Interim Consolidated Financial Statements

Three and Nine Month Periods Ended
May 31, 2013 and May 31, 2012

(expressed in Canadian Dollars)

Notice to Reader

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 interim financial statements of the company 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 standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BLUMETRIC ENVIRONMENTAL INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars)

	May 31 2013 $	August 31 2012 $
ASSETS		
Current assets		
Cash	**-**	-
Accounts receivable (Note 5)	**4,389,645**	7,173,977
Inventories (Note 6)	**13,900**	-
Unbilled revenues	**2,854,961**	2,324,232
Prepaid expenses	**357,128**	113,383
Investment tax credits recoverable	**177,827**	7,619
	7,793,461	9,619,211
Non-current assets		
Property, plant and equipment (Note 7)	**2,723,751**	2,632,640
Intangible assets (Note 8)	**1,451,160**	103,162
Long term investments – held for sale (Note 9)	**132,775**	132,775
Other investments (Note 9)	**10,990**	11,085
Goodwill (Note 10)	**6,004,642**	1,680,075
	18,116,779	14,178,948
LIABILITIES		
Current liabilities		
Credit facilities and bank loans (Note 11)	**1,412,639**	3,039,471
Trade and other payables (Note 12)	**4,306,940**	3,433,700
Deferred revenue	**1,269,395**	179,215
Note, loans payable and secured debenture (Note 13)	**324,320**	-
Obligation under finance leases (Note 14)	**14,256**	-
Current portion of long-term debt (Note 15)	**439,225**	280,075
	7,766,775	6,932,461
Non-current liabilities		
Obligation under finance lease (Note 14)	**15,045**	-
Long-term debt (Note 15)	**2,293,975**	1,157,356
Due to related party/shareholders	**269,531**	441,627
Deferred taxes	**87,896**	87,896
Total Liabilities	**10,433,222**	8,619,340
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	**3,236,329**	1,157,024
Contributed surplus (Note 16)	**28,698**	-
Retained earnings	**4,418,530**	4,277,089
Equity attributable to owners of the parent	**7,683,557**	5,434,113
Non-controlling interest	**-**	125,495
Total Equity	**7,683,557**	5,559,608
	18,116,779	14,178,948

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

APPROVED BY THE BOARD

William M. Touzel, Director

Jordan B. Grant, Director

BLUMETRIC ENVIRONMENTAL INC.

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and nine months ended May 31, 2013 and May 31, 2012

(in Canadian dollars, except the number of shares)

	Three months ended		**Nine months ended**	
	May 31, 2013 $	31-May 2012 $	**May 31, 2013 $**	May 31, 2012 $
Revenue	**7,266,666**	5,830,559	**19,630,376**	17,256,802
Cost of goods sold	**6,016,303**	4,725,400	**15,890,795**	14,202,046
Gross profit	**1,250,363**	1,105,159	**3,739,581**	3,054,756
Operating expenses:				
Selling, general and administrative expenses	**1,722,544**	987,023	**3,838,334**	3,590,117
Research and development	**248,297**	97,111	**620,219**	194,222
Expenses related to merger	**-**	-	**133,586**	-
Total operating expenses	**1,970,841**	1,084,134	**4,592,139**	3,784,339
Operating loss	**(720,479)**	21,025	**(852,559)**	(729,583)
Finance costs	**(52,352)**	(12,230)	**(161,018)**	(49,214)
Net loss and total comprehensive loss for the period	**(772,831)**	8,795	**(1,013,577)**	(778,797)
Net loss and total comprehensive loss for the period attributable to:				
Owners of the parent	**(772,831)**	(21,607)	**(1,013,577)**	(809,278)
Non-controlling interest	**-**	30,402	**-**	30,481
	(772,831)	8,795	**(1,013,577)**	(778,797)
Net loss per share and total comprehensive loss per share attributed to the parent company (Note 18):				
Basic	**($ 0.03)**	($ 0.03)	**($ 0.05)**	($ 1.29)
Fully Diluted	**($ 0.03)**	($ 0.03)	**($ 0.05)**	($ 1.29)
Weighted average number of shares outstanding (Note 18)				
Basic	**22,360,331**	634,468	**18,825,380**	625,492
Fully Diluted	**22,360,331**	634,468	**18,825,380**	625,492

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

BLUMETRIC ENVIRONMENTAL INC.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine month periods ended May 31, 2013 and May 31, 2012

(in Canadian dollars)

(Unaudited)

	Share capital	Contributed surplus	Retained earnings (deficit)	Total Attributable to Owner of Parent	Non Controlling Interest	Total equity
	$	$	$	$	$	$
Balance at September 1, 2011	**1,032,835**	**-**	**4,732,118**	**5,764,953**	**114,311**	**5,879,264**
Issuance of common shares on stock option exercise	124,189	-	-	124,189	-	124,189
Non-controlling interest	-	-	30,481	30,481	11,184	41,665
Net loss and comprehensive loss for the period	-	-	(778,797)	(778,797)	-	(778,797)
Balance at May 31, 2012	**1,157,024**	**-**	**3,983,802**	**5,140,826**	**125,495**	**5,266,321**
Balance at September 1, 2012	**1,157,024**	**-**	**4,277,089**	**5,434,113**	**125,495**	**5,559,608**
Purchase of balance of interest in OEL-Hydrosys	-	-	(127,500)	(127,500)	-	(127,500)
Elimination of non-controlling interest on OEL-Hydrosys	-	-	125,495	125,495	(125,495)	-
Reduction of share capital to one dollar	(1,157,023)	-	1,157,023	-	-	-
Share issued on reverse takeover	2,325,642	-	-	2,325,642	-	2,325,642
Common shares issued on private placement	1,044,000	-	-	1,044,000	-	1,044,000
Share issue costs related to private placement	(133,314)	11,251	-	(122,063)	-	(122,063)
Stock based compensation	-	17,447	-	17,447	-	17,447
Net loss and comprehensive loss for the period	-	-	(1,013,577)	(1,013,577)	-	(1,013,577)
Balance at May 31, 2013	**3,236,329**	**28,698**	**4,418,530**	**7,683,557**	**-**	**7,683,557**

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

BLUMETRIC ENVIRONMENTAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended May 31, 2013 and May 31, 2012

(in Canadian dollars)

	Three months ended		Nine months ended	
	May 31, 2013 $	May 31, 2012 $	**May 31, 2013 $**	May 31, 2012 $
Cash flows from operating activities				
Net loss for the period	**(772,831)**	8,795	**(1,013,577)**	(778,797)
Non-cash items:				
Depreciation of property, plant and equipment	**84,808**	74,189	**259,176**	249,341
Amortization of intangible assets	**93,347**	12,940	**204,107**	38,939
Non-controlling interest expense	**-**	-	**-**	79
Share-based compensation	**8,181**	-	**17,446**	124,189
	(586,495)	95,924	**(532,849)**	(366,249)
Changes in working capital items				
Accounts receivable	**2,200,662**	(799,401)	**3,096,222**	1,470,470
Inventories	**-**	-	**312,567**	-
Unbilled revenues	**(848,100)**	(155,162)	**(350,013)**	647,431
Prepaid expenses	**(48,590)**	90,906	**(112,631)**	(34,995)
Investment tax credits	**17,717**	150,449	**(135,208)**	(211,028)
Trade and other payables	**(515,208)**	114,362	**(1,526,811)**	296,263
Deferred revenues	**1,197,686**	(7,382)	**866,811**	(11,975)
Due to related party/shareholders	**269,531**	34,764	**(172,096)**	(339,586)
Net cash provided by (used in) operating activities	**1,687,203**	(475,540)	**1,445,992**	1,450,331
Cash flows from investing activities				
Acquisition of property, plant and equipment (Note 8)	**(103,821)**	(216,650)	**(197,490)**	(410,487)
Acquisition of patents (Note 9)	**(21,057)**	-	**(233,837)**	(5,500)
Disposal of property, plant and equipment (Note 8)	**-**	-	**485**	-
Related to purchase of 6721451 Canada Inc.	**-**	-	**-**	(72,844)
Proceeds from sale of asset held for sale	**-**	-	**-**	232,776
Purchase of additional interest in OEL	**-**	-	**(127,500)**	-
Reverse takeover, net cash received of $123,732 (Note 4)	**-**	-	**123,732**	-
Net cash provided by (used in) investing activities	**(124,878)**	(216,650)	**(434,610)**	(256,055)
Cash flows from financing activities				
Repayment of obligation under finance lease	**(3,738)**		**(6,268)**	-
Issuance of common shares on private placement	**-**	-	**1,044,000**	-
Share issuance costs on private placement	**-**	-	**(122,063)**	-
Decrease in note, loans payable and secured debenture	**(59,041)**		**(147,134)**	-
Increase/(decrease) in long-term debt	**82,650**	81,859	**337,484**	80,767
Increase/(decrease) in use of credit facilities and bank loans	**(1,582,196)**	610,331	**(2,117,402)**	(1,275,043)
Net cash generated by (used in) financing activities	**(1,562,325)**	692,190	**(1,011,383)**	(1,194,276)
Net change in cash and cash equivalents	**-**	-	**-**	-
Cash and cash equivalents – Beginning of period	**-**	-	**-**	-
Cash and cash equivalents – End of period	**-**	-	**-**	-
Supplementary Information				
Cash interest paid	**27,647**	9,738	**85,215**	47,574
Cash taxes paid	**-**	-	**-**	-

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

1. 1. Nature of Operations

On November 16, 2012 BluMetric Environmental Inc. ("BluMetric" or the "Company") completed a reverse take-over ("RTO") with WESA Group Inc. ("WESA") pursuant to which BluMetric acquired 100% of the issued and outstanding common shares of privately held WESA, which was amalgamated under the Ontario Business Corporations Act on June 1, 2001. BluMetric and WESA were amalgamated on November 17, 2012 and continued under the Canada Business Corporations Act. The RTO transaction is more fully described in Note 4, "Business Acquisition – Reverse takeover".

BluMetric is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves clients in many industrial sectors, and at all levels of government, both domestically and internationally.

BluMetric operates through two divisions:

- a professional services division focussed on environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health & safety, and renewable energy. This division operates under the names "WESA", "Envir-Eau", and "OEL-HydroSys".
- a water & wastewater division providing both design-build and pre-engineered product solutions to clients' water and wastewater treatment needs. This division operates under the names "WESAtech" and "Seprotech".

The head office of the Company is located at 3108 Carp Road, Ottawa, Ontario, Canada K0A 1L0. The Company's common shares are listed on the Toronto Venture Exchange ("TSX.V") in Canada.

2. Statement of Compliance, Basis of Preparation and Going Concern

These condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements follow the same accounting policies as the Company's most recent annual financial statements and are based on IFRS issued as of May 31, 2013 the date that the Company's Board of Directors approved these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's annual audited consolidated financial statements for the years ended August 31, 2012 and 2011.

The Company has recently completed an RTO (Notes 1 and 4) which has had a material impact on its operating and financial structure. The company has reported a loss of $772,831 for the three-month interim period ended May 31, 2013 and $1,013,577 for the nine months ending May 31, 2013 and as of that date has reported working capital of $26,686. It is expected the Company will require additional capital and sustained profitability to meet its objectives. Subsequent to the end of the interim period ended May 31, 2013 the company completed the private placement of a convertible debenture for gross proceeds of $1,434,000 (Note 26). There can be no assurance the company will be successful in its efforts to achieve sustained profitability.

3. Accounting Policies

Authorization of Financial Statements

The consolidated financial statements for the interim periods ended May 31, 2013 and 2012 (including comparatives) were approved and authorized for issue by the Board of Directors on July [ ] , 2013.

Presentation Currency

The Company's presentation and functional currency is the Canadian dollar.

Basis of Measurement

The interim consolidated financial statements have been prepared on the historical cost basis.

Critical Accounting Judgements, Estimates and Assumptions

The preparation of the interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the judgements, estimates and assumptions made by management. Information about these significant judgements, estimates and assumptions that have the most significant impact on the recognition and measurement of assets, liabilities, income and expenses are summarized below.

Useful lives of depreciable assets

Management reviews its estimates of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets of the Company. Actual results, however, may vary due to technical or commercial obsolescence, particularly with respect to computers and manufacturing equipment.

Allowance for obsolete and slow-moving inventories and other declines in net realizable value

Management estimates the net realizable values of inventories and parts and supplies, and takes into account the most reliable evidence available at the time the estimate is made. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts and revenue adjustments

At each reporting year, the Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other revenue adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. The Company also records reductions to revenue for estimated returns, claims, customer rebates, and other incentives that are estimated based on historical experience and current economic trends. If future collections and trends differ from estimates, future earnings will be affected.

Impairment assessments

The Company has not recognised any impairment losses on property, plant and equipment and intangible assets subject to amortization in any of the periods presented.

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Share-based Compensation

The estimation of share-based payments costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Percentage of completion of revenue contracts

The gross amount due from customers for contract work is presented within unbilled revenues for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings.

The stage of completion of any military and systems contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management exercised significant judgment about milestones, actual work performed and the estimated costs to complete work.

Consulting contracts

Determining if the Company is acting as a principal or an agent in the context of the particulars of the underlying contracts requires management judgement.

Business Combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination (see Note 4). These fair value calculations may be impacted by variables such that the future value of the combination could be materially affected.

Principles of Consolidation

The interim consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary WESA Technologies S.A. de C.V., El Salvador.

All inter-company transactions and balances between the group companies have been eliminated on consolidation including unrealized gains or losses.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the particular financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or when it expires.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

All income and expenses relating to financial assets are recognized in profit or loss and are presented within finance costs and finance income, except for impairment of accounts receivable which is presented within general and administrative expenses.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in profit or loss within general and administrative expenses, if applicable.

Financial liabilities are measured subsequently at amortized cost using the effective interest method. All interest-related charges are included within finance costs.

Classification:	
Cash and cash equivalents	Loans and receivables
Accounts receivable, excluding tax credits receivable	Loans and receivables
Credit facilities and bank loans	Measured at amortized cost
Note and loans payable	Measured at amortized cost
Long term debt	Measured at amortized cost

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective company entity using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Revenue Recognition

Fee-for-service projects

In the course of providing its services, the Company incurs certain direct costs such as travel and living expenses for its staff, and other expenditures such as sub-consultants and 3rd-party product or service providers, that are recoverable directly from clients. These direct costs are included in the Company's gross revenue. Since such direct costs can vary significantly from contract to contract, changes in gross revenue may not be indicative of the Company's revenue trends.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration secured or receivable. Revenue from fixed-fee and variable-fee-with-ceiling contracts is recognized by reference to the stage of completion using the cost approach. Stage of completion is measured by reference to labor costs incurred to date as a percentage of total estimated labor costs for each contract. Revenue from time-and-material contracts without stated ceilings and from short-term projects is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined.

Revenue is reported net of discounts, sales taxes, returns, and rebates.

Unbilled revenue represents work in progress that has been recognized as revenue but not yet invoiced to clients.

Amounts billed in advance of performance are recorded as deferred revenue.

Products & systems – water / wastewater treatment equipment and design-build contracts

Revenue from Systems contracts is recognized on the percentage of completion basis, comparing costs incurred to the estimated final cost to complete the contract. Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue is measured at the fair value of consideration secured or receivable in relation to that activity.

Revenue is reported net of discounts, sales taxes, returns, and rebates.

Revenue in excess of contract billings is recorded as unbilled revenue.

Amounts billed in advance of performance are recorded as deferred revenue. Deferred revenue is classified as non-current if it relates to performance obligations that are expected to be fulfilled after 12 months from the consolidated financial position dates.

Contracts for equipment refurbishment

Where the outcome of a refurbishment contract (such as the Company undertakes for the Canadian Forces) can be measured reliably and receipt of payment is considered probable, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, based on contractual milestones reached, such as approval of scope of work, acceptance of preliminary budget estimates based on scope of work, stage of assembly, acceptance of sub-contracted equipment and services, direct labour costs, inspection, factory acceptance testing, which represent a proportion of the contract costs incurred for work performed to date relative to the estimated contract costs.

Where the outcome of a contract involving the rendering of services cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred if it is probable that it will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where the outcome of a refurbishment contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred if it is probable that it will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Variations in contract work and claims related thereto are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Revenue in excess of contract billings is recorded as unbilled revenue. Revenue is measured at the fair value of consideration secured or receivable.

Revenue is reported net of discounts, sales taxes, returns, and rebates.

Amounts billed in advance of performance are recorded as deferred revenue.

Parts

Revenue from the sale of goods is recognised when all of the following conditions have been satisfied:

a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c) The amount of revenue can be measured reliably;
d) It is probable the economic benefits associated with the transaction will flow to the Company; and
e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

These conditions are generally satisfied when title passes to the customer according to the sales agreement which, in most cases, is when product is picked up by the customer or delivered to the destination specified by the customer and a provision for potential warranty claims is established at the time of completion, based on warranty terms and prior claims experience.

Revenue is reported net of discounts, sales taxes, returns, and rebates.

Revenue in excess of contract billings is recorded as unbilled revenue.

Amounts billed in advance of performance are recorded as deferred revenue.

Basic and Diluted Earnings (Loss) Per Share

The basic earnings (loss) per share is calculated on the basis of net earnings (loss) divided by the weighted average number of common shares outstanding during the year. The diluted share amount is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares which comprise and share options.

The diluted earnings (loss) per share is equal to the basic earnings (loss) per share for the period ended November 30, 2011 as a result of the anti-dilutive effect of outstanding options as explained in note 18.

Inventories

Inventories, consisting of raw materials and work in progress ("WIP"), are stated at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis and includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. 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.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, where applicable, borrowing costs and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized as part of the cost of those assets. Other borrowing costs are expensed in the years in which they are incurred and reported in finance costs. The Company reviews residual values and remaining useful life on a quarterly basis and may undertake further reviews in the event impairment is suspected.

Depreciation is calculated on a straight line basis to write down the cost less estimated residual value over the anticipated useful lives of the assets as follows:

Buildings & related leasehold improvements	4%
Test and demonstration systems	25%
Small tools	40%
Equipment	20%
Computer hardware	30%
Office furniture and equipment	20%
Leased equipment and office furniture	4 years
Paving	8%
Vehicles	30%
Other leasehold improvements	Over term of lease

In the case of assets under finance leases expected useful lives are determined by reference to comparable owned assets or over the lease term, if shorter. Depreciation is included in the Adminstrative expenses of the Consolidated Statement of Comprehensive Income.

Intangible Assets

Intangible assets are recorded at cost less accumulated depreciation and impairment. They are amortized on a straight-line basis over their remaining estimated useful lives as these assets are considered finite. The following useful lives are applied:

Acquired patents	17 years
Patents	17 years
Trademarks	25 years
Technology	3 years
Customer lists	5 years
Acquired trademarks	17 years
System software	5 years
Application computer software	2 Years

Amortization is included in the Adminstrative expenses of the Consolidated Statement of Comprehensive Income.

Impairment Testing of Property, Plant & Equipment, Goodwill and other Intangible Assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level. Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management measures goodwill.

Cash generating units to which goodwill has been allocated (determined by the Company's management as equivalent to a single operating segment) are tested for impairment at least annually. All other individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal or value-in-use. To determine value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future re-organisations and asset enhancements. Discount factors are determined individually for each cash generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Impairment losses for cash generating units reduce first the carrying amount of any goodwill allocated to that cash generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

Research and Development Costs

Research activities are expensed as they are incurred. Research 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. Research costs incurred pursuant to research activities that do not involve sales contracts with third parties are expensed in the year incurred.

Costs that are directly attributable to a project's development phase are recognized as intangible assets, provided they meet the following recognition requirements:

- The development costs can be measured reliably
- The project is technically and commercially feasible
- The Company intends to and has sufficient resources to complete the project
- The Company has the ability to use or sell the product or equipment
- The product or equipment will generate probable future economic benefits

Development costs not meeting these criteria for capitalization are expensed as incurred.

Investment Tax Credits and Government Assistance

Investment tax credits are accounted for under the cost reduction method whereby they are netted against the research and development costs and the cost of the property, plant and equipment to which they relate. Investment tax credits are recorded when the Company has incurred qualifying expenditures and there is reasonable assurance the tax credit will be realized.

Government assistance is recorded as a reduction of the research and developments costs provided where the Company is reasonably certain the credits will be received.

Provisions, Contingent Liabilities and Contingent Assets

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the the present obligation at the end of the reporting period.

Provisions are measured at the present value of the expected expenditures to settle the obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation, and when the effect of the time value of money is material, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision during the period to reflect the passage of time is recognized as finance costs.

Provisions for warranty are established based on management's best estimates as to the amounts that could be disbursed based on contract terms, and are typically a percentage of the sales or contract price. Relevant disbursements made by the Company are accounted for by reducing the associated provision when the claim from the customer is deemed relevant, in accordance with the contract terms and conditions.

Contingent liabilities represent a possible obligation to the Company arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain furure events that are not entirely within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognized by the company.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease.

An operating lease is a lease in which a significant portion of the risks and rewards of ownership are retained by the lessor. Payments under an operating lease are recognized as an expense on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments plus incidental payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance cost and the liability. The finance charge is recognized in profit or loss within Finance costs and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Income Taxes

Income tax expense comprises both current and deferred tax, which is recognized in earnings except to the extent it relates to items recognized directly in shareholders' equity. When it relates to the latter, the income tax is recognized directly in shareholders' equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or deductible, and is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting year.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Current income tax liabilities are established where appropriate on the basis of amounts expected to be paid to the taxing authorities.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax is calculated, without discounting, using tax rates and laws enacted or substantially enacted at the reporting date in Canada, and which are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax liabilities are always provided for in full.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off the recognized amounts and the deferred taxes relate to the same taxable entity and the same taxation authority.

Non-current assets and liabilities classified as held for sale and discontinued operations

When the Company intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as held for sale and presented separately in the statement of financial position. Liabilities are classified as held for sale and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less selling costs. However, some held for sale assets such as financial assets or deferred tax assets continue to be measured in accordance with the Company's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations.

Investment in associates and joint ventures

Entities whose economic activities are controlled jointly by the Company and other venturers independent of the Company (joint ventures) are accounted for using the proportionate consolidation method, whereby the Company's share of the assets, liabilities, income and expenses is included line by line in the financial statements.

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Company's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

The carrying amount of the investment in associates is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company.

Unrealised gains and losses on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Equity

Share Capital

Share Capital represents the amount received for shares issued. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from share capital, net of any tax effects.

If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus.

Contributed Surplus

Contributed surplus includes charges related to share options. When share options are exercised, the related compensation cost is transferred to share capital.

Retained Earnings

Retained earnings include all current and prior period retained profits.

Share-Based Payments

The Company offers a share option plan to directors, executive officers, key employees and consultants who provide services to the company.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of goods and services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted.

The fair value at the grant date of share options is determined using the Black-Scholes pricing model and is recognised in the consolidated income statement as a compensation expense using a graded vesting schedule over the vesting period, based on the company's estimate of the number of shares which will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. Any impact arising from revision of the original estimates is recognised in the income statement such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different from those estimated on vesting.

Any consideration received by the company upon the exercise of stock options is credited to share capital and the share options reserve component resulting from share-based payment is transferred from contributed surplus to share capital upon the issuance of shares.

Pension Benefit Plans

The Company maintains a defined contribution pension plan for employees in which the Company matches on a dollar for dollar basis contributions (up to a maximum of from 2-5% of salary, as determined by a formula reflecting an individual's length of tenure and age) made by employees into a registered plan managed by a third-party fund manager. There was no unfunded pension plan liability as at May 31, 2013.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, who makes strategic decisions.

The Company has determined that there is currently only one operating segment.

Changes in accounting policies

Adoption of amendments to IAS 1 (effective for annual periods beginning on or after July 1, 2012) The Company is required to group items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequent to profit and loss and those that will be reclassified subsequently to profit and loss when specific conditions are met. The existing option to

present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

New Standards and Interpretations Issued but not yet Effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2012, the IASB published an exposure draft in order to made limited modifications to IFRS 9's financial asset classification model to address application issues. The Company's management has yet to assess the impact of this new standard on its consolidated financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation standards

A package of new consolidation standards is effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. Management has not yet completed its assessment of the impact of these new and revised standards on the Company's consolidated financial statements.

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation - Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Company's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Company's existing investees at February 28, 2013.

IFRS 11 'Joint Arrangements' (IFRS 11)

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of

using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Transition guidance for IFRS 10, 11, 12

Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The new guidance is also effective for annual periods on or after 1 January 2013

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)

IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Company's consolidated financial statements.

Amendments to IAS 19 'Employee Benefits' (IAS 19 Amendments)

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They

- eliminate the 'corridor method', requiring entities to recognise all actuarial gains and losses arising in the reporting period
- changes the measurement and presentation of certain components of defined benefit cost
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them

The IAS 19 Amendments are effective for annual periods beginning on or after 1 January 2013 and will apply retrospectively. The Company does not expect to be affected by these amendments to IAS 32

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Tax effect of distribution to holders of equity instruments:

- addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction

- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the Company's consolidated financial statements from these Amendments

4. 4. Business Acquisition - Reverse Takeover

On November 16, 2012, the Company completed its acquisition of all of the issued and outstanding common shares of WESA, following which the two companies were amalgamated. Prior to completion of the transaction, the Company changed its name from Seprotech Systems Incorporated("Seprotech") to BluMetric Environmental Inc. and consolidated its common shares on a one for ten basis. Pursuant to the acquisition agreement, in exchange for obtaining all of the issued and outstanding common shares of WESA, the Company issued to the former shareholders of WESA 14,157,433 (post-consolidation) of its common shares.

In accordance with IFRS 3, "Business Combinations" the transaction is a reverse takeover of an operating company, management having determined that the definition of a business under the standard has been met. Accordingly, the transaction has been accounted for as an acquisition. The resulting statement of financial position is presented as a continuance of WESA (legal acquiree), and comparative figures presented in the financial statements are those of WESA. The results of Seprotech's operations have been included in the Company's financial statements from the closing date of November 16, 2012 to November 30, 2012, and going forward.

The fair value of the consideration is determined based on the percentage of ownership the legal parent's (i.e. Seprotech's) shareholders have in the amalgamated entity upon the November 16, 2012 closing. This represents the fair value of the shares that WESA would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of WESA acquiring 100% of the common shares of Seprotech. The percentage of ownership Seprotech shareholders had in the combined entity is 31.9% after the issue of 14,157,433 Seprotech shares. The percentage of ownership of Seprotech shareholders declines to 28.1% if the 2,831,325 common shares underlying the Series 1 shares issued to WESA shareholders is taken into consideration. Management has not yet made an estimate of fair value for the Series 1 shares, and will make a determination in the context of finalising the purchase price allocation by fiscal year end.

The fair value of the consideration in the RTO is equivalent to the fair value of the 6,644,692 SET shares controlled by the original Seprotech shareholders. The fair value of the Seprotech common shares was estimated to be $2,325,642 based on fair market value of $0.35 per share, being the closing market price on the last day before trading was halted following announcement of the RTO.

The following table describes management's preliminary determination of purchase price allocation over the fair value of Seprotech's net assets acquired upon completion of the RTO on November 16, 2012.

Estimated purchase price		**2,325,642**
Assets acquired:		
Cash	$123,732	
Accounts receivable	911,794	
Inventories	326,467	
Unbilled revenues	180,716	
Prepaid expenses	131,114	
Investment tax credit recoverable	35,000	
Property, plant and equipment	139,184	
Intangible assets	1,318,266	
	$3,166,273	
Less liabilities assumed:		
Bank indebtedness	490,570	
Trade and other payables	2,400,051	
Deferred revenue	223,369	
Note, loans payable and secured debenture	1,071,454	
Obligation under finance lease	21,469	
Long-term Debt	958,285	
	$5,165,198	
Net identifiable assets acquired		**(1,998,925)**
Goodwill		**4,324,567**

5. Accounts Receivable

Accounts Receivable

	May 31, 2013	August 31, 2012
Trade receivables	**$ 4,480,789**	$ 6,698,467
Other receivables	**139,442**	603,843
Allowance for doubtful accounts (note 23)	**(230,586)**	(128,333)
	$ 4,389,645	$ 7,173,977

All of the Company's trade and other receivables have been reviewed for indications of impairment and no additional allowance for doubtful accounts is deemed necessary at this time.

There are no amounts owing from related parties on any of the reporting dates.

6. Inventories

	May 31, 2013	August 31, 2012
Raw materials	**$ 16,308**	$ -
Inventory provision	**(2,408)**	-
	$ 13,900	$ -

7. Property, Plant & Equipment

All of the Company's Property, Plant and Equipment are pledged as security for the bank loans and secured debenture, and there are accordingly restrictions on the title of such assets.

	Test and Demonstration Systems	Small tools	Computer Hardware	Office, Furniture & Equip	Leased office Furniture & Equip	Leasehold Improvements	Vehicles	Paving	Land	Buildings	Total
Gross Carrying Amount											
Balance at September 1, 2012		314,246	1,831,549	612,678	-	392,883	249,457	43,726	282,873	2,039,309	5,766,721
Additions	-	6,664	81,021	5,835	14,100	102,654	-	-	-	-	210,274
Additions from Reverse Takover	208,169	241,196	84,137	138,955	47,410	20,153					740,020
Disposals	-	-	(6,542)	-	(763)	-	-	-	-	-	(7,305)
Balance at May 31, 2013	208,169	562,106	1,990,165	757,468	60,747	515,690	249,457	43,726	282,873	2,039,309	6,709,710
Accumulated Depreciation											
Balance at September 1, 2012	-	197,912	1,467,678	515,259		241,587	104,322	16,363	-	589,268	3,132,389
Depreciation expense	3,791	20,507	110,474	15,669	3,111	22,316	33,437	1,211	-	48,276	258,792
Additions from Reverse Takover	167,243	198,461	61,430	130,491	23,058	20,153					600,836
Disposals	-	-	(6,058)	-	-	-	-	-	-	-	(6,058)
Balance at May 31, 2013	171,034	416,880	1,633,524	661,419	26,169	284,056	137,759	17,574	-	637,544	3,985,959
Net book value at May 31, 2013	37,135	145,226	356,641	96,049	34,578	231,634	111,698	26,152	282,873	1,401,765	**2,723,751**

	Small tools	Computer Hardware	Leased office Furniture & Equip	Leasehold Improvements	Vehicles	Paving	Land	Buildings	Total
Gross Carrying Amount									
Balance at December 1, 2011	286,098	1,761,155	597,098	342,727	161,776	43,726	282,873	2,039,308	5,514,761
Additions	28,148	70,394	15,579	36,904	139,931	-	-	13,253	304,209
Disposals	-	-	-	-	(44,952)	-	-	-	(44,952)
Balance at August 31, 2012	314,246	1,831,549	612,677	379,631	256,755	43,726	282,873	2,052,561	5,774,018
Accumulated Depreciation									
Balance at December 1, 2011	178,713	1,386,633	500,112	202,580	121,263	15,094	-	560,223	2,964,618
Depreciation expense	18,094	92,187	15,149	8,713	19,755	1,269	-	58,289	213,456
Disposals	-	-	-	-	(36,696)	-	-	-	(36,696)
Balance at August 31, 2012	196,807	1,478,820	515,261	211,293	104,322	16,363	-	618,512	3,141,378
Net book value, August 31, 2012	117,439	352,729	97,416	168,338	152,433	27,363	282,873	1,434,049	2,632,640

8. Intangible Assets

All of the Company's Intangible Assets are pledged as security for the bank loans and convertible debenture, and there are accordingly restrictions on the title of such assets.

	Acquired Patents	Patents	Acquired Trademarks	Trademarks	Software	Technology	Customer Lists	Total
Gross Carrying Amount								
Balance at September 1, 2012				46,700	605,205			651,905
Additions		4,677		25,495	203,665			233,837
Additions on reverse takeover	75,090	172,901	21,866	244,969	129,471	261,395	956,384	1,862,076
Balance at May 31, 2013	75,090	177,578	21,866	317,164	938,342	261,395	956,384	2,747,819
Accumulated Depreciation								
Balance at September 1, 2012				18,185	530,557			548,742
Amortization		5,275		3,801	88,771	25,840	80,420	204,107
Additions on Reverse Takeover	75,090	53,444	21,866	86,468	118,729	2,979	185,234	543,810
Balance at May 31, 2013	75,090	58,719	21,866	108,454	738,057	28,819	265,654	1,296,659
Net book value at May 31, 2013	-	118,859	-	208,710	200,285	232,576	690,730	**1,451,160**

	Trademarks	Computer software	Total
Gross Carrying Amount			
Balance at December 1, 2011	35,469	539,890	575,359
Additions	11,231	58,019	69,250
Balance at August 31, 2012	46,700	597,909	644,609
Accumulated Depreciation			
Balance at December 1, 2011	17,275	452,136	469,411
Depreciation expense	1,958	70,078	72,036
Balance at August 31, 2012	19,233	522,214	541,447
Net book value, August 31, 2012	27,467	75,695	103,162

9. Long-term Investments – Held for Sale & Other Investments

During the year ended November 30, 2011, the Company entered into an agreement to sell its interest in Wasdell Falls Power Corporation. The sale involves three transaction steps, the last of which has not yet occurred. The purchaser has made a non-refundable deposit of $332,776 in connection with the agreement (total consideration was $465,455, plus 750,000 common shares of Coastal Hydro Corporation) which has been netted against the carrying amount of the asset held for sale. Total consideration is to be $465,455, plus 750,000 common shares of Coastal Hydro Corporation.

The Company's investment in Wasdell Falls Power Corporation was accounted for under the equity method until such time as it became held-for-sale. Wasdell Falls Power Corporation did not have any revenue or expenses during the interim period ended May 31, 2013.

Long-term investments - held for sale	**May 31, 2013**	August 31, 2012
1,500,000 shares of Coastal Hydro	**-**	-
Balance of consideration	**$ 132,775**	$ 132,775

Other Investments	**May 31, 2013**	August 31, 2012
17,828 Class A shares of Canzone Limited	**$ 15,250**	$ 15,250
Less: return of capital	**(4,260)**	(4,165)
Total	**$ 10,990**	$ 11,085

Since the sale price has been negotiated at arms-length, and equates to the carrying cost of the investment, fair value is deemed to be equal to the carrying value.

10. Goodwill

Goodwill	**Net Book Value**
Balance at August 31, 2011	**$ 1,680,075**
Balance at August 31, 2012	**1,680,075**
Reverse takeover of Seprotech	**4,324,567**
Balance at May 31, 2013	**$ 6,004,642**

11. Credit Facilities and Bank Loans

Revolving line of credit

As at May 31, 2013, short-term bank credit facilities consisted of an operating line of credit in the amount of $2,000,000 (2012 - $2,400,000) and a separate facility specifically for issuing client project-related letters of credit in the amount of $500,000 (2012 - $500,000). The operating line of credit facility carries a floating rate of interest of Prime +0.5%. Bank indebtedness, which is payable on demand, is secured by a general security agreement over the Company's assets. At May 31, 2013, the Company was not fully in compliance with the bank's financial covenants.

At May 31, 2013 $1,080,000 was outstanding under the operating line of credit; letters of credit totalling U.S. $56,000 were secured by the separate facility at the same date.

Line of Credit

	May 31, 2013	August 31, 2012
Draws against line of credit	**$ 1,080,000**	$ 2,780,000
Bank balances and cash on hand, net of outstanding items	**332,639**	259,471
Total revolving line of credit	**$ 1,412,639**	**$ 3,039,471**

12. Trade and Other Payables and Provisions

	May 31, 2013	August 31, 2012
Trade payables	**$ 3,118,493**	$ 2,287,690
Salaries and benefits payable	**664,285**	81,687
Other accrued liabilities and payables	**524,161**	1,064,323
Total Trade and other payables	**$ 4,306,939**	$ 3,433,700

Provisions in the amount of $24,066 (Aug 31, 2012 - $35,569) are include in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

Due to related parties

As at May 31, 2013, key management personnel were owed $449,981 (August 31, 2012 - $ 41,100).

13. Note and Other Loans Payable and Secured Debenture

Note Payable

On December 6, 2007 Seprotech acquired the assets of PJ Hannah Equipment Corp. (“PJH”) which was partially financed by the issuance of a $400,000 note bearing interest at 4% per annum, compounded semi-annually, repayable in four equal, annual installments of principal and interest. The promissory note does not have a specific maturity date. The obligation has been reduced by $175,680 pertaining to SR&ED refunds received by the seller. Seprotech ceased making payments under the promissory note following a dispute with PJH. At interim period end the Company was in default of the repayment terms of this promissory note (see also Note 24, Contingencies).

Bridge Financing

On November 29, 2011 Seprotech arranged bridge financing of potentially up to $200,000, with an interest rate of 7% payable monthly in arrears, and maturing February 27, 2012. As at May 31, 2013 $100,000 had been drawn down under the facility, which was extended to April 30, 2013, subsequent to which it has been carried on an interest only (7%) month to month basis.

Secured Debenture

On September 12, 2011 Seprotech completed a debt swap with a number of its trade creditors, pursuant to which they exchanged outstanding trade debt aggregating $705,000 for participation in a secured subordinated convertible debenture. Maturity of the debenture was extended from December 31, 2011 to March 31, 2012, and further extended to April 30, 2012. On May 25, 2012 the debenture holders unanimously agreed to convert, subject to regulatory approval, 50% of the face amount of the debenture into common shares of the Company at a price of $0.10 per share. The remaining balance of the secured debenture has been fully repaid during the quarter.

Note payable and other loans payable and secured debenture

	May 31, 2013	August 31, 2012
Note payable	**$ 224,320**	$ -
Bridge financing	**100,000**	-
Total note and loans payable	**324,320**	-
Secured debenture	**-**	-
Total note, loans payable and secured debenture	**$ 324,320**	$ -

14. Obligations Under Finance Leases

The finance lease for office equipment is repayable in quarterly installments of principal and interest of $2,845, bearing imputed interest of 5.25%, and is due to be repaid in October 2014

A new finance lease for field equipment was signed March 1, 2013 over 48 months, repayable in monthly installments of principal and interest of $330, bearing interest of 29% per annum.

All finance leases are secured by the underlying property and equipment.

	Future Minimum Lease Payments	Finance Charges	Present Value of Minimum Lease Payments
May 31, 2013			
Less than one year	$ 14,256	$ 1,085	$ 15,341
Between one and five years	15,045	1,314	16,359
More than five years	-	-	-
Total obligation under finance lease	$ 29,301	$ 2,399	$ 31,700

There were no finance leases as at August 31, 2012.

15. Long-Term-Debt

	May 31, 2013	August 31, 2012
Toronto Dominion loan, bearing interest at prime plus 0.50%, repayable in monthly principal instalments of $4,542 plus interest, due March 2017, secured by a collateral mortgage on building with a carrying value of $534,985 and an unlimited guarantee from a related company.	**$ 208,917**	$ 249,792
Toronto Dominion loan, bearing interest at prime plus 0.75%, repayable in monthly principal instalments of $3,022 plus interest, due April 2023, secured by a charge on building with a carrying value of $452,638.	**359,645**	386,845
Toronto Dominion loan, bearing interest at prime plus 0.75%, repayable in monthly principal instalments of $1,611 plus interest, due March 2023, secured by a charge on building with a carrying value of $233,010	**190,111**	204,611
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $3,325 plus interest, due December 2014, secured by a general security agreement.	**63,177**	93,103
Toronto Dominion Bank loan, bearing interest at prime plus 1% per annum, payable in monthly principal instalments of $1,716 plus interest, secured by a general security agreement, due June 2016.	**63,477**	78,917
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $1,763 plus interest, due November 2015, secured by a general security agreement.	**52,887**	68,754
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $2,178 plus interest, due November 2016, secured by a general security agreement.	**91,493**	111,098
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $1,992 plus interest, due July 2017, secured by a general security agreement.	**99,621**	117,553
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $9,896 plus interest, due March 2017, secured by a general security agreement. (1)	**455,208**	-
Toronto Dominion loan, bearing interest at prime plus 1%, repayable in monthly principal instalments of $3,367 plus interest, due April 2018, secured by a general security agreement. (2)	**161,600**	-
Ford Credit loan, bearing interest at prime, payable in monthly Instalments of $3,190, due May, 2016 and secured by a general security agreement.	**98,047**	126,758
Renegotiated Trade debt (3)	**889,017**	-
Total	**2,733,200**	1,437,431
Current portion of long-term debt	**439,225**	280,075
Long-term portion of long-term debt	**$ 2,293,975**	$ 1,157,356

(1) During the quarter the Company drew down a capital funding facility provided by the Toronto-Dominion Bank. Under this facility the bank will fund up to 75% of the cost of capital purchases and/or improvements made by the Company.

(2) On March 8, 2013 the Toronto-Dominion Bank paid out the syndicate of Credit Unions (Led by Unity Savings & Loan) by providing the Company with a four-year term loan.
During the quarter the Company drew down a capital funding facility provided by the Toronto-Dominion Bank. Under this facility the bank will fund up to 75% of the cost of capital purchases and/or improvements made by the Company.

(3) On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of $958,285. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of $22,947 principal and interest at 7% p.a. such that repayment in full will be effected in four years. The outstanding balance, and associated monthly payments, would have been postponed in favour of the Company's bank.

16. Shareholders' Equity

Share Capital

Authorized

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. The holders of the Company's Common Shares are entitled to dividends as and when declared by the board of directors of the Company, to one vote per share at meetings of shareholders of the Company and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares.

Special Shares

The Company is authorized to issue an unlimited number of Special Shares, issuable in series, of which 2,831,325 Series 1 Special Shares were designated pursuant to the share exchange agreement dated September 20, 2012, and subsequently issued in connection with the RTO. Upon liquidation or dissolution of the Company, before any distribution is made to the holders of Common Shares, holders of Special Shares will be entitled to receive the amount of the paid up capital of each Special Share together with all accrued and unpaid cumulative dividends (if any) and all declared and unpaid cumulative dividends thereon (if any). Unless otherwise stated, holders of Special Shares shall not be entitled to any further distribution of the assets of the Company. There are no voting rights attached to Special Shares, unless otherwise provided under the CBCA.

The Series I Special Shares have the following attributes:

- The Series I Special Shares are not entitled to receive dividends and have no voting rights.
- The Series I Special Shares will be subject to an automatic conversion upon the earlier of a Qualified Financing and July 2, 2013 into a number of Common Shares of the Company determined by the Conversion Ratio as adjusted from time to time.
- A Qualified Financing means a public offering or private placement of Common Shares or securities convertible into or exchangeable for Common Shares of the Company completed after the date on which any Series I Special Shares are issued (the "First Issue Date") and prior to

June 28, 2013 in which the Company receives gross proceeds of not less than $2,000,000, for an issue price or conversion or exchange price of not less than $0.664 per Common Share, after giving effect to the Share Consolidation (the "Issue Price"). The maximum number of Common Shares to be issued after the giving effect to the Share Consolidation will be 2,831,325.

- The Conversion Ratio will initially be one Common Share for each Series I Special Share and will be adjusted as follows:

(i) in the event the Company shall complete a Qualified Financing then the Conversion Ratio shall be adjusted to a fraction of a common share equal to $0.664, after giving effect to the Share Consolidation, divided by the Issue Price;

(ii) if the Company does not complete a Qualified Financing, the Conversion Ratio shall be adjusted effective July 2, 2013, to a fraction of a common share equal to $0.664, after giving effect to the Share Consolidation, divided by the volume weighted average trading price of the Common Shares on the Exchange during the period from June 3, 2013 through June 28, 2013 (the "VWAP"), provided that if the VWAP is $0.664 or less, after giving effect to the Share Consolidation, there shall be no adjustment to the Conversion Ratio;

(iii) if the Company shall at any time after the First Issue Date effect a subdivision or a consolidation of the outstanding Common Shares, the Conversion Ratio shall be adjusted accordingly.

On a liquidation, dissolution or winding up of the Company, the holders of the Series I Special Shares, on an as if converted basis, shall be entitled to receive the same amount per share as the holders of Common Shares.

Share Consolidation and Reduction in Stated Capital

Following the approval of its shareholders on September 21, 2012 and in conjunction with the RTO, the Company effected a one for ten consolidation of its common shares, and reduced its stated capital to a nominal amount. The following table reflects the consolidation and reduction in stated capital.

	Common Shares	
	Number	Amount
Common shares issued and fully paid at August 31, 2011	611,459	$1,032,835
Issuance of common shares on stock option exercise	23,009	124,189
Common shares issued and fully paid at August 31, 2012	634,468	$1,157,024
WESA share elimination on reverse takeover	(634,468)	-
Reduction of share capital to one dollar	-	(1,157,023)
Common shares outstanding of public company just prior to reverse takeover	6,644,692	-
Share issued on reverse takeover	14,157,433	2,325,642
Common shares issued on private placement	1,558,206	1,044,000
Share issue costs related to private placement	-	(133,314)
Common shares issued and fully paid at May 31, 2013	22,360,331	$3,236,329

On November 16, 2012, concurrent with closing the RTO, the Company completed a brokered private placement of 1,558, 206 common shares for gross proceeds of $1,044,000.

Share Options

On October 2, 2006 WESA granted options to employees. During the period ended November 30, 2011 23,009 options were exercised for proceeds of $124,179. There were no WESA options outstanding at November 30, 2011 or 2012.

Seprotech established a share option plan available to directors, officers, key employees and consultants which has been taken over by the Company. The options were granted at the greater of the then current fair market value of the common shares of the Company and the $0.10 per share minimum required by the TSX Venture Exchange regulations, under terms and conditions determined by the Board of Directors. Upon closing the RTO, outstanding options were also consolidated on a one for ten basis such that as at November 30, 2012 476,700 options were outstanding, and the maximum number of options issuable under the plan were established at 3,200,000, which amount was approved by shareholders and by the TSX.V. Options granted under the plan carry a five-year life and typically vest over a three-year period. Seprotech granted 160,000 stock options to officers and directors on December 13, 2011, and to its investor relations consultants in April, 2012. No options were granted during the interim period ended May 31, 2013.

A summary of share options outstanding at May 31, 2013 is as follows:

Total Outstanding		Total Exercisable	
Number of Options	Weighted Average Exercise price	Number of Options	Weighted Average Exercise price
246,500	$1.00	152,177	$1.00
160,000	$1.00	-	-
50,000	$1.00	-	-
456,500	$1.00	152,177	$1.00

Share-Based Compensation

Inputs for measurement of the fair values at grant date of share options

The fair value of employee share options granted is recognized as compensation cost. During the interim three-month periods ended May 31, 2013 and May 31, 2012 no employee share options were granted,

The following inputs were used in the measurement of the fair values at grant date under the share option plan:

Fair value of share options and assumptions	Directors and Employees FY 2012
Fair value at grant date	**$0.02**
Share price at grant date	**$0.04**
Exercise price	**$0.10**
Expected volatility	**120%**
Expected option life (yrs)	**4.01**
Expected dividends	**-**
Risk-free interest rate	**1.26%**

Volatility was calculated based on the historical weekly volatility of the Company's common shares, over a 3 – 5 year period.

Warrants

On November 16, 2012 BluMetric issued 66,184 broker compensation warrants in connection with the private placement of 1,558,206 common shares. Each warrant is exercisable into one common share of the Company, at a price of $0.67 per share, until November 16, 2014. The fair value of these warrants was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: share price on date of grant - $0.35; dividend yield – 0%; volatility of 120% based on the historical weekly volatility of the Company's common shares over a 3-5 year period; risk free interest rate 2 %; and an expected life of 2 years. The resulting fair value of the warrants was estimated as $11,251.

17. Information Included in Consolidated Statements of Comprehensive Income

	For the Three Months Ending May 31 ,		For the Nine Months Ending May 31,	
	2013	2012	**2013**	2012
Employee Benefit Expenses				
Wages, salaries and short term benefits	**3,520,541**	2,668,828	**9,196,372**	8,048,176
Share based compensation cost	**8,181**	0	**17,447**	0
Pensions - defined contribution plans	**87,714**	66,295	**238,609**	171,737
Employee Group Benefit expense	**150,505**	121,505	**423,388**	460,586
	3,766,941	2,856,628	**9,875,815**	8,680,500
Finance Costs				
Interest on Debentures Payable	**0**		**16,076**	0
Interest on Debt Restructuring	**2,071**		**24,136**	0
Interest on Bank Loan	**22,565**	5,525	**56,907**	26,180
Other interest and financial expense	**27,873**	8,034	**64,633**	25,214
Interest (income)	**(157)**	(1,329)	**(734)**	(2,180)
	52,352	12,230	**161,018**	49,214
Other elements of expenses				
Depreciation of property, plant and equipment	**89,246**	74,189	**263,614**	249,341
Amortization of intangible assets	**93,347**	12,940	**204,107**	38,939
Foreign exchange	**14,599**	(16,006)	**10,886**	(17,883)

18. Earnings per Share

As a result of the net loss of $931,189 reported for the three month interim period ended May 31, 2013, (2012 – loss of $21,607), and the net loss of $1,171,935 reported for the nine month interim period ended May 31, 2013, (2012 – loss of $809,278), outstanding options, warrants and Series 1 special shares, as applicable, were not included in the computation of diluted loss per share because to do so would have been anti-dilutive.

	Income (loss)	Weighted[1] Average Shares	Per Share amount
Three months ended May 31, 2013			
Basic and diluted loss per share	**($931,189)**	**22,360,331**	**($0.04)**
Nine months ended May 31, 2013			
Basic and diluted loss per share	**($1,171,935)**	**18,825,380**	**($0.06)**

	Income (loss)	Weighted[2] Average Shares	Per Share amount
Three months ended May 31, 2012			
Basic and diluted loss per share - owners of the parent	($21,607)	634,468	($0.03)
Nine months ended May 31, 2012			
Basic and diluted loss per share - owners of the parent	($809,278)	625,492	($1.29)

(1) Based on actual number of common shares as at May 31, 2013, and excluding all options, warrants and common shares underlying the Series 1 shares as this would be anti-dilutive

(2) Based on the actual total number of WESA common shares as at May 31, 2012

19. 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, unless the criteria for capitalization are met.

The Company participates in the Government of Canada’s 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 fiscal year activities are netted against the current period expenditures.

The Company incurred Research and Development expenses as follows: during the three month period ended May 31, 2013, $248,297 (2012 – $97,111) and during the nine month period ended May 31, 2013, $620,219 (2012 - $194,222).

20. Operating Lease Commitments

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

	Total minimum lease payments due
	$
< 1 year	478,465
5 years	661,597
> 5 years	-
	1,140,062

The operating lease relates to the properties occupied by the Company. There are no options to purchase the property at the expiry of the lease period.

Lease payments recognised as an expense for the nine months ended May 31, 2013 totalled $490,027 (2012 - $311,570).

21. Segmented Disclosure

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (Country of domicile), the United States and internationally, which represents wide distribution.

Sales reported by customer location based on origin of purchase (i.e. domicile of contracting party, not final destination of equipment) are as follows.

Geographically Segmented Revenues

	Three months ending May 31, 2013			
	Canada	**Int'l**	**US**	**Total**
Revenue	6,948,673	223,659	94,334	7,266,666

	Three months ending May 31, 2012			
	Canada	**Int'l**	**US**	**Total**
Revenue	4,584,476	1,213,391	32,692	5,830,559

	Nine months ending May 31, 2013			
	Canada	**Int'l**	**US**	**Total**
Revenue	17,857,287	1,614,262	158,827	19,630,376

	Nine months ending May 31, 2012			
	Canada	**Int'l**	**US**	**Total**
Revenue	15,420,300	1,758,148	78,354	17,256,802

Of total revenue for the three months ended May 31, 2013, approximately 18% was derived from customer 1 and 5% from customer 2 (2012 - 8% customer 1 and 7% from customer 2). Of total revenue for the nine months ended May 31, 2013, approximately 11% was derived from customer 1 and 6% from customer 2 (2012 - 9% customer 1 and 8% from customer 2). At the end of the interim fiscal period there was $146,937 in accounts receivable from customer 1, and $411,358 from customer 2.

The Company does not currently, or in the ordinary course of business, hold non-current assets outside of its domicile (Canada).

22. Related Party Transactions

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at fair market value. There were no related party transactions during the interim period ended May 31, 2013.

23. Financial Instruments

Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: loans and receivables, and financial liabilities at amortized cost. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	May 31, 2013	August 31, 2012
Cash	$ -	$ -
Accounts receivable	**4,389,645**	7,173,977
Total cash and receivables	**4,389,645**	7,173,977
Credit facilities and bank loans	**(1,412,639)**	(3,039,471)
Trade and other payables	**(4,306,939)**	(3,433,700)
Note, loans payable and secured debenture	**(324,320)**	-
Obligation under finance leases	**(29,301)**	-
Long-term Debt	**(2,733,200)**	(1,437,431)
Total financial liabilities at amortized cost	**$ (8,806,399)**	$ (7,910,602)

Fair Value

The carrying amounts for cash,accounts receivable, credit facilities and bank loans, trade and other payables, note and loans payable approximate fair value because of the short-term maturity of these instruments.

The fair values of obligations under long-term debt and capital leases are determined by discounting future cash flows using rates that are implicit in the specific contracts. The carrying value approximates their fair value.

The fair value of the secured debenture is deemed to approximate its carrying value in view of the short term to maturity.

Risk Management Objectives and Policies

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarised below. The main types of risk are Credit Risk, Market Risk and Liquidity Risk.

The Company's risk management is co-ordinated in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instruments that potentially expose the Company to credit risk are accounts receivable, and cash. The credit risk for cash is considered negligible, since the counterparties are reputable Canadian banks with high quality credit ratings .

The Company typically has a limited number of customers resulting in concentration of customers in revenue and receivables, as disclosed in Note 21.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit

losses. The allowance for doubtful accounts and past due receivables are reviewed by management at each reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history, status of pending litigation and the current financial condition of the customers. Accounts receivable are written off once determined not to be collectible.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognised an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. There are no credit issue concerns regarding amounts due to the company which are current.

The Company's management considers that all financial assets which are not impaired or past due for each of the May 31, 2013 and August 31, 2012 reporting dates under review are of good credit quality.

Trade accounts receivable comprise the following balances:

	As at May 31, 2013	As at August 31, 2012
	$	$
Current or under 60 days	**2,721,843**	4,679,007
Past due 61 to 90 days	**286,721**	1,381,906
Past due greater than 90 days	**1,472,226**	637,555
Allowance for doubtful accounts	**(230,586)**	(128,333)
Total trade accounts receivable	**4,250,204**	6,570,135

The continuity of the allowance for doubtful accounts is as follows:

	As at May 31, 2013	As at August 31, 2012
	$	$
Opening balance	**(128,333)**	(67,638)
Bad debt expense provision	**(637,965)**	(82,224)
Accounts written off	**535,712**	21,529
Closing balance	**(230,586)**	(128,333)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. At the end of the interim period the Company had $1,412,639 in outstanding revolving credit facilities which were floating rate obligations carrying at Prime + 0.5% and $324,320 in outstanding note and loans payable which was a fixed rate obligation. A 1% increase in interest rates at the reporting date would increase the net loss and reduce equity for the period by $2,675.

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency exchange rates.

The Company operates internationally and is therefore subject to foreign currency risk as follows:

FX exposure and Interest rate exposure

	May 31, 2013	**May 31, 2013**	**August 31, 2012**	**August 31, 2012**
	CAD	**US**	CAD	US
	$	**$**	$	$
Cash	99,742	103,412	98,741	97,526
Accounts Receivable	838,644	869,506	29,547	29,184
Trade payables	318,572	330,295	75,303	74,377

The Company incurs expenses and earns revenues in Canadian and U.S. dollars. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure, but it endeavours to create natural hedges where there are opportunities to do so.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

A 10% strengthening of the US dollar against the Canadian dollar would have decreased the net loss and increased equity by $ 66,627.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and bank indebtedness. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The following table outlines the liquidity risk associated with the Company's payment obligations as at the periods ended May 31, 2013 and May 31, 2012 respectively.

May 31, 2013	Payment Due					
	Total	In less than 3 months	3 - 12 Months	1 - 2 Years	2 - 5 Years	Total
Credit facilities and bank loans	$ 1,080,000	$ 1,080,000	$ -	$ -	$ -	$ 1,080,000
Trade and other payables	4,306,939	3,169,601	1,137,338	-	-	4,306,939
Deferred revenue	82,395	82,395		-	-	82,395
Note, loans payable and secured debenture	324,320	324,320		-	-	324,320
Finance lease obligation	31,700	3,835	11,506	6,687	9,672	31,700
Long-term debt	2,733,200	109,806	329,449	1,328,272	965,673	2,733,200
	$ 8,558,554	$ 4,769,957	$ 1,478,293	$ 1,334,959	$ 975,345	$ 8,558,554

August 31, 2012	Payment Due					
	Total	In less than 3 months	3 - 12 Months	1 - 2 Years	2 - 5 Years	Total
Credit facilities and bank loans	$ 3,039,471	$ 3,039,471	$ -	$ -	$ -	$ 3,039,471
Trade and other payables	3,433,700	3,433,700	-	-	-	3,433,700
Deferred revenue	179,215	179,215	-	-	-	179,215
Long-term debt	1,367,412	70,019	210,057	280,075	807,261	1,367,412
	$ 8,019,798	$ 6,722,405	$ 210,057	$ 280,075	$ 807,261	$ 8,019,798

24. Contingencies

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 legal 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, 2013, amounts owing to the vendor and related companies exceed the Company claim against the vendor.

25. Capital Management

The Company’s objective is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business through organic growth and selective acquisitions. Management defines capital as comprising the Company’s total shareholders’ equity, credit facilities and bank loans, note and loans payable and the convertible debenture. In order to maintain or adjust its capital structure, the Company could issue new shares, or raise new debt. To date, no dividends have been paid to the Company’s shareholders and none are planned.

The Company’s goal is to achieve a debt to equity ratio not in excess of 2:1.There were no changes in the Company’s approach to capital management during the year and these disclosures are based on the information provided internally to the Company’s key management personnel.

26. Subsequent Events

(1) On June 27, 2013 the Company completed the private placement of 1,430 unsecured convertible debenture units (the "Units"), for gross proceeds of $1,430,000. Each Unit of the Offering comprises a C$1,000 convertible debenture (the "Convertible Debentures") and 1,666 one-half common share purchase warrant (each whole warrant, a "Warrant"). The Convertible Debentures are convertible, at the option of the subscriber, at any time prior to the maturity date, into common shares of the Company ("Common Shares") at a conversion price of C$0.60 per Common Share representing a conversion rate of approximately 1,666 Common Shares per C$1,000 in principal amount of the Convertible Debentures. Holders of the Convertible Debentures also have the option to receive interest payments in cash or, subject to the approval of the TSX Venture Exchange, Common Shares based on the 20-day volume weighted average price, which will not be lower than the Discounted Market Price of the Common Shares (as defined in the TSX Venture Manual), at the time of payment. The Convertible Debentures mature three years from the Closing, and bear interest at a rate of 9% per annum, calculated from date of issue, semi-annually in arrears and compounded annually.

Each Warrant entitles the holder to purchase one Common Share at an exercise price of C$0.75 per Common Share for a period of two years from the Closing. The Common Shares underlying the Convertible Debentures and the Warrants are subject to a four-month hold period from the date of Closing and the Common Shares issued in respect of the interest payments if any, are subject to a four-month hold period from the date of issue.

(2) On July 2, 2013 the Company completed the conversion of 2,831,325 Series 1 Special shares into 2,831,325 common shares of the Company. (Note 16)

(3) Subsequent to May 31, 2013 the Company entered into an asset purchase agreement with an arm's length third party, for some, but not all of that party's assets. The amount of consideration is not material, and management has not yet determined whether the assets acquired constitute a business combination under IFRS 3.

27. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.