Infrastructure Management Technologies

TECHNOLOGIES FOR A NEW ENVIRONMENT

First Quarter Report 2009

pure TECHNOLOGIES

On behalf of the Board of Directors we are pleased to report another successful quarter for the company.

May 14, 2009

Revenue was $8.164 million compared to $6.028 million for the corresponding quarter last year. Continuing high gross margins allowed us to generate net income of over $1.826 million, slightly lower than 2007 when we completed shipments for a large project, but ahead of our own internal budget expectations.

We saw continuing strong activity in our fibre-optic monitoring business during the quarter, with systems delivered to San Diego County Water Authority, San Francisco Public Utilities Department and the Great Man-Made River Project. The San Francisco installation is the first for this agency. Our consulting services business increased by 319% over last year, primarily as a consequence of the contribution of Price Brothers (U.K.) Ltd., acquired in May of last year. Recurring revenue continues to increase, up 85% over last year as a result of an increase in the installed base of monitoring systems. SmartBall activity was low for the quarter, but this will change as the year progresses and we complete large contracts in Australia and New Orleans, complemented by other projects.

Our working capital and cash positions remain strong and we remain debt-free. Looking ahead, although we can continue to expect some quarterly volatility, we are hopeful that, based on our current visibility, we will be able to maintain a high rate of growth for the year. This will be driven by sustained demand in the United States, increased activity in the services sector, and contributions from new international markets. We expect, in the near future, to be able to expand the range of premium inspection and assessment services we offer to water and wastewater agencies. These sectors offer significant sustainable growth opportunities due the increasing emphasis on buried infrastructure renewal and loss reduction in water distribution systems worldwide.

Respectfully,

Peter O. Paulson
Chief Executive Officer

John F. Elliott
President &
Chief Operating Officer

This management discussion and analysis ("MD&A") provides analysis of the financial condition and results of operations of Pure Technologies Ltd. and its subsidiaries ("the Company") and compares the quarter ended March 31, 2009 financial results with those of the same quarter last year. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2008, which have been prepared in accordance with generally accepted accounting principles in Canada.

May 14, 2009

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this MD&A the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among others things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. Specifically, such forward-looking statements are set forth under "Outlook" and "Liquidity and Capital Resources". In particular, forward-looking information and statements include:

- Expected growth of the Company in 2009 will be financed through existing cash flows
- Customer acceptance and confidence in the technologies will continue to increase demand

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties including without limitation, changes in market competition, governmental or regulatory developments, changes in tax legislation, general economic conditions and other factors set out in the Company's public disclosure documents.

Many factors could cause the Company's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above as well as the assumptions upon which they are based proving incorrect. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in this MD&A herein should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified as cautionary statements. Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for the purposes other for which it is disclosed herein.

Additional information relating to Pure can be found on its website at www.puretechnologiesltd.com. The continuous disclosure materials of the Company, including its annual MD&A and Consolidated Financial Statements, Annual Information Form, Information Circular, and press releases issued by the Company, are also available through the Company's website or directly through the SEDAR system at www.sedar.com.

Our Business

Pure provides monitoring and surveillance of critical physical infrastructure utilizing patented and proprietary technologies. Pure has developed, and continues to develop, unique technologies primarily focused on the water and wastewater industry, bridges, buildings and parking structures, and oil and gas pipelines. Our main business streams along with the corresponding technologies and services consist of:

1. **Proprietary monitoring equipment for pipelines, bridges and structures**

   SoundPrint® is a patented acoustic monitoring technology used to provide continuous remote health monitoring of water and wastewater pipelines, bridges, buildings, parking structures and other infrastructure components.

   SoundPrint® AFO is an acoustic fibre-optic monitoring system for structural monitoring and leak detection in prestressed concrete water and wastewater pipelines, and for leak detection and surveillance of oil and gas pipelines. The use of acoustically-sensitive optical fibre and proprietary optical processing techniques allows Pure to monitor considerably longer lengths of pipelines from a single access point. Patents are pending.

2. **Technical services including inspection, leak detection and condition assessment.**

   P-Wave® is a patented non-destructive testing technology that utilizes electromagnetic techniques to provide a "snapshot" of the condition of concrete pipe used for water and wastewater transmission lines. P-Wave, in combination with SoundPrint acoustic monitoring, provides a comprehensive management solution for the owners and managers of water and wastewater pipelines.

   SoundPrint SmartBall® is a new and innovative leak detection technology. It is a free-swimming foam ball with an instrumented aluminum core capable of detecting very small acoustic events in pipelines. SmartBall can be inserted into a pipeline and can travel with the water flow for more than twelve hours, collecting information about leaks over many miles of pipeline with a single deployment. Patents are pending.

   CableScan utilizes the magnetostrictive sensing technology ("MsS") invented and patented by Southwest Research Institute of San Antonio, Texas. Pure holds a worldwide license for MsS for bridge applications. MsS is also applicable for non-destructive evaluation of steel pipelines, storage tanks and ground anchors, and Pure recently introduced the technology to Canadian oil and gas pipeline operators.

3. **Specialized engineering services in areas related to asset management, primarily in the area of pipeline condition assessment for water and wastewater infrastructure.**

   Openaka is a nationally recognized consulting engineering firm specializing in assessing, repairing, and managing pipelines, with a major focus on Prestressed Concrete Cylinder Pipes (PCCP).

   Price Brothers (UK) Ltd. is a specialty engineering company active in the water resources sector. Since 1982, the company has been providing specialty engineering advice and project management support to the Great Man-Made River Project (GMRP) in Libya, primarily relating to pipe design, manufacture and installation.

4. **Recurring revenue from data analysis and site maintenance for these technologies, and from licensing of our SmartBall leak detection system.**

Key Financial Data and Comparative Figures

($000's except per share data)

Three Months Ended	Mar 31, 2009
Cash	$ 20,826
Working capital	30,354
Capital assets	5,783
Total assets	38,444
Shareholders's equity	36,064
Revenues	8,164
Net income (loss)	1,826
Net income (loss) per share	
– basic	0.06
– diluted	0.05

Three Months Ended	Dec 31, 2008	Sept 30, 2008	June 30, 2008	Mar 31, 2008
Cash	$ 20,204	$ 17,458	$ 9,905	$ 14,446
Working capital	27,605	26,311	26,607	28,651
Capital assets	6,089	6,228	6,183	3,190
Total assets	36,232	35,056	35,428	33,069
Shareholders's equity	33,658	32,488	32,742	32,033
Revenues	6,018	4,728	5,394	6,028
Net income (loss)	778	(635)	209	1,905
Net income (loss) per share				
– basic	0.02	(0.02)	0.01	0.06
– diluted	0.02	(0.02)	0.01	0.06

Three Months Ended	Dec 31, 2007	Sept 30, 2007*	June 30, 2007*
Cash	$ 16,452	$ 16,162	$ 17,123
Working capital	25,903	20,260	20,932
Capital assets	3,162	4,580	4,119
Total assets	29,955	25,839	26,141
Shareholders's equity	29,267	25,079	25,340
Revenues	8,452	2,494	2,488
Net income (loss)	3,390	(339)	(702)
Net income (loss) per share			
– basic	0.11	(0.01)	(0.02)
– diluted	0.11	(0.01)	(0.02)

*September 30, 2007 and prior data includes discontinued operations.

Results of Operations

Overall, revenues have increased by 35% over the same period in 2008. Equipment sales have shown an increase of 18%. Of note is the fact that 2009 equipment revenue was generated from several sources, reflecting the increasing diversity of the Company's revenue base, whereas 2008 first quarter revenue was generated primarily from the completion of phases 1 and 2 of the Great Man-Made River Authority (GMRA) project. In this quarter, two AFO data acquisition systems were shipped to GMRA under a change order to the original contract, and three AFO systems were installed in California.

Inspection service revenue was consistent with the prior year. Consulting services for the first quarter of 2009 increased 319% due to the inclusion of revenue from Price Brothers (UK) Ltd. (PBUK) which was acquired in the second quarter of 2008. Work on the Washington Suburban Sanitary Commission contract commenced during the quarter and it is expected that revenue from this project will be recognized throughout the year.

Revenue from monitoring and technical support increased by 85% over 2008. With an increasing installed base of AFO systems, this revenue source continues to improve each year. As well, the first quarter of 2009 includes recognition of technical support for the GMRA contract that was awarded in late 2007, whereas the first quarter of 2008 included only a smaller technical support revenue component from previous GMRA contracts.

Gross margins were 70% compared to 67% in 2008. Above average margins were obtained for specialized equipment sales. Other product lines maintained their target margins.

Marketing and promotion expenses for the quarter have increased by 53% over 2008. Additional staff were added for the North American market in the latter part of 2008 and early 2009 to service continuing growth in this market. Increased presence in the international market is a major focus for the Company in 2009. Initiatives include the establishment of a branch office in Abu Dhabi and continuing SmartBall demonstrations in various countries for water, wastewater and hydrocarbon applications.

Engineering and operations expenses have increased by 95% over 2008. As revenue grows, the operations group will increase in order to support the growth. In late 2007 and further in 2008, the operations group was expanded to the offices located in the U.S. Historically, all projects were supported through the Company's resources in Canada, but given the growth in the U.S. market, this was no longer sustainable. In addition, the international market has grown and further specialized resources are required to support that market.

General and administrative expenses for the quarter have increased 95%. PBUK expenses account for 52% of the increase as the acquisition was completed in the second quarter of 2008 with no corresponding amounts reflected in the 2008 first quarter results. The remaining 48% is a factor of the additional resources added in 2008 subsequent to the first quarter and the streamlining of some expenses on a monthly basis rather than as a year end accrual.

Research and development expenses for the quarter decreased by $108,288 from 2008. There was no capitalization of development costs in the quarter. In 2008, the Company was awarded a research grant through Arizona State University, payments from which are netted against expenses. In 2008, the payments were all deducted from the amounts capitalized, but since no costs were capitalized in 2009, these payments were deducted from the research and development expenses.

Depreciation and amortization for 2009 increased by 24% compared to the first quarter of 2008. The rise in depreciation and amortization expense reflects capitalization of development costs in 2008 as well as the amortization of intangible assets on the acquisition of PBUK.

Liquidity and Capital Resources

The Company's cash balance at March 31, 2009 was $20,825,612 compared to $20,204,264 at December 31, 2008. Operations cash flow generated approximately 46% of the increase while the remainder came from the issuance of shares upon conversion of options. Overall, working capital has increased by 10% since December 31, 2008, a consequence of increased commercial activity and accounts receivable. The Company also has an asset based facility for short term financing when required but, currently, has not drawn on this facility.

Commitments and Contingencies

Other than operating lease commitments for office space as disclosed in the December 31, 2008 financial statements no material commitments or contingencies exist as of the date of this MD&A.

Outstanding Share Data

The following tables indicate the common shares and stock options issued and outstanding at December 31, 2008 and March 31, 2009.

	May 14, 2009	March 31, 2009	December 31, 2008
Common shares	33,134,730	33,134,730	32,917,735
Stock options	2,464,337	2,469,338	2,745,501
Agent's warrants	–	–	–
Weighted average number of shares			
– basic	33,018,309	32,961,396	32,546,778
– diluted	33,642,536	33,633,541	32,966,902

New Accounting Standards

The CICA issued three new accounting standards in January 2009: section 1582, "Business Combinations", section 1601, "Consolidated Financial Statements", and section 1602, Non-controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination which is not applicable to the Company. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards ("IFRS")

In January 2006, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2009, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current Generally Accepted Accounting Principles (GAAP) for all publicly accountable profit-oriented enterprises. The Company plans to adopt IFRS according to the schedule recommended by the AcSB and is still evaluating the options and potential exemptions available upon initial adoption of IFRS. The Company continues to evaluate the impact of this changeover on its Consolidated Financial Statements as it proceeds with its IFRS adoption efforts, while continuing to monitor ongoing changes in both IFRS and GAAP in the period leading up to adoption.

Current Outlook

The results from the first quarter of 2009 have continued to build on the Company's growth in 2008. Installations of AFO systems in California and shipments of additional systems to GMRA have resulted in the best first quarter ever for the Company. SmartBall inspections continue to gain momentum with several projects scheduled for the next quarter. Contract documentation for the Washington Suburban Sanitary Commission project was finalized and work has commenced. This will carry through for the next three years. The establishment of our branch office in Abu Dhabi, combined with increasing marketing efforts in the Middle East region, should contribute to future revenues.

Current confirmed backlog is in excess of $14.5 million. Pure has also received verbal confirmation of projects in excess of $3.4 million which are subject to the normal contract review process and final documentation. Annualized monitoring and technical support revenue under contract is in excess of $4 million.

For further information please see Pure's public company filings at www.sedar.com or www.puretechnologiesltd.com.

Consolidated Balance Sheets

As at March 31, 2009 and December 31, 2008
(unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 20,825,612	$ 20,204,264
Accounts receivable	9,481,892	7,457,706
Inventory (note 4)	1,469,008	1,385,948
Prepaid expenses	683,582	847,840
Net investment in lease	89,289	87,374
	32,549,383	29,983,132
Property and equipment	2,243,610	2,486,835
Goodwill	1,848,481	1,848,481
Intangible assets	1,690,502	1,753,726
Net investment in lease	111,612	131,062
Other assets	0	28,467
	$ 38,443,588	$ 36,231,703
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,995,579	$ 2,265,786
Deposits on sales contracts	199,661	112,047
	2,195,240	2,377,833
Future income taxes	184,483	195,928
Shareholders' equity (note 5)		
Share capital	44,654,117	44,101,647
Contributed surplus	1,200,850	1,179,339
Accumulated other comprehensive loss	(53,472)	(58,978)
Deficit	(9,737,630)	(11,564,066)
	36,063,865	33,657,942
	$ 38,443,588	$ 36,231,703

See accompanying notes to consolidated financial statements.

On behalf of the Board:

James E. Paulson, Director

Michael M. Kanovsky, Director

Consolidated Statements of Operations and Deficit

Periods ended March 31, 2009 and 2008
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenue		
Equipment sales	$ 5,441,383	$ 4,609,013
Inspection services	641,676	659,999
Consulting services	1,214,714	290,233
Monitoring and technical support	866,487	468,703
	8,164,260	6,027,948
Cost of sales	2,443,014	1,976,631
Gross margin	5,721,246	4,051,317
Expenses		
Marketing	1,068,299	698,287
Engineering and operations	893,336	458,569
General and administration	1,561,486	798,799
Research and development	232,736	341,024
Depreciation and amortization	316,213	254,136
	4,072,070	2,550,815
	1,649,176	1,500,502
Other income		
Foreign exchange gain	140,891	279,142
Interest income	39,168	125,278
Net income before income taxes	1,829,235	1,904,922
Income taxes		
Current	14,244	–
Future (recovery)	(11,445)	–
	2,799	–
Net income after income taxes	1,826,436	1,904,922
Net income	1,826,436	1,904,922
Deficit, beginning of period	(11,564,066)	(13,820,883)
Deficit, end of period	$ (9,737,630)	$ (11,915,961)
Net income per share		
– basic	$ 0.06	$ 0.06
– diluted	$ 0.05	$ 0.06
Weighted average number of shares outstanding		
– basic	32,961,396	32,148,177
– diluted	33,633,541	32,764,144

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Periods ended March 31, 2009 and 2008
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net income	$ 1,826,436	$ 1,904,922
Translation gains on self-sustaining operations	5,506	–
Total comprehensive income	$ 1,831,942	$ 1,904,922

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Periods ended March 31, 2009 and 2008
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Cash was generated from (used in)		
Operations		
Net income	$ 1,826,436	$ 1,904,922
Adjustments for:		
Depreciation and amortization	316,213	254,136
Stock based compensation	173,900	162,782
Loss on disposal of assets	19,794	–
Unrealized foreign exchange gain	(19,517)	–
Future income taxes (recovery)	(11,445)	–
Other non-cash expenses	84,160	–
	2,389,541	2,321,840
Changes in non-cash working capital		
Accounts receivable	(1,994,016)	(4,358,979)
Inventory	(83,060)	(506,713)
Prepaid expenses	162,829	(235,083)
Accounts payable and accrued liabilities	(274,362)	176,400
Deposits on sales contracts	88,051	172,369
	288,983	(2,430,166)
Financing		
Issuance of share capital, net of costs	400,081	697,713
	400,081	697,713
Investments		
Purchase of property and equipment	(75,970)	(254,080)
Patent and trademark expenditures	(37,748)	(27,621)
Decrease in other assets	28,467	–
Change in investment in lease	17,535	7,975
	(67,716)	(273,726)
Increase (decrease) in cash and cash equivalents	621,348	(2,006,179)
Cash and cash equivalents, beginning of period	20,204,264	16,452,287
Cash and cash equivalents, end of period	20,825,612	14,446,108

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Periods ended March 31, 2009 and 2008 (unaudited)

1. Basis of presentation

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2008 Annual Report. The consolidated financial statements have been prepared using the same accounting policies as described in the latest consolidated financial statements for the year ended December 31, 2008, except as noted below.

2. New accounting standards

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new accounting standards relating to goodwill and intangible assets issued by the Canadian Institute of Chartered Accountants (CICA). The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets subsequent to initial recognition. The new section also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The adoption of these standards did not have a significant impact on the Company's financial statements.

3. Future accounting standards

(a) Business Combinations and Consolidated Financial Statements

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination which is not applicable to the Company at the present time. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

(b) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The convergence from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company continues to evaluate the impact of implementing IFRS on the financial statements and the changes necessary to reporting systems.

Notes to Consolidated Financial Statements

Periods ended March 31, 2009 and 2008 (unaudited)

4. Inventory

Inventory includes raw materials of $1,466,022 (December 31, 2008 – $1,382,875) and work in progress of $2,986 (December 31, 2008 – $3,073). For the three months ended March 31, 2009, no inventories were written down from carrying value and there were no reversals of previous writedowns recorded. No inventory is pledged as security for liabilities.

5. Shareholders' equity

(a) Authorized

Unlimited number of voting common shares.
Unlimited number of preferred shares issuable in series.

(b) Issued and outstanding, three months ended

	March 31, 2009		**March 31, 2008**	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	32,917,735	$ 44,101,647	32,037,241	$ 42,160,774
Shares issued on exercise of options	216,995	400,081	5,832	10,206
Shares issued on exercise of warrants	–	–	403,285	687,507
Transfer on exercise of warrants	–	–	–	147,605
Contributed surplus recognition on exercise of options	–	152,389	–	4,345
Balance, end of period	33,134,730	$ 44,654,117	32,446,358	$ 43,010,437

(c) Stock options

The Company has a stock option plan whereby the aggregate number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares (calculated on a non-diluted basis) as at the time of grant of any options. Options issued prior to December 18, 2005 vest as to 1/6 every 3 months over an 18 month period from the date of grant. Options granted subsequent to December 18, 2005 vest as to 1/3 every year over a 3 year period from the date of grant.

	Number of Shares	**Weighted average exercised price**
Outstanding, beginning of period	2,745,501	$2.13
Granted	–	–
Exercised	216,995	1.83
Forfeited	59,168	2.50
Outstanding, end of period	2,469,338	$2.14
Exercisable, end of period	849,893	$1.92

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Merton option pricing model. No new options have been granted in 2009. The weighted average fair value of stock options granted in 2008 was $1.13 using the following weighted average assumptions: zero dividend yield, expected volatility of 54.48%, average risk-free rate of 2.87%; and the average expected life of 4 years.

(d) Contributed surplus

	Three months ended March 31, 2009
Opening	$ 1,179,339
Stock based compensation	173,900
Transfer to share capital on exercise of options	(152,389)
Closing	$ 1,200,850

6. Supplemental cash flow information

As at March 31, 2009, cash and cash equivalent includes short-term investments of $16,218,388 (December 31, 2008 – $16,628,853).

During the quarter, the Company sold an asset in the normal course of business. The proceeds are included in revenue and the cost in cost of sales. The cash flow effect is included as other non-cash expenses.

7. Capital management

The Company's objectives in terms of capital management are to maintain a sound financial position and to ensure financial flexibility in order to maintain its capacity for growth. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors both the demographic spread of shareholders, as wellÏ as the return on capital.

Notes to Consolidated Financial Statements

Periods ended March 31, 2009 and 2008 (unaudited)

The Company's capital is comprised of its shareholders' equity and its primary uses are to finance acquisitions, increases in non-cash working capital and capital expenditures for capacity expansion and research and development. The Company believes that current cash balances and future funds generated through its operations will be sufficient to meet cash requirements currently and for the foreseeable future. If the Company were to experience a significant reduction in its cash flows from operations, it currently has a variety of options for raising capital for short-term cash needs, including an unused demand bank loan facility. There were no changes in the Company's approach to capital management during the period ended March 31, 2009 compared to the year ended December 31, 2008.

8. Financial instruments and risk management

Financial instruments

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

This note presents information about the Company's exposure to particular risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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 contractual obligations, and arises principally from the Company's receivables from customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and in some cases bank references. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Approximately 24 percent of the Company's revenue in the quarter is attributable to sales transactions with a single customer. Geographically there is concentration of credit risk which is mitigated by a letter of credit provided by the customer. Another customer accounts for approximately 35 percent of the revenue for the quarter. The Company does not require collateral for this customer in respect of trade and other receivables. As at March 31, 2009, out of total receivables of $9,481,892, past due receivables in excess of 90 days were $991,404. Accounts receivable are net of an allowance for doubtful accounts of $74,426 (December 31, 2008 – $74,426). The Company has no significant

Notes to Consolidated Financial Statements

Periods ended March 31, 2009 and 2008 (unaudited)

concentration of credit risk arising from customers other than as noted above. Cash equivalents consist of banker's acceptances and term deposits, which have been invested with credit worthy financial institutions with original maturities of less than 90 days and management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at March 31, 2009, the Company had a cash balance of $20,825,612 (December 31, 2008 – $20,204,264) to settle current liabilities of $2,195,240 (December 31, 2008 – $2,377,833). In addition, the Company maintains a demand bank loan facility authorized to a maximum of $750,000 secured by certain accounts receivable with interest at bank prime rate plus 1%. As at March 31, 2009 and December 31, 2008, no amounts are drawn on the facility.

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 income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Notes to Consolidated Financial Statements

Periods ended March 31, 2009 and 2008 (unaudited)

Interest rate risk

The Company has cash and cash equivalents. The Company's current policy is to invest excess cash in bankers acceptances, deposits and treasury bills issued by credit-worthy banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Cash and cash equivalents include banker's acceptances, deposits and treasury bills which are at variable interest rates. Sensitivity to a plus or minus 0.5% change in interest rates would affect equity and net profit by $20,273 per quarter. This analysis assumes that all other variables remain constant.

Currency risk

The Company's functional currency is the Canadian dollar and major purchases and sales are transacted in Canadian dollars, US dollars and British pounds. The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company's foreign and domestic operations. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level.

The following balances denominated in U.S. dollars:

	March 31, 2009	December 31, 2008
Cash and cash equivalents	$ 5,100,438	$ 4,163,278
Accounts receivables	3,655,006	2,580,267
Accounts payables and accrued liabilities	(671,479)	(470,237)
	$ 8,083,965	$ 6,273,309

A 5% change in the US dollar against the Canadian dollar currency would affect equity and net income (loss) by $485,000. This analysis assumes that all other variables remain constant.

The following balances denominated in British Pounds:

	March 31, 2009	December 31, 2008
Cash and cash equivalents	£ 389,109	£ 394,756
Accounts receivables	624,659	593,462
Accounts payables and accrued liabilities	(279,959)	(395,257)
	£ 733,809	£ 592,961

A 5% change in the British pounds against the Canadian dollar currency would affect equity and net income (loss) by $66,000. This analysis assumes that all other variables remain constant.

9. Comparative figures

Certain comparative figures have been reclassified to conform to the financial presentation adopted during the current period.

BOARD OF DIRECTORS

James Paulson
Peter Paulson
Michael Kanovsky
David McDermid

OFFICERS

James E. Paulson
Chairman of the Board

Peter O. Paulson
Chief Executive Officer &
Chief Technology Officer

John F. Elliott
President &
Chief Operating Officer

Karen D. Keebler
Chief Financial Officer

Mark W. Holley
President
Pure Technologies U.S. Inc.

Michael R. Wrigglesworth
Vice President
Middle East & Africa

John Stoner
Managing Director
Price Brothers (UK) Limited

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