

SEPROTECH SYSTEMS INCORPORATED
Consolidated Statements of Operations and Deficit
(Unaudited)

	3 Months Ended		6 Months Ended	
	February 28 2006	February 28 2005	February 28 2006	February 28 2005
Sales	\$ 1,060,582	\$ 1,737,472	\$ 1,761,254	\$ 2,399,373
Cost of sales	614,818	1,332,677	1,151,749	1,903,651
Gross margin	445,764	404,795	609,505	495,722
Operating expenses				
Sales and marketing	109,093	143,763	259,408	277,799
General operations and administrative	369,984	280,906	661,905	506,114
Interest expense	31,784	27,078	67,211	56,187
Total operating expenses	510,861	451,747	988,524	840,100
Operating loss	(65,097)	(46,952)	(379,019)	(344,378)
Other revenue				
Interest	107	-	167	-
Gain / (loss) on foreign currency exchange	(1,475)	11,311	(2,043)	(6,827)
Loss on sale of capital assets	-	-	-	(452)
	(1,368)	11,311	(1,876)	(7,279)
NET LOSS	(66,465)	(35,641)	(380,895)	(351,657)
DEFICIT, BEGINNING OF PERIOD	8,631,259	8,495,643	8,316,829	8,179,627
DEFICIT, END OF PERIOD	\$ 8,697,724	\$ 8,531,284	\$ 8,697,724	\$ 8,531,284
Net loss per basic and diluted share (Note 11)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of basic and diluted shares outstanding	32,508,226	32,240,865	32,508,226	32,240,865

SEPROTECH SYSTEMS INCORPORATED

Consolidated Balance Sheet

(Unaudited)

	February 28 2006	August 31 2005
CURRENT ASSETS		
Cash	\$ 46,605	\$ 337,481
Accounts receivable	832,595	413,403
Unbilled revenues	166,972	153,513
Inventories	81,139	72,191
Prepaid expenses and deposits	43,440	70,502
	1,170,751	1,047,090
CAPITAL ASSETS (Note 4)	145,413	103,530
GOODWILL	1,655,525	1,655,525
INTANGIBLE ASSETS (Note 5)	180,044	184,529
	\$ 3,151,733	\$ 2,990,674
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	\$ 170,000	\$ 20,000
Accounts payable and accrued liabilities	784,797	585,166
Obligation under capital leases (Note 7)	15,938	3,084
Deferred revenue	230,246	109,821
Convertible subordinated debentures (Note 8)	890,102	-
	2,091,083	718,071
OBLIGATION UNDER CAPITAL LEASES (Note 7)	20,747	-
CONVERTIBLE SUBORDINATED DEBENTURES (Note 8)	-	885,343
	2,111,830	1,603,414
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	9,518,398	9,518,398
Contributed surplus (Note 9)	219,229	185,691
Deficit	(8,697,724)	(8,316,829)
	1,039,903	1,387,260
	\$ 3,151,733	\$ 2,990,674

SEPROTECH SYSTEMS INCORPORATED

Consolidated Statements of Cash Flows

For the periods ended February 28

(Unaudited)

	Three Months Ended		Six Months Ended	
	February 28	February 28	February 28	February 28
	2006	2005	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	\$ (66,465)	\$ (35,641)	\$ (380,895)	\$ (351,657)
Items not affecting cash				
Amortization of capital assets	9,786	8,039	17,392	15,673
Amortization of intangible assets	2,242	2,243	4,485	4,485
Stock-based compensation expense	18,589	20,159	33,538	43,249
Accretion of convertible subordinate debenture	2,369	3,339	4,759	6,717
Loss on disposal of assets	-	-	-	452
	(33,479)	(1,861)	(320,721)	(281,081)
Changes in non-cash operating working capital items				
Accounts receivable	(616,484)	(279,604)	(419,192)	(833,295)
Unbilled receivables	521,716	(138,996)	(13,459)	(32,967)
Inventories	(18,842)	28,435	(8,948)	(27,908)
Prepaid expenses	31,372	(10,437)	27,062	(9,128)
Accounts payable and accrued liabilities	155,740	496,182	199,631	835,415
Deferred revenue	118,252	28,335	120,425	143,718
	158,275	122,054	(415,202)	(205,246)
INVESTING				
Purchase of capital assets	(36,914)	(5,573)	(59,276)	(15,804)
	(36,914)	(5,573)	(59,276)	(15,804)
FINANCING				
Repayment of capital lease	(4,533)	(1,808)	(8,344)	(3,278)
Repayment of long-term debt	-	(25,400)	-	(40,400)
Increase / (decrease) in bank indebtedness	(95,565)	(144,303)	150,000	105,697
Issuance of shares on settlement of debt	-	-	-	77,000
Capital leases incurred	25,342	-	41,946	-
	(74,756)	(171,511)	183,602	139,019
NET CASH INFLOW / (OUTFLOW)	46,605	(55,030)	(290,876)	(82,031)
CASH POSITION, BEGINNING OF PERIOD	-	55,030	337,481	82,031
CASH POSITION, END OF PERIOD	\$ 46,605	\$ -	\$ 46,605	\$ -