadian statutory rate to income / (loss) before income taxes for the following reasons:

	May 31, 2009	August 31, 2008
Net loss before income tax expense	<u>\$ (637,252)</u>	<u>\$ (1,461,618)</u>
Expected tax (expense) recovery at the combined basic Canadian federal and provincial income tax rate of 34.37% (2008 – 34.37%)	(219,024)	502,358
Benefit of tax losses not recorded	(2,724)	(444,059)
Permanent differences related to stock-based compensation	(16,638)	(46,584)
Other	(8,786)	(11,715)
Reported income taxes	<u>\$ -</u>	<u>\$ -</u>

#### *Income tax loss carry forwards*

The Company has tax loss carry forwards available to reduce future years' income for tax purposes, the benefits of which have not been recorded in these financial statements. These loss carry forwards expire as follows:

	Federal
2009	\$ 709,000
2010	628,000
2014	644,000
2015	4,000
2026	437,000
2028	1,186,000
	<u>\$ 3,608,000</u>

The future tax asset of the Company is comprised of the following:

	2009	2008
Benefit of loss carry forwards and investment tax credits	<u>\$ 1,638,000</u>	<u>\$ 1,604,000</u>
Tax basis of assets in excess of accounting basis	457,000	423,000
Other	117,000	56,000
	<u>2,212,000</u>	<u>2,083,000</u>
Valuation allowance	<u>(2,212,000)</u>	<u>(2,083,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company also has \$729,000 of undeducted research and development expenditures available to reduce future years' income for tax purposes, the benefits of which have not been recorded in the financial statements.

The Company also has investment tax credits available to reduce future years' federal income tax payable, the benefits of which have not been recorded in the financial statements in the amount of \$229,000, beginning to expire in 2015.

## Notes to the Consolidated Financial Statements

### 12. NET LOSS PER SHARE

As a result of the net loss incurred in fiscal 2008, Nil (2007 – 2,145,000) outstanding options with exercise prices below the average market price of the common shares in fiscal 2008 were not included in the computation of dilutive loss per share because to do so would have been anti-dilutive. Additionally, in fiscal 2008 3,515,000 (2007 – 794,500) options and 2,900,000 (2007 – 900,000) share purchase warrants with exercise prices greater than the average market price of the common shares were not included in the computation of diluted loss per share because to do so would have been anti-dilutive.

<b>May 31, 2009</b>	<b>Loss</b>	<b>Shares</b>	<b>Per Share Amount</b>
Basic loss per share for the period ended	637,252	45,447,184	\$ 0.01
Effect of dilutive securities			
Stock options	-	-	-
Diluted loss per share for the period ended	637,252	45,447,184	\$ 0.01
<b>August 31, 2008</b>	<b>Loss</b>	<b>Shares</b>	<b>Per Share Amount</b>
Basic loss per share for the year ended	1,461,618	44,658,190	\$ 0.03
Effect of dilutive securities			
Stock options	-	-	-
Diluted loss per share for the year ended	1,461,618	44,658,190	\$ 0.03

### 13. RESEARCH AND DEVELOPMENT

The Company invests in research and development projects to further enhance its product offerings. All costs associated with these activities are expensed in the year incurred. The Company participates in the Government of Canada's Scientific Research and Experimental Development (SR&ED) Program and enlists the services of an independent firm to file SR&ED claims. Monies received or estimated to be receivable as a result of SR&ED claims are presented on the financial statements net of fees paid to the independent firm. Monies received or estimated to be receivable related to current year activities are netted against the current year expenditures and presented on the financial statements under the heading "Research and Development Expenses". Monies received or estimated to be receivable related to prior year activities are presented on the financial statements under the heading "Investment tax credits related to prior years R&D". In the current year, the Company incurred \$195,480 in Research and Development expenses and has estimated a recovery of \$35,000 net of fees paid.

### 14. INTEREST EXPENSE

	<b>May 31, 2009</b>	<b>February 28, 2008</b>
Related to short-term sources	\$ 38,103	\$ 33,791
Related to long-term sources	13,065	-
	<b>\$ 51,168</b>	<b>\$ 33,791</b>

## Notes to the Consolidated Financial Statements

### 15. COMMITMENTS

Under the terms of various operating and capital lease agreements, the Company is required to make the following payments during the following fiscal years:

	<u>Operating</u>	<u>Capital</u>
2009	53,000	2,000
2010	86,000	5,000
2011	47,000	2,000
2012	47,000	-
2013	47,000	-

### 16. SEGMENTED DISCLOSURES

The Company derives its revenues from the sales of fluid treatment and filtration systems and related services to various industrial, institutional, land development and government markets. Segmented industry information is not provided as the Company is considered by management to operate in one segment. Sales reported by customer location are as follows:

	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Canada <sup>(1)</sup>	\$ 5,270,779	\$ 4,915,994
United States	815,469	86,583
International	422,290	302,387
	<u>\$ 6,508,538</u>	<u>\$ 5,304,913</u>

<sup>(1)</sup> Equipment purchased by a Canadian company is classified as a sale in Canada regardless of the ultimate destination of the equipment.

Of this revenue, approximately 36% (2008 - 27%) was derived from one customer.

During the year, the Company recorded revenue associated with the following products and services:

	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Wastewater treatment equipment	\$ 5,313,327	\$ 4,533,970
Parts and service	616,473	770,943
Plant operations	496,887	-
Water treatment equipment	81,852	-
	<u>\$ 6,508,538</u>	<u>\$ 5,304,913</u>

### 17. RELATED PARTY TRANSACTIONS

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and recorded at the exchange amount.

During the period, the Company obtained legal services at a cost of \$81,439 (2008 – \$59,212) from a law firm for which one of the Company's directors is a principal.

During the period, the Company obtained legal services at a cost of \$655 (2008 – Nil) from a law firm for which the Company's former chairman is counsel.

## Notes to the Consolidated Financial Statements

### 17. RELATED PARTY TRANSACTIONS (Continued)

During the period, the Company recorded expenses of \$30,000 (2008 - \$30,000) included in general operations and administrative expense for Board services. As of May 31, 2009, the Company has a liability of \$61,625 (2008 - \$30,500) included in accounts payable and accrued liabilities for unpaid Board services.

During the period, the Company recorded expenses of \$3,820 (2008 - \$5,011) included in general operations and administrative expense for reimbursement of out of pocket Board expenses.

### 18. FINANCIAL INSTRUMENTS

The carrying amounts for accounts receivable, unbilled revenues, accounts payable and accrued liabilities and term loan approximate fair market value because of the short-term maturity of these instruments.

The fair values of obligation under capital lease are determined by discounting future cash flows using rates that are implicit in the specific contracts. The carrying value of all financial instruments was similar to fair value.

The fair value of the note payable is determined using the present value of future cash flows under current financing agreements, based on the Company's estimated borrowing rate for loans with similar terms and conditions. The fair value of the note payable approximates book value at May 31, 2009.

### 19. ACQUISITION OF ENVIROSEARCH OPERATIONS INCORPORATED

On October 17, 2008, the Company entered into a letter of intent to acquire by way of share purchase Envirosearch Operations Incorporated, a water and wastewater treatment plant operations company with operations in Ontario. The operator has revenues of approximately \$1,000,000 to \$2,000,000 per year. The purchase price is \$250,000 plus 400,000 common shares of the Company, of which the shares and \$100,000 were paid at closing, \$100,000 is repayable on September 30, 2009 and the remaining \$50,000 due on September 30, 2010. The purchase price agreement calls for a price adjustment based on the actual level of shareholders equity upon completion of an independent audit of the financial statements. In conjunction with the acquisition of EOI, the Company entered into a consulting services agreement with Envirosearch Ltd. ("LTD") and its principal, Glen Pearce. The agreement calls for the deferral of payments to LTD whereby the first \$50,000 of services earned will be paid on September 30, 2010. The next \$100,000 of services earned will be paid on September 30, 2011 and the final \$100,000 will be paid on September 30, 2012. LTD will also receive compensation in the form of a percentage of revenue over the first 5 years from closing and over the life of certain potential contracts. The purchase was completed on January 28, 2009. The following table summarizes the purchase price allocation, which was performed by the Company based on the estimated fair value for the tangible and intangible assets acquired:

Assets acquired		
Cash	\$	91,328
Accounts receivable		512,405
Other current assets		36,855
Property, plant and equipment		54,152
Total assets acquired		694,740
Less liability assumed		598,740
Net assets acquired		<u>96,000</u>
Goodwill		<u>197,864</u>
Purchase price	\$	<u>293,864</u>

## Notes to the Consolidated Financial Statements

### 20. ACQUISITION OF ASSETS FROM P.J. HANNAH EQUIPMENT SALES CORPORATION

On October 11, 2007, the Company announced that it had entered into a letter of intent to acquire, by way of asset purchase, the business of PJH of Surrey, British Columbia. The purchase was completed on December 6, 2007.

The purchase price consisted of \$247,500 cash, a \$400,000 note payable over four years and 850,000 common shares of the Company. In addition, the Company incurred \$40,147 of transaction costs with a total cash impact in the year of \$287,647. The asset purchase agreement stipulates a margin-sharing arrangement for projects in progress at the time of the transaction and an earn-out of up to \$300,000 to the vendor based on new sales generated from existing PJH related sales proposals over the next three years. The Company has co-ordinated the filing of SR&ED claims on PJH's behalf. The net proceeds that the vendor receives will reduce the Company's note payable to the vendor. The following table summarizes the purchase price allocation, which was performed by the Company based on the estimated fair value for the tangible and intangible assets acquired:

Assets acquired		
SR&ED receivable	\$	100,000
Inventory		16,816
Property, plant and equipment		78,000
Customers		185,894
Trademarks and names		21,181
Technology		2,979
Total assets acquired		404,870
Less liability assumed		23,666
Net assets acquired		381,204
Goodwill		384,280
Purchase price	\$	765,484

Subsequent to the acquisition date, PJH received net proceeds of \$175,680 pertaining to SR&ED claims which, pursuant to the Asset Purchase Agreement reduce the note payable to \$224,320.

The 850,000 common shares of the Company issued in conjunction with the acquisition, were valued at fair value of \$0.162 per share. The first 425,000 of these shares were subject to a hold period of four months which expired on April 6, 2008. The remaining 425,000 shares were held until December 6, 2008. The value of the shares which were subject to the hold period was adjusted using the Black-Scholes model. As the shares are released from the hold period the value will subsequently be increased with corresponding amounts to goodwill.

### 21. CONTINGENCIES

By Summons and Complaint dated September 27, 2007, CMS Group Inc (CMS), a wholly-owned subsidiary of the Company and/or the Company were sued for negligence by the Lawrence Township Board of Education in the state of New Jersey relating to equipment supplied by CMS through its agent in 2000. CMS and the Company have retained U.S. legal counsel for this matter who are leading the procedural aspects of the claim. The claim does not quantify the damages sought or the quantum. It does appear, however, that the connection between the Company and the alleged losses is quite remote.

Depositions in this matter have largely been completed. The Company's assessment is that the Plaintiff has suffered loss in excess of US \$100,000, and that the Plaintiff failed to take reasonable steps to mitigate its losses. It remains unclear if the Plaintiff is entitled to any damages, or if so, in what amount. It is not possible to determine at this time to what extent, if any, CMS, the Company or other co-defendants are liable.

## Notes to the Consolidated Financial Statements

### 21. CONTINGENCIES (Continued)

By Asset Purchase Agreement dated December 6, 2007, the Company acquired certain assets of PJH. A dispute has arisen between the vendor and the Company with respect to the terms of this purchase, and the post-closing conduct of the vendor with respect to several matters, most significantly the completion of jobs in progress at the time of Closing. The matter is currently being addressed by correspondence through counsel. If the parties are unable to resolve their differences, the matter may be arbitrated. At this time, it does not appear that any material monetary claim will be advanced by the vendor as against the Company beyond enforcement of the terms of the Asset Purchase Agreement. The Company has a material monetary claim against the vendor for services rendered, in excess of the amounts provided for in the Asset Purchase Agreement. However, at this time, there can be no certainty that the Company will recover any of this amount from the vendor. As at February 28, 2009, amounts owing to the vendor and related companies exceed the claim against the vendor.

### 22. COMPARATIVE FIGURES

Amortization of intangibles and property plant and equipment in fiscal 2008 has been reclassified from general and administrative expenses to be consistent with the classification of these expenses in the fiscal 2009 statement of operations.

EOI was acquired in January 2009. Accordingly, no financial numbers have been presented pertaining to EOI prior to the acquisition date.

# Management's Discussion and Analysis

May 31, 2009

Management believes that the following Management's Discussion and Analysis provides information that is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements. In support of this responsibility, management maintains appropriate information systems and internal controls to ensure that the financial information is complete and reliable.

The Audit Committee of the Board of Directors has reviewed this document. This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying Notes. Certain statements contained in the Management's Discussion and Analysis of financial condition and results of operations contain forward-looking statements that are based on management's forecasts and projections. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, and the Company's actual results may differ materially from those anticipated in these forward-looking statements.

The Company's auditors have not reviewed the interim financial statements, notes or the accompanying management discussion and analysis.

## *Our Vision*

We believe that the water and wastewater markets will converge into a single water market. The combination of climate change and population growth in regions that lack water will increasingly drive the need to recycle wastewater into a variety of applications. We believe that we can turn wastewater into a commodity that has value.

Currently, the water market is requirement or needs driven while the wastewater market is driven by legislative compliance. We are committed to leading efforts to convert the wastewater market into a requirement driven market by employing our technologies to produce treated wastewater that is at or near drinking water quality. We believe that we can turn wastewater into a useful and valuable resource. We believe that the technologies we have developed can meet this ambitious goal at a cost which rivals that of currently employed conventional methods that meet only bare minimum legislative requirements.

The Company will continue to focus on advanced, cutting edge solutions that vastly exceed minimum standards. Only about 20% of water is used for human contact or consumption while 80% is used for sanitation, irrigation, industrial use and other general-purpose uses and this will be our market. Our business strategy relies upon our proprietary technologies including Rotordisk®, Clementine™, P-03™, CrystalBlue™ and others in the development or patenting process.

Our business model is evolving from being a pure equipment supplier to being a supplier of equipment, plant operations services and eventually a vendor of recycled water for key clients. We recognize that the equipment business is cyclical and we are taking steps to generate 50% or more of our revenues from the utility side of the business. Over several years, we have taken a number of important steps forward in realizing the vision. Six years ago the Company acquired a wastewater treatment company that provided the business base for the vision. In fiscal year 2008 we acquired a competitor in British Columbia that gave us distribution in Western Canada and highly experienced personnel.

In January 2009 we completed our acquisition of Envirosearch Operations Incorporated ("EOI"), a plant operations company, so that we could shift a material portion of our business towards becoming a Water Utility Company. Going forward, business growth will come from our equipment business and financial consistency from the utility business. Management believes that a diverse client base for the systems business coupled with a solid utility business, provides Seprotech with a well balanced business model.

The Company's products and services are sold through a variety of channels including direct sales and sales through a number of representatives and distributors. Business activity is concentrated in three sectors: 1) Military and Emergency Response Environmental, 2) Resources Sector Environmental and 3) Municipal / Developer market. The Utility business is located in Milton, Ontario and has a narrowly focused geographical distribution extending from Windsor in Southwestern Ontario along the 401 corridor to the border of Quebec. Given Seprotech's large

## Management's Discussion and Analysis

installed base, we are planning to seek operating contracts with past customers and we believe that as the Original Equipment Manufacturer, we provide significant value to past clients. This activity will broaden geographical distribution for the utility business and this is highly desirable and core to Management's objectives in employing the existing utility as a base from which to build.

The Company's head office is located in Ottawa, Ontario. Western Canada distribution is managed through facilities of the Company in Vancouver, British Columbia. In addition, the Company maintains a sales and marketing office in Toronto, Ontario. We have consolidated our operations in Toronto and the utility business is integrated into Seprotech. This will reduce net costs to the operations of the companies.

### *Making Progress Towards the Vision*

During the current year, Management is taking numerous additional steps to be increasingly cost competitive, technically state-of-the-art and working aggressively to realize the vision of being a principle supplier of water recycling technology:

- The Company announced the acquisition of EOI of Milton Ontario. This company presently operates 50 water and wastewater treatment plants. The Company believes that it can increase revenues by having past clients of the Company purchasing operations contracts from the Company. This business forms the nucleus of the Seprotech utility business.
- The Company continues to file patents and other intellectual property filings related to water recycle technology.
- The Company submitted various applications for Canadian Federal Government and Provincial Government support programs. These relate to staff training upgrades, capital equipment upgrades and related assistance to improving operational efficiency.
- The Company continued its efforts at obtaining State of California "Title 22" certification which is the North American gold standard for water recycling. The evaluation and certification program is onerous and includes extensive design, engineering, consulting and equipment testing aspects. Management anticipates that the physical testing will begin in Q3 and that the program will be completed by spring 2010.

### *Canadian Dollar Factors*

We have experienced wide and fast currency swings over the last two years. We reduce currency risks by executing contracts in the currency in which the contract has been issued or by hedging contracts via banking arrangements.

We anticipate that the Canadian Dollar will continue to experience very wide swings and we will be very flexible in our ability to execute contracts. We are maintaining supply chains in Canada, Mexico and the United States. In addition, the Company has the ability to manufacture both in Canada and abroad depending upon which location makes the most technical, contractual or financial sense.

### *Canadian Recession Factors*

The downturn in the housing sector and mining sector has resulted in some projects having been either cancelled or deferred. We anticipate that our clients will be keeping tight control over capital expenditures. The Company has been a supplier to precious metals producers and we have not seen a downturn in the level of business with such companies. There has been a severe downturn in base metals companies, especially exploration companies, and we do not see a turnaround in the foreseeable future. The United States land development market remains weak, however, the Company has been winning contracts where the Company is seen as a lower cost provider of essential equipment.

# Management's Discussion and Analysis

We are taking the following steps to buffer the Company against recessionary effects:

- We are conserving cash carefully.
- We are closely monitoring our personnel costs and we have implemented some personnel reductions reflecting the downturn in parts of our client base.
- We are addressing our working capital deficiency by looking at various cash management options which in the short term includes renegotiation of current supplier contracts.
- We are shifting our revenues from being 90% Capital Equipment and 10% Operations and Maintenance to a 50/50 balance over two years. The Envirosearch acquisition and the recently announced multi-year contract with the Canadian Department of National Defence underpins these efforts.
- We are aggressively pursuing spare parts and service opportunities.
- Through EOI we will aggressively pursue operating contracts.
- We are submitting applications for a variety of Canadian Federal and Provincial Government business support programs.
- We are looking for opportunities for equipment leasing or opportunities for the sale of recycled water to key clients.

Quarterly results for the period ended May 31, 2009 are as follows:

## Quarterly Results – \$000's

	2009			2008			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	1,213	2,925	2,369	2,302	1,301	2,349	1,654
Gross Margin	484	897	900	324	334	623	554
Operating Expenses	1,037	993	945	951	876	784	711
Other Revenue	(2)	3	55	22	(2)	2	3
Net Income / (Loss)	(555)	(92)	10	(605)	(544)	(159)	(154)
Earnings / (Loss) per Share	(0.01)	(0.00)	0.00	(0.02)	(0.01)	(0.00)	(0.00)

*All dollar amounts are reported in \$000's*

## Revenue / Margins

Revenue at \$1.2M was roughly in line with the revenue from the same quarter in the previous year. Revenues from Rotordisk® for this quarter were \$679,054. The Parts & Service business had revenues of \$143,000 and plant operations revenue from our acquisition of EOI was \$309,000.

On a year-to-date basis, revenues have increased by \$1.2M (23%) compared to the same 9 month period in the previous year. Rotordisk® revenues increased by \$1.6M (43%) and Parts and Service by \$334,000 (118%).

The Company was successful in its bid to the Department of National Defence (DND) for fleet maintenance and support services for the Reverse Osmosis Water Purification Units (ROWPU's). This project was won via a highly competitive public tendering process. The terms of this contract are an estimated \$2.5M over two years plus an option by Government of Canada to extend the contract for a further three years with a budget of \$6M. There were no revenues from military water treatment equipment during the first half of the year, however we have since received equipment for refurbishment.

Rotordisk® sales accounted for 81% (2008 – 93%) of our total revenues; sales of Parts & Service accounted for 9.5% (2008 – 7%) with the remainder from Plant Operations and water treatment equipment (2008 – Nil). Revenues were derived mainly from Canada (81%) (2008 – 98%) with the balance coming from international sales (12.5%) (2008 – 1%) and the United States (8%) (2008 – 1%). Sales to Canadian clients for equipment destined for abroad are deemed to be Canadian sales.

## Management's Discussion and Analysis

Gross margins for the quarter increased to 39% (2008 – 27%) and on a year to date basis margins are 35% (2008 – 29%) primarily due to the integration of EOI operations. The standardization processes implemented to date have achieved marked margin improvements over the past four years while improving product quality, turnaround time and plant capacity. We continue to invest in standardization efforts and believe this will permit continued growth without a corresponding increase in overhead and direct labour costs. In particular, the Company targets cost per water production quantity as a key metric.

### *Operating Expenses*

Operating expenses have increased by approximately 18% compared to the same quarter in the previous year due primarily to the acquisition of EOI. On a year to date basis, operating expenses have increased by 25%.

The Company has established an R&D department to identify and develop potential product opportunities and process improvements as well as to increase our intellectual property. This reflects Management's seriousness in focusing its attention on advancing technology as a primary means of generating growth. The Company participates in the Government of Canada's Scientific Research and Experimental Development (SR&ED) Program enlisting the services of an independent firm to file SR&ED claims for research and development activities on a success fee basis. The SR&ED filings have now been successfully systemetized. Research and Development costs incurred pursuant to specific contracts with third parties for which the Company was obligated to deliver a product were charged to cost of sales in the same period as the related revenue was recognized. All other Research and Development costs are expensed in the period incurred. During the first nine months of the year, the Company expensed \$198 (2008 – Nil) pertaining to R&D projects and anticipates receiving \$35 for SR&ED claims, net of fees. Management feels that these investments have been prudent and will translate into improved financial results going forward.

Year to date, interest expense at \$51 (2008 - \$34) reflects higher debt levels and significantly lower borrowing rates associated with the new revolving term loan and lease facility established in the first quarter of the previous year.

Amortization of property, plant and equipment at \$40 (2008 - \$24) was consistent with the prior year.

Amortization of intangible assets increased to \$47 (2008 - \$6) with the addition of intangible assets acquired through the PJH transaction as well as our CrystalBlue™ FG-MBR patent filings.

The Company partially financed the acquisition of assets of PJH in 2007 by the issuance of a \$400 promissory note bearing interest at 4% per annum. Under the terms of the agreement, the Company has reduced this obligation by \$176 by way of SR&ED refunds received by the seller out of the sellers business. The outstanding balance of the note has been discounted using an interest rate of 7.25%. The discount is amortized over the four-year life of the note, which resulted in the recognition of a \$6 expense during the year (2008 – Nil).

Operating expenses are expected to increase moderately in absolute dollars in line with a projected increase in sales, but decrease over time as a percentage of revenue. These costs will be monitored closely with a view to striking an appropriate balance between strategic expenditures and short-term payback.

### *Other Revenue*

The Company realized a gain of \$52 on foreign currency exchange in the first half of the year due to the significant increase in the U.S. dollar

### *Income Taxes*

The Company does not anticipate incurring income tax expense for the foreseeable future as it has accumulated tax losses of \$4,155 expiring between 2009 and 2028, which are available to reduce future years' income for tax purposes.

### *Net Loss*

The net loss for the quarter was \$555 compared to a loss of \$542 in the same period of the previous year. Year to date, the net loss was \$694 compared to a loss of \$860 in the same nine month period of the previous year.

## Management's Discussion and Analysis

### *Key Personnel.*

During the period, the Chief Financial Officer, Mr. Robert Searle left the company and his functions were assumed by Mr. Matthew Anderson, B.Sc, M.Sc, MBA. A review of financial management practices was undertaken and Mr. Anderson has been implementing changes that should result in greater efficiencies and in time, improvements in corporate liquidity.

### *Liquidity*

On January 28, 2009, the Company purchased EOI of Milton, Ontario. The cash outlay attributed to the acquisition was \$100,000

On December 6, 2007, the Company purchased assets from the business of PJH of Surrey, British Columbia. The cash outlay attributed to the acquisition was \$288,000.

On December 3, 2007, the Company announced that it had agreed to a \$500,000 private placement with a Toronto-based investment firm. The private placement consists of 2,000,000 Units at \$0.25 per Unit. Each Unit consisted of one common share of The Company and one share purchase warrant. The common shares were subject to a hold period, which expired on April 10, 2008. Each share purchase warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.50 for a period of 24 months. The private placement generated \$455,000 net of transaction costs.

The Company retired the remaining convertible subordinated debentures during fiscal 2008 with the debenture holders exercising their conversion options.

On October 30, 2007, the Company signed an agreement with a Canadian Credit Union establishing a \$1,000,000 revolving term loan and a \$1,500,000 stand-by wholesale lease line. Draw down on the facility is subject to satisfaction of conditions, financial ratios and security documentation. Under the terms of the loan agreement, the Company was required to make ten monthly principal repayments of \$10,000 starting January 1, 2008 and ten monthly principal repayments of \$30,000 starting November 1, 2008. All principal and interest repayments have been made as per the the agreement and the loan balance was \$690,000 at the end of the third quarter of fiscal 2009. The Company has signed a non-compliance waiver with the creditor. The financing is secured by a general security agreement over the Company's assets. The revolving term loan bears interest at prime plus one and one quarter percent (1.25%) and the stand-by wholesale lease line will bear interest at the posted residential mortgage rate at the time of the draw-down for the chosen term plus one and one quarter percent (1.25%).

As of February 28, 2009, the Company had a working capital deficiency of \$1,324,000 and a deficit of \$10,689,000 as a result of past losses. Seprotech is structured as a capital equipment sales business that provides equipment to the resource sector, municipal and land development sector and the military. In any given year, more than 80% of revenues are generated by less than five (5) customers. Although Seprotech maintains a lengthy sales pipeline, the ability on the part of management to predict which projects will move ahead and become contracts as well as the timing of such projects, is highly unpredictable. It is an inherent characteristic of this business that there is a lack of predictability to the contracting cycle which translates into lack of predictability as to cash needs and liquidity. Seprotech presently derives over 85% of its revenues from capital equipment sales and the balance from parts and service sales.

Partially in response to the economic slowdown predicted for 2009 but also in response to management wishing to achieve more predictable financial outcomes, Seprotech is adjusting its sales mix with the goal of deriving 50% of revenues from capital equipment sales and 50% from client operations and maintenance budgets which includes plant operations, parts and service. The acquisition of EOI will provide recurring revenues as they are typically generated from multi-year contracts which are resistant to economic downturn because these facilities must be operated regardless of economic circumstances.

# Management's Discussion and Analysis

## *Outstanding Shares*

### Shares Outstanding May 31, 2009

Common Shares as of August 31, 2008	45,366,797
Shares issued pursuant to acquisition of EOI	400,000
Common Shares as of May 31, 2009	<u>45,766,797</u>
Conversion Of Stock Options - Exercise Prices \$0.10 - \$0.26	3,515,000
Conversion Of Share Purchase Warrants - Exercise Prices \$0.30 - \$0.50	2,900,000
Potentially Diluted Shares Outstanding	<u>52,181,797</u>

All potentially dilutive shares were converted on a one-to-one basis.

## *Related Party Transactions*

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and recorded at the exchange amount.

During the period, the Company obtained legal services at a cost of \$81 (2008 – \$59) from a law firm for which one of the Company's directors is a principal.

During fiscal 2008, the Company recorded expenses of \$30 (2008 - \$30) included in general operations and administrative expense for Board services. As of May 31, 2009, the Company has a liability of \$62 (2008 - \$31) included in accounts payable and accrued liabilities for unpaid Board services.

During fiscal 2008, the Company recorded expenses of \$4 (2008 - \$5) included in general operations and administrative expense for reimbursement of out of pocket Board expenses.

## *Dividend Policy*

The Company did not declare dividends on its common shares in the current fiscal period and does not plan to pay dividends in the foreseeable future.

## *Disclosure Controls and Procedures*

The Company makes no representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company's officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making. Investors should be aware that inherent limitations on the ability of officers of a venture issuer to design and implement on a cost effective basis disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

# Management's Discussion and Analysis

## CHANGES IN ACCOUNTING POLICIES

On September 1, 2007, the Company adopted the following accounting standards for Canadian generally accepted accounting principles:

### *Handbook Section 1530, Comprehensive Income*

This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, and unrealized foreign currency translation amounts. Accordingly, the Company now reports consolidated comprehensive income. The comparative statements did not require restatement to reflect the application of this Section.

### *Handbook Section 3251, Equity*

The Company adopted Section 3251, Equity, replacing Section 3250, Surplus. This Section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive income.

### *Handbook Section 3855, Financial Instruments – Recognition and Measurement*

Under this standard, all financial instruments are classified as one of the following: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition or adoption of this standard.

The Company has implemented the following classification:

- a) Cash is designated as a financial asset held-for-trading and measured at fair value through net income at each period end.
- b) Accounts receivable and unbilled revenues, classified as loans and receivables and accounts and other payables, classified as other financial liabilities, are measured at amortized cost, which due to their short-term nature, approximates fair value.
- c) Notes payable, bank indebtedness and convertible debentures are classified as other liabilities and recorded at amortized cost using the effective interest method.

### *Transaction costs*

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

### *Effective interest method*

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The adoption of standards pursuant to these new Handbook Sections has had no significant impact on the financial statements.

# Management's Discussion and Analysis

On September 1, 2007, the Company adopted the following accounting standards for Canadian generally accepted accounting principles:

## **Inventories**

In June 2007, the Canadian Institute of Chartered Accountants (CICA) issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company adopted the new standards for this fiscal year beginning September 1, 2008. The new CICA standard 3031 – Inventory contains changes to the accounting for inventory, including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of “cost” to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. The adoption of the standard did not result in any adjustments to the value of inventory.

## **Financial Instruments**

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company has adopted the new standards for its fiscal year beginning September 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The adoption of these new Sections has not had a material impact on its consolidated financial results.

## ***New Standards – not adopted yet***

### **Goodwill and Intangible Assets**

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Handbook Sections 3062, Goodwill and Other Intangible Assets and 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to the financial statements relating to fiscal years beginning January 1, 2009. Accordingly, the Company expects to adopt the new standards for its fiscal year beginning September 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets by profit-oriented enterprises.

### **International Financial Accounting Standards (IFRS)**

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is currently in the process of developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Company.

# Management's Discussion and Analysis

## CONTINGENCIES

By Summons and Complaint dated September 27, 2007, CMS Group Inc (CMS), a wholly-owned subsidiary of the Company and/or the Company were sued for negligence by the Lawrence Township Board of Education in the state of New Jersey relating to equipment supplied by CMS through its agent in 2000. CMS and the Company have retained U.S. legal counsel for this matter who are leading the procedural aspects of the claim. The claim does not quantify the damages sought or the quantum. It does appear, however, that the connection between the Company and the alleged losses is quite remote.

Depositions in this matter have largely been completed. The Company's assessment is that the Plaintiff has suffered loss in excess of US \$100,000 and that the Plaintiff failed to take reasonable steps to mitigate its losses. It remains unclear if the Plaintiff is entitled to any damages, or if so, in what amount. It is not possible to determine at this time to what extent, if any, CMS, the Company or other co-defendants are liable.

By Asset Purchase Agreement dated December 6, 2007, the Company acquired certain assets of PJH. A dispute has arisen between the vendor and the Company with respect to the terms of this purchase, and the post-closing conduct of the vendor with respect to several matters, most significantly the completion of jobs in progress at the time of Closing. The matter is currently being addressed by correspondence through counsel. If the parties are unable to resolve their differences, the matter may be arbitrated. At this time, it does not appear that any material monetary claim will be advanced by the vendor as against the Company beyond enforcement of the terms of the Asset Purchase Agreement. The Company has a material monetary claim against the vendor for services rendered, in excess of the amounts provided for in the Asset Purchase Agreement. However, at this time, there can be no certainty that the Company will recover any of this amount from the vendor. As at November 30, 2008, amounts owing to the vendor and related companies exceed the claim against the vendor.

## RISKS AND UNCERTAINTIES

### *General*

An investment in the securities of the Company should be considered speculative and entails significant risks. A potential investor should devote particular attention to the risks set forth below.

### *New Product Development*

The wastewater treatment and water purification businesses are characterized by ongoing technological developments and changing customer needs. As a result, the Company's success and continued growth depend on its ability to develop or acquire rights to new products and introduce them to the market in a timely manner. There can be no assurance that the Company will be successful in its new product development implementation.

### *Technological and Regulatory Changes*

The wastewater treatment and water purification businesses are characterized by changing technology, competitively imposed process standards and regulatory requirements. Any of the above events could render some of the Company's products obsolete. The Company's ability to anticipate changes in technology and regulatory standards and to respond to these changes in a timely manner will be a significant factor in its success. There can be no assurance that the Company will be able to achieve the technological advances that may be necessary to prevent its products from becoming obsolete.

# Management's Discussion and Analysis

## ***Competition***

Competition in the markets is based on a number of factors, including price, technology, application experience, and availability of financing, reputation, product warranties, reliability, service and distribution. Some of the Company's competitors have financial and other resources greater than those of the Corporation.

## ***Risks Associated with Implementing Business Strategy***

The Company's strategic plan should be considered in light of the risks, expenses and difficulties encountered in growing a business enterprise. Successful implementation of the business strategy will depend on numerous factors, many of which are beyond the control of the Company, including economic, competitive and other conditions. No assurance can be given that the Company will be successful in implementing its business strategy.

## ***Regulatory-Driven Demands***

Demands for some of the Company's products and services, to some degree, are created by the enactment or enforcement of environmental regulations and standards affecting the Company's customers. Delays in the introduction of new regulations or decreased government enforcement action relating to existing regulations may result in a decreased demand for these products and services. In many jurisdictions, it will be necessary or desirable for products to receive certification or regulatory approval from the relevant authorities. Such certification or approval may not be granted or may not be achieved within the time anticipated by the Company. In certain jurisdictions, such certification or approval may be dependent upon political and other considerations not related to the performance or cost of the technology.

## ***Key Personnel***

The Company's business success depends to a large degree on the experience and ability of its officers and other key personnel. Should some of these individuals die, become seriously ill or disabled, or become unwilling to serve any longer, it might prove difficult to secure equally suitable replacements.

## ***Capital Investment***

The Company's business depends in part upon capital purchasing by its customers. In certain cases such capital expenditures are substantial in relation to the customer's operating budget. The Company's technologies frequently represent a new solution to the customer's water treatment problems, leading to a need to educate the customer. As a result, a significant proportion of the Company's business is made up of orders that are large in relation to the Company's total revenues, are subject to selling periods which may exceed one year and are subject to deferral and cancellation.

## ***Cyclical and Seasonality***

The sale of water and wastewater treatment systems is cyclical and influenced by various economic factors including interest rates and general fluctuations in the business cycle. In addition, sales of such systems are subject to seasonal fluctuations in temperate climates.

## ***Product Liability Claims***

The Company faces the inherent risk of product failure and/or product liability claims with respect to products that it produces or designs. A claim which is not covered by insurance or which exceeds the policy limit may materially adversely affect the operation and/or viability of the Company.

*Additional information relating to the Corporation may be obtained on the SEDAR website at [www.sedar.com](http://www.sedar.com), including the Annual Information Form.*

**Form 52-109FV2**  
**Certification of interim filings - venture issuer basic certificate**

I, Martin J. Hauschild, President and CEO of Seprotech Systems Incorporated, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Seprotech Systems Incorporated (the “issuer”) for the interim period ended **May 31, 2009**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: **July 15, 2009**



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Martin J. Hauschild, President & CEO  
Seprotech Systems Incorporated

**NOTE TO READER**

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**Form 52-109FV2**  
**Certification of interim filings - venture issuer basic certificate**

I, Matthew Anderson, Vice President of Finance of Seprotech Systems Incorporated, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Seprotech Systems Incorporated (the “issuer”) for the interim period ended **May 31, 2009**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: **July 15, 2009**



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Matthew Anderson, Vice President, Finance  
Seprotech Systems Incorporated

**NOTE TO READER**

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

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## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Seprotech Systems Incorporated have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these 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.



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Martin J. Hauschild  
President and Chief Executive Officer



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Matthew Anderson  
Vice President of Finance