

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

	3 Months Ended		6 Months Ended	
	February 28 2005	February 29 2004	February 28 2005	February 29 2004
Sales	\$ 1,737,472	\$ 1,284,441	\$ 2,399,373	\$ 2,628,342
Cost of sales	1,332,677	941,264	1,903,651	1,893,470
Gross margin	404,795	343,177	495,722	734,872
Operating expenses				
Sales and marketing	143,763	113,965	277,799	239,046
General operations and administrative	280,907	216,559	506,114	445,171
Interest expense (net)	27,077	29,411	56,187	49,237
Total operating expenses	451,747	359,935	840,100	733,454
Operating profit (loss)	(46,952)	(16,759)	(344,378)	1,418
Other revenue				
Gain / (loss) on foreign currency exchange	11,311	-	(6,827)	-
Loss on sale of capital assets	-	-	(452)	-
	11,311	-	(7,279)	-
NET INCOME (LOSS)	(35,641)	(16,759)	(351,657)	1,418
DEFICIT, BEGINNING OF PERIOD	8,495,643	7,513,942	8,179,627	7,532,118
DEFICIT, END OF PERIOD	\$ 8,531,284	\$ 7,530,700	\$ 8,531,284	\$ 7,530,700
Net income (loss) per basic and diluted share (Note 12)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.00
Weighted average number of basic and diluted shares outstanding	32,240,865	28,605,938	32,240,865	28,605,938

SEPROTECH SYSTEMS INCORPORATED

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended		Six Months Ended	
	February 28 2005	February 29 2004	February 28 2005	February 29 2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income / (loss)	\$ (35,641)	\$ (16,758)	(351,657)	\$ 1,418
Items not affecting cash				
Amortization of capital assets	8,039	6,196	15,673	11,449
Amortization of intangible assets	2,243	2,242	4,485	4,484
Stock-based compensation expense	20,159	2,927	43,249	5,853
Accretion of convertible subordinate debenture	3,339	6,121	6,717	12,242
Loss on disposal of assets	-	-	452	-
	(1,861)	728	(281,081)	35,446
Changes in non-cash operating working capital items				
Accounts receivable	(279,604)	465,746	(833,295)	180,634
Unbilled receivables	(138,996)	(415,925)	(32,967)	(279,450)
Inventories	28,435	(19,071)	(27,908)	162,518
Prepaid expenses	(10,437)	(31,035)	(9,128)	2,980
Accounts payable and accrued liabilities	496,182	194,481	835,415	159,947
Deferred revenue	28,335	(75,364)	143,718	(216,467)
	122,054	119,560	(205,246)	45,608
INVESTING				
Purchase of capital assets, net	(5,573)	(23,406)	(15,804)	(30,453)
Decrease in restricted cash	-	-	-	16,785
	(5,573)	(23,406)	(15,804)	(13,668)
FINANCING				
Repayment of capital lease	(1,808)	-	(3,278)	-
Repayment of long-term debt	(25,400)	(12,600)	(40,400)	(25,200)
Increase in bank indebtedness	105,697	(39,134)	105,697	-
Issuance of shares on settlement of debt	-	-	77,000	-
Decrease in operating loan	(250,000)	-	-	-
	(171,511)	(51,734)	139,019	(25,200)
NET CASH INFLOW (OUTFLOW)	(55,030)	44,420	(82,031)	6,740
CASH POSITION, BEGINNING OF PERIOD	55,030	-	82,031	37,680
CASH POSITION, END OF PERIOD	\$ 0	\$ 44,420	0	44,420

SEPROTECH SYSTEMS INCORPORATED

Consolidated Balance Sheet

(Unaudited)

	February 28 2005	August 31 2004
CURRENT ASSETS		
Cash	\$ -	\$ 82,031
Accounts receivable	1,044,125	210,830
Unbilled revenues	208,626	175,659
Inventories	76,942	49,034
Prepaid expenses and deposits	63,098	53,971
	1,392,791	571,525
CAPITAL ASSETS (Note 4)	116,191	116,512
GOODWILL	1,655,525	1,655,525
INTANGIBLE ASSETS (Note 5)	189,012	193,498
	\$ 3,353,519	\$ 2,537,060
CURRENT LIABILITIES		
Bank indebtedness	\$ 105,697	\$ -
Accounts payable and accrued liabilities	1,316,759	481,345
Obligation under capital leases (Note 6)	6,545	6,680
Deferred revenue	290,339	146,621
Term loan (Note 7)	-	40,400
Current portion of long-term debt (Note 8)	566,350	559,634
	2,285,690	1,234,680
OBLIGATION UNDER CAPITAL LEASES (Note 6)	0	3,144
	2,285,690	1,237,824
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	9,682,870	9,491,546
Deferred stock-based compensation (Note 9)	(83,758)	(12,683)
Deficit	(8,531,283)	(8,179,627)
	1,067,829	1,299,236
	\$ 3,353,519	\$ 2,537,060