

PURE TECHNOLOGIES LTD.

Third Quarter 2011

Message to Shareholders:

For the third quarter of 2011, the Company recorded revenue of \$8.5 million, EBITDA loss of \$2.4 million and a net loss of \$2.4 million. This compares to revenue of \$13.3 million, EBITDA loss of \$0.2 million and a net loss of \$1.2 million in the third quarter of 2010. Revenue for the third quarter of 2010 included an equipment shipment to the Great Man-Made River Authority (GMRA) in Libya worth approximately \$4.4 million. Excluding this factor, revenue this year is lower by 4.5% compared to last year. The loss for the quarter included a one-time compensation expense of \$1.4 million relating to the acquisition of the Pressure Pipe Inspection Company (PPIC) (August, 2010), as well as \$0.4 million in other acquisition-related expenses. These expenses were offset to some extent by a foreign exchange gain for the quarter of \$1.1 million. Gross margin improved to 79.4% from 62.0% for the corresponding period last year.

The third quarter is normally slow because of unavailability of access to pipelines in the U.S. due to seasonal high water demand, combined with utilities' vacation schedules. This year, the situation was exacerbated by severe drought in the southwestern U.S., resulting in the deferral of some projects to the fourth quarter and to 2012. Project activity has since increased significantly and we are expecting a strong rebound in revenue and earnings in the fourth quarter. However, due to the slow third quarter, year-end revenue is expected to be slightly less than the \$50 million indicated in earlier guidance.

In Libya, we are encouraged with the progress that is being made towards the payment of our outstanding receivables. Sanction-related barriers continue to be removed and we no longer require approval from the U.S. Treasury's Office of Foreign Asset Control for payment through a U.S. bank. Pure's Vice-President for Europe and Africa has re-located to Benghazi to work with the GMRA management on the payment issue and on planning for a resumption of operations and equipment shipments once payment is received.

We are pleased to report operational milestones achieved during the quarter including our first successful inspections of fully operational, large diameter water and wastewater force mains utilizing our PipeDiverTM tool. Additionally, our robotics division successfully inspected a wastewater force main despite significant build-up of debris, demonstrating the tool's navigation capabilities. Pilot projects utilizing P-Wave[®] electromagnetic and SmartBall[®] leak detection technologies produced excellent results which are expected to translate into full-scale projects.

Along with these operational advancements, our business development efforts are bearing fruit. Contracts in the U.S., Canada, and elsewhere in the Americas, are being pursued and obtained. Project extension efforts also continue with our clients located in Asia, Australia, Europe and the Middle East.

The integration of Electromechanical Technologies Inc. (EMTEK), acquired in June of this year, is well under way and extra-high resolution magnetic flux leakage tools are currently being fabricated for water and oil & gas applications. Historically, Pure's growth has come from services related to prestressed concrete cylinder pipes. With these new industry-leading tools, our market reach has expanded to include ferrous pipeline condition assessment, representing a significant growth opportunity for the Company.

"Peter O. Paulson"

Peter O. Paulson
Chief Executive Officer

"John F. Elliott"

John F. Elliott
President and Chief Operating Officer

HIGHLIGHTS OF THE THIRD QUARTER OF 2011

REVENUE

For the third quarter of 2011, revenue decreased to \$8.5 million from \$13.3 million in the third quarter of 2010 (revenue for the third quarter of 2010 included an equipment shipment for approximately \$4.4 million). Excluding the equipment shipment in 2010, revenues are down slightly by 4.5%, reflecting a traditionally weaker quarter.

SIGNIFICANT BACKLOG

Current confirmed backlog, based on signed contracts yet to be completed, is in excess of \$36.0 million. Pure has also received verbal confirmation of projects in excess of \$2.0 million which are subject to the normal contract review process and final documentation. \$10.7 million of the backlog is attributable to contracts in Libya. In addition to backlog, annualized licenses, monitoring and technical support revenue under contract is in excess of \$5.0 million with Libya accounting for \$2.1 million.

GROSS MARGIN

Gross margin for the quarter was 79.4% compared to 62.0% in 2010. The margin has increased due to the greater part of revenue comprising inspection services. In 2010, equipment sales comprised most of the revenue which provides for a lower gross margin.

NET LOSS

Net loss increased to \$2.4 million in the quarter from \$1.2 million in the third quarter of 2010. The equipment shipment in 2010 provided a direct increase to net income in the comparable period as relatively minor expenses were incurred from an operating expense perspective. In 2011, there has been a shift to greater inspection services which require a much larger workforce expense under engineering and operations.

2011 OUTLOOK

As expected, the third quarter was weaker in terms of revenue and net income compared to the second quarter and the previous year. Looking forward to the fourth quarter, a return to profitability is expected. However, due to the slow third quarter, year-end revenues are expected to be slightly less than the \$50 million indicated in earlier guidance. We continue to expand our business in the Asian and Middle Eastern markets with the largest revenues to date recorded in these regions. Business development efforts continue and prospects for multi-year agreements are being explored.

Our business in the Americas continues to grow as demand increases for cost-effective, proactive management solutions in a period of budgetary constraints. Also, marketing of the magnetic flux leakage (MFL) technology from the EMTEK asset acquisition, in June 2011, was a focus during the quarter and the first contract using this technology is expected to be executed in the fourth quarter.

As the political situation in Libya begins to stabilize, we are following the developments and planning for the return of work with the Great Man-Made River Authority ("GMRA"). We are pursuing the payment of receivables through the letter of credit that was established by GMRA. We were notified that we no longer require approval from the U.S. Treasury's Office of Foreign Asset Control to facilitate the payment through a U.S. bank. Once payment is secured, we can move forward with the next equipment shipment.

PURE TECHNOLOGIES LTD.

Third Quarter 2011 Management, Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

November 10, 2011

Unless otherwise indicated, all financial information presented in this Management Discussion and Analysis (“MD&A”), including tabular amounts, is in Canadian dollars, and is prepared in accordance with International Financial Reporting Standards (“IFRS”).

This is the third period in which financial statements have been prepared under IFRS. Previously, the Company applied Canadian Generally Accepted Accounting Principles (“GAAP”). The 2010 comparative figures and the January 1, 2010 (“Date of Transition”) opening statement of financial position have been restated as per the guidance provided in IFRS 1, *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”). See Note 14 to the Company’s unaudited interim condensed consolidated financial statements for the first quarter of 2011 quantitative reconciliations between Canadian GAAP and IFRS.

Management’s Discussion and Analysis is designed to provide the reader with a greater understanding of the Company’s business, the Company’s business strategy and performance, the Company’s expectations of the future, and how the Company manages risk and capital resources. It is intended to enhance the understanding of the unaudited interim condensed consolidated financial statement for the third quarter of 2011 and accompanying notes, and should therefore be read in conjunction with these documents and with the Financial Report for the year ended December 31, 2010. Reference in this MD&A to the “Company” or to “Pure” means, as the context may require, Pure Technologies Ltd. and all or some of its subsidiaries or joint ventures.

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, parking structures and oil and gas pipelines. Our main business streams, 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 a patented acoustic fibre-optic monitoring system for structural monitoring and leak detection of 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

P-Wave® and Remote Field Transformer Coupling (RFTC) are patented, non-destructive technologies that utilize electromagnetic techniques to provide a “snapshot” of the condition of water and wastewater transmission pipelines. P-Wave, in combination with SoundPrint acoustic monitoring, provides a comprehensive management solution for the owners and managers of water and wastewater pipelines.

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.

Sahara® is a patented leak detection system used for detecting leaks and pockets of trapped gas in large diameter water and wastewater mains. Inspections are conducted while the main remains in service by inserting a sensor into the tap. A small parachute uses the flow of water to draw the sensor through the pipeline and a surface tracking device allows the position of leaks and other pipeline features to be located.

PipeDiver™ is an innovative, free-swimming condition assessment tool specifically designed for in-service prestressed concrete cylinder pipelines (PCCP). PipeDiver detects wire breaks that could lead to pipe ruptures while eliminating the need for de-watering and service shutdown.

PureRobotics™ uses powerful modular robotic pipeline inspection systems capable of performing multi-sensor inspections in dry pipe or while submerged.

Magnetic Flux Leakage (MFL) is an electromagnetic method of non-destructive testing used to detect metallic pipeline anomalies such as corrosion and wall loss. This technology, commonly known as “smart pigging” has been actively used in the oil and gas sector for over 40 years as a proven inspection technique.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Aqua Environmental Pty. Ltd. (“Aqua”) provides services relating to water main leak detection, water loss management and pipeline condition assessment in Australia and New Zealand. Since 1979, the company has been a major provider of pipeline leak detection and condition assessment for the region.

Openaka is a U.S. based, nationally recognized consulting engineering firm specializing in assessing, repairing, and managing pipelines, with a major focus on prestressed concrete cylinder pipes.

Price Brothers (UK) Ltd. (“PBUK”) 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.

Jason Consultants Ltd. and Jason Consultants LLC comprise a specialist consultancy focused on underground infrastructure engineering and technology. Since 1979, the company has provided world class expertise in trenchless technology and in condition assessment of underground asset networks.

4. Recurring revenue

Pure receives recurring revenue as a result of its monitoring installations, using the proprietary monitoring equipment listed above, including data analysis and site maintenance, and from licensing of our SmartBall leak detection technology.

NON-IFRS MEASURES

Some indicators used by the Company to analyze and evaluate its results represent non-IFRS financial measures. Consequently, they do not have a standard meaning as prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful information because they allow for the evaluation of the performance of the Company and its components based on various aspects, such as past, current and expected profitability and financial position. These non-IFRS financial measures include the following Company indicators:

Gross profit is defined as revenue less cost of goods sold. Gross margin is revenue less cost of sales divided by revenue expressed as a percentage. Cost of sales includes direct materials, sub-trades and travel related expenditures.

EBITDA is defined as income from continuing operations before interest, income taxes and amortization on property, plant and equipment, intangible assets, and gains or losses on the sale of property, plant and equipment. Gains and losses on foreign exchange are excluded from

MANAGEMENT DISCUSSION AND ANALYSIS

the EBITDA calculation. Readers are cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with IFRS.

Backlog is defined as the total value of orders that have not yet been included in revenue and that management has assessed as having a high certainty of being performed because of the existence of a contract or purchase order specifying the scope, value and timing of an order.

QUARTERLY INFORMATION

(\$000'S EXCEPT PER SHARE DATA)

	2011				2010			2009 ⁽¹⁾
	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER
Revenues	8,512	12,249	7,766	16,521	13,308	12,797	5,726	12,867
EBITDA	(2,403)	1,310	(4,542)	2,982	(235)	3,615	(1,281)	3,072
Net income (loss)	(2,431)	(819)	(4,998)	2,471	(1,183)	2,971	(1,910)	2,364
Basic earnings (loss) per share	(0.05)	(0.02)	(0.11)	0.06	(0.03)	0.07	(0.05)	0.07
Weighted average common shares outstanding	48,860,166	48,051,228	44,655,370	44,545,529	42,567,427	40,544,547	36,318,799	33,477,914

⁽¹⁾The quarterly figures for 2009 have been prepared in accordance with Canadian GAAP, and have not been restated as they relate to periods prior to the Date of Transition.

RESULTS OF OPERATIONS

Revenue - Quarterly

(in thousands of dollars)	Three Months September 30, 2011	Three Months September 30, 2010	Change	Change	Change Due to Acquisitions	Change Due to Acquisitions
	\$	\$	\$	%	\$	%
Equipment sales	2,576	5,697	(3,121)	(55)	-	-
Inspection services	4,739	4,920	(181)	(4)	578	(320)
Consulting	449	1,512	(1,063)	(70)	-	-
Monitoring and technical support	748	1,179	(431)	(37)	-	-
Total	8,512	13,308	(4,796)	(36)	578	(12)

MANAGEMENT DISCUSSION AND ANALYSIS

Overall, revenues decreased in the current quarter versus the corresponding period in 2010, mainly due to a large equipment shipment made under the existing Libyan contract during the third quarter of 2010 resulting in revenue of \$4.4 million. Notwithstanding this decrease in revenue, Pure completed a contract to supply its industry-leading pipeline leak detection and condition assessment technology to a major Asian water agency.

Inspection services, representing the largest revenue segment, declined slightly to \$4.7 million in the quarter due to deferral of projects to the last quarter of 2011.

Consulting revenue has decreased due to the temporary discontinuance of the Libyan operations for PBUK. Average revenue for PBUK was \$1.2 million per quarter.

For the quarter, monitoring revenue has declined due to seasonal timing of contract renewals and the absence of revenue from Libya.

Revenue – Year to Date

(in thousands of dollars)	Nine Months	Nine Months	Change	Change	Change Due to	Change Due to
	September 30, 2011 \$	September 30, 2010 \$	\$	%	Acquisitions \$	Acquisitions %
Equipment sales	5,717	16,907	(11,190)	(66)	-	-
Inspection services	17,132	6,590	10,542	160	7,255	69
Consulting	3,041	4,848	(1,807)	(37)	-	-
Monitoring and technical support	2,636	3,486	(850)	(24)	-	-
Total	28,526	31,831	(3,305)	(10)	7,255	(220)

Equipment sales have declined year-to-date as two shipments for AFO equipment were delivered during 2010 to Libya whereas no equipment shipments to Libya have occurred in 2011. 2010 equipment sales for Libya were \$12.5 million.

Revenue from inspection services continues to be the fastest growing revenue source for the nine-month period. Including acquisitions during the quarter, this revenue segment grew by 160% to \$17.1 million on a year-to-date basis. Excluding acquisitions, it has grown 50% year-to-date compared to 2010. The vast majority of this growth, excluding acquisitions, is in North America where long-term agreements with large municipalities are being put into place to ensure the integrity of their pipeline systems and efficient management and replacement of those systems.

Consulting services revenue has declined for the year due to reduced revenue from Libya.

Monitoring and technical support revenue decreased by 24% due to the political unrest in Libya. As a result, only one month of revenue was recorded under the technical services agreement with the Great Man-Made River Authority in comparison to nine months revenue recognition in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

THE AMERICAS

During the third quarter, several key milestones occurred for the Company including the first large diameter PipeDiver insertion in an operational pipeline. This marks the first successful PipeDiver inspection performed in a fully operational main, thus expanding the proven capabilities of the tool. In the wastewater sector, the first PipeDiver inspection was successfully performed in a wastewater force main. The first inspection on bar-wrapped pipe was also successfully performed during the quarter. These new applications of technologies further expand Pure's markets.

Business continues to grow in the U.S. with significant contracts obtained and extended across the country. This new work includes a \$4 million contract extension for the San Diego County Water Authority; a significant contract with the City of Austin for leak detection and condition assessment services; and, the first contract in Alaska with the Anchorage Water and Wastewater Utility.

In Canada, PureRobotics inspected the first prestressed wastewater force main for the Region of York (Ontario). The robotics equipment included the latest electromagnetic technology that was successful in navigating significant debris in the pipe.

In Mexico, the work we anticipated in 2011 will likely be postponed until 2012 due to the political elections resulting in budgetary constraints.

AFRICA

The Libyan situation continues to be monitored closely by management. A recent visit by Pure management to Tripoli with Canada's Minister of Foreign Affairs furthered progress with the plan to return to the project as soon as conditions allow. Narrowing of the UN Sanctions on Libya has further enabled movement on payments of receivables from the Great Man-Made River Authority.

OTHER

Europe

During the quarter, successful pilot projects were completed in Turkey for SmartBall leak detection and P-Wave electromagnetic inspection. Based on the results, full-scale projects are expected in 2012 in this growing market. Overall economic uncertainty in Europe has slowed budget decisions regarding proposals submitted elsewhere within this region.

MANAGEMENT DISCUSSION AND ANALYSIS

Asia

During the quarter, the \$2.7 million contract to supply pipeline leak detection and condition assessment technology to a major Asian water agency was completed. Training commenced with the customer and will continue into the fourth quarter. The first P-Wave project in NingDong, Northern China was also successfully completed.

A Memorandum of Understanding with Maynilad Water Services Inc. of the Philippines was also announced during the quarter to form a Joint Venture to deliver pipeline inspection services to the water sector and elsewhere within the Philippines.

Australia

During the third quarter, a number of projects were completed in various regions of Australia including a leak detection project for a large multinational mining company and another for a government-owned defence force organization. These projects demonstrate that Pure's suite of inspection technologies and services are applicable to industries outside the standard public water utilities which have typically provided the majority of business in Australia.

Furthermore, at the end of the quarter, water loss inspection volume increased by 20% during year two of a multi-year contract with one of Australia's largest water utilities. Extensive business development activities continued in the region which should result in a larger number of projects being undertaken in the next year.

Middle East

Business in the Middle East was steady during the quarter, with the completion of the cleaning, inspecting, assessment and rehabilitation of the wastewater network for the Sewage Authority of the Government of Ras al Khaimah, United Arab Emirates ("UAE"). The main project for the high pressure water jetting and CCTV survey of the 138 kilometres of sewer pipes was simultaneously started.

A number of high value bids have been submitted for leak detection, condition assessment and long-term operations and maintenance contracts for clients in the Kingdom of Saudi Arabia ("KSA"), UAE, Qatar, Oman and India.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS MARGINS

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
(in thousands of dollars)	\$	\$	%	\$	\$	%
Revenue	8,512	13,308	(36)	28,526	31,831	(10)
Cost of sales	1,751	5,062	(65)	7,649	12,181	(37)
Gross Profit	6,761	8,246	(18)	20,877	19,650	6
Gross Margin (<i>Gross profit as a % of revenue</i>)	79.4%	62.0%		73.2%	61.7%	

Gross margins increased during the quarter due to the large portion of inspection services revenue. It is expected that gross margins will continue at these levels for the remainder of the year as it is anticipated that inspection services revenue will comprise the majority of the overall revenue.

OPERATING EXPENSES

Quarterly

(in thousands of dollars)	Three Months	Three Months	Change	Change	Change Due to	Change Due to
	September 30, 2011	September 30, 2010	\$	%	Acquisitions	Acquisitions
	\$	\$	\$	%	\$	%
Marketing	1,589	1,622	(33)	(2)	140	(425)
Engineering and operations	3,345	2,084	1,261	61	499	40
General and administration	3,798	4,891	(1,093)	(22)	419	(39)
Research and development	1,093	793	300	38	-	-

Marketing expenses were lower than the third quarter of 2010 due to employee reductions in the latter part of 2010 as part of the restructuring subsequent to the acquisition of Pressure Pipe Inspection Company Limited (PPIC) in August, 2010.

Engineering and operations expenses have increased due to:

- Depreciation changes: \$484,000
- Acquisitions: \$499,000
- Other: \$278,000

Other expenses include mainly labour for service work, training, and travel.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the turmoil in Libya, the Company made a strategic decision to maintain its engineering and operational capability in anticipation of future growth in other geographical areas, and an eventual resumption of operations in Libya.

General and administration expenses in the third quarter of 2010 included \$2.0 million related to the transaction costs when acquiring PPIC. Eliminating these costs, the expenses have increased by \$0.9 million quarter-over-quarter. This increase is due to:

- Compensation expense: \$1,407,000
- Foreign exchange: (\$940,000)
- Acquisitions: \$419,000
- Depreciation changes: \$595,000
- Reductions in personnel and office consolidation: (\$581,000)

Research and development expenses have increased as grants for technology development were applied against expenses in the third quarter of 2010.

OPERATING EXPENSES

Year to Date

(in thousands of dollars)	Nine Months September 30, 2011 \$	Nine Months September 30, 2010 \$	Change \$	Change %	Change Due to Acquisitions \$	Change Due to Acquisitions %
Marketing	4,882	4,267	615	14	682	111
Engineering and operations	10,397	5,037	5,360	106	2,816	53
General and administration	13,328	8,326	5,002	60	4,345	87
Research and development	2,555	2,065	490	24	521	106

Marketing expenses have increased due to the acquisitions of EMTEK and STS.

Engineering and operations expenses have increased due to:

- Acquisitions: \$2,816,000
- Depreciation changes: \$1,207,000
- Reclassification of Libyan staff: \$178,000
- Restructuring charges: \$150,000
- Other : \$1,009,000

Other expenses include mainly labour for service work, training, and travel.

MANAGEMENT DISCUSSION AND ANALYSIS

General and administration expenses have increased due to:

- Acquisitions: \$4,345,000
- Restructuring costs: \$2,111,000
- Foreign exchange : (\$904,000)
- Other: (\$550,000)

Other expenses include mainly personnel, professional fees, and rent.

Research and development expenses have increased due to acquisitions in 2010 which were partially offset by grants for technology development.

Over the course of the year, the Company has strived to streamline its costs in relation to the acquisitions made over the last two years while still maintaining its operational capacity.

EBITDA

(in thousands of dollars)	Three Months Ended September 30			Nine Months Ended September 30		
	2011 \$	2010 \$	Change %	2011 \$	2010 \$	Change %
Net income (loss)	(2,431)	(1,183)	(105)	(8,247)	(123)	(6,605)
Amortization expense	1,774	835	112	5,505	1,742	216
Foreign currency (gain) loss	(1,112)	73	(1,623)	(851)	53	(1,706)
Finance costs	84	-	-	84	-	-
Interest Income	(44)	(36)	22	(123)	(77)	60
Income tax expense (recovery)	(674)	76	(9,868)	(2,001)	154	(1,400)
EBITDA	(2,403)	(235)	(923)	(5,633)	1,749	(422)

EBITDA decreased in both the three month and nine month periods as a result of lower than expected revenues and higher operating expenses. The temporary discontinuance of operations in Libya during the first quarter is a major factor in lower than expected revenues. Increased inspection service revenue has a corresponding increase in engineering and operations expenses. During the quarter, \$1.4 million was included under General and Administrative expenses for compensation expenses related to the repurchase of shares that were subject to an employment agreement.

NORMALIZED OPERATING EXPENSES

The following table provides the breakdown of the operating expenses on a quarterly and year-to-date basis that adjusts for IFRS changes, presentation of depreciation and amortization, restructuring expenses, and new acquisitions in 2011. This provides a comparative illustration to the fourth quarter of 2010 (under previous Canadian GAAP) which represents normalized expenses for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY (in thousands of dollars)	Three months ending September 30, 2011	Depreciation and amortization allocation	IFRS and restructuring expenses	New acquisitions	Normalized expenses
Marketing	1,589	(10)	-	(67)	1,512
Engineering and operations	3,345	(659)	-	(309)	2,377
General and Administrative	3,798	(937)	(489)	(106)	2,266
Research and development	1,093	(168)	-	-	925
Depreciation and amortization	-	1,774	-	-	1,774
Total	9,825	-	(489)	(482)	8,854

YEAR TO DATE (in thousands of dollars)	Nine months ending September 30, 2011	Depreciation and amortization allocation	IFRS and restructuring expenses	New acquisitions	Normalized expenses
Marketing	4,882	(29)	-	(152)	4,701
Engineering and operations	10,397	(1,761)	(150)	(578)	7,908
General and Administrative	13,328	(3,273)	(2,032)	(249)	7,774
Research and development	2,555	(442)	-	-	2,113
Depreciation and amortization	-	5,505	-	-	5,505
Total	31,162	-	(2,182)	(979)	28,001

LIQUIDITY AND CAPITAL RESOURCES

This section has been prepared to provide the reader with a better understanding of the Company's financial position and has been structured as follows:

- A review of the Company's cash position;
- A cash flow analysis, providing details on how the Company generated and used cash and cash equivalents

NET CASH POSITON

Maintaining a strong statement of financial position with a net cash position sufficient to meet expected operating, investing and financing plans is a key financial objective of the Company.

The Company's cash position at September 30, 2011 was \$20.7 million, compared to \$14.2 million at December 31, 2010. The increase in cash was attributable to the financing in April, 2011 offset by acquisitions of the Inspection Division of STS and EMTEK, and general operating requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW ANALYSIS

CASH FLOWS RELATED TO OPERATING ACTIVITIES

Cash used in operating activities was \$8.1 million for 2011, compared to \$13.2 million for the corresponding period in 2010. The variance was mainly due to the loss in the period and the changes in non-cash working capital; more specifically, the increase in inventory and accounts payable which was offset by a decrease in accounts receivable.

CASH FLOWS RELATED TO INVESTING ACTIVITIES

Cash used for investing activities was \$5.2 million for 2011, compared to \$9.6 million for the corresponding period in 2010. The major investing activities were for the acquisition of the inspection division of STS and EMTEK, and additions to property and equipment. In 2010, the acquisition of PPIC represented the majority of the \$9.6 million in investing activities.

CASH FLOWS RELATED TO FINANCING ACTIVITIES

Cash generated from financing activities was \$19.7 million in the year, compared to \$28.1 million for the corresponding period in 2010. The major financing activity was the issuance of share capital for both years.

On March 1, 2011 the Company secured an additional credit facility through HSBC for the purposes of financing working capital. The facility provides a line of credit up to \$3.0 million based on eligible accounts receivable. The term of the facility is for 2 years. No amounts have been drawn on the facility to date.

COMMITMENTS AND CONTINGENCIES

As at September 30, 2011, there were no other significant changes, except as noted above, in our contractual obligations and commercial commitments from those reported in our MD&A for the quarter ended March 31, 2011.

OUTSTANDING SHARE DATA

As at November 10, 2011	
Common shares outstanding	49,024,742
Options outstanding	2,845,569

MANAGEMENT DISCUSSION AND ANALYSIS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended September 30, 2011 is our third reporting period under IFRS.

Our consolidated financial statements for the year ended December 31, 2011 will be our first annual financial statements with IFRS. As 2011 will be our first year of reporting under IFRS, IFRS 1 First-time Adoption of IFRS is applicable. In accordance with IFRS 1, we have applied IFRS retrospectively as of January 1, 2010, for comparative purposes as if IFRS had always been in effect, subject to certain mandatory exceptions and optional exemptions applicable to us, discussed below.

Senior management and the Audit Committee have approved the Company’s IFRS accounting policies which are presented in our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011. However, as IFRS standards are evolving and the International Accounting Standards Board (“IASB”) has several projects underway and may issue new accounting standards throughout 2011 the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known which could also affect the differences currently identified between Canadian GAAP and IFRS.

TRANSITIONAL ELECTIONS (under IFRS 1 First Time Adoption)

The following summary provides details of the opening statement of financial position transitional provisions which were adopted effective January 1, 2010.

- *Share Based Payments*: As allowed, the Company did not restate share-based payment balances in relation to fully vested awards of share based payments prior to January 1, 2010.
- *Property, plant and equipment (“PP&E”)*: No transitional elections were taken. The Company will retain assets at historical cost upon transition rather than taking the allowed election to recognize these assets at fair value.
- *Business Combinations*: The Company did not retrospectively restate any business combinations; IFRS 3 has been applied prospectively to acquisitions occurring on or after January 1, 2010.
- *Cumulative Translation Adjustments*: All cumulative translation adjustments and associated gains and losses have been “reset” to zero as at the date of transition, with all historic amounts transferred from accumulated other comprehensive loss to deficit.

MANAGEMENT DISCUSSION AND ANALYSIS

IFRS OPENING STATEMENT OF FINANCIAL POSITION

Note 13 to the March 31, 2011 condensed consolidated interim financial statements summarize the quantitative impact on the consolidated statement of financial position of our transition to IFRS at January 1, 2010. These differences have been identified with reference to IFRS effective at the date of this MD&A. In the event that new or amended accounting standards or interpretations become effective prior to the inclusion of the Company's financial statement of position in its first annual audited IFRS financial statements (December 2011 year end), the differences currently identified between historic Canadian GAAP and IFRS may change.

ADDITIONAL IMPACTS EXPECTED ON OUR IFRS 2010 FINANCIAL STATEMENTS

In addition to the above noted impacts on our consolidated statement of financial position at January 1, 2010, the following items have impacted our 2010 consolidated financial statements as a result of our conversion to IFRS:

- *Foreign Currency Translation of Subsidiaries:* Under IFRS, the functional currency of the subsidiary determines the translation methodology. As Pure Technologies U.S. Inc. and Pressure Pipe Inspection Company (USA) Inc.'s functional currency has been assessed as the U.S. dollar under IFRS, they are consolidated under IFRS using the current rate method. Under former Canadian GAAP, both were translated using the temporal method.

IFRS ACCOUNTING POLICY IMPACTS

In addition to the transitional changes and other items described above, there are several accounting policy impacts which will impact the Company on a go-forward basis. This is not an exhaustive list, but it provides an indication of the main accounting policy choices which will apply to the Company under IFRS effective January 1, 2011 with comparatives presented for 2010:

- *Share-based payments:* All share-based payments will be valued at fair value under IFRS using an option pricing model. The Company has selected the Black- Scholes Merton option pricing model. This is consistent with the Company's GAAP accounting policy. However, under IFRS, the valuation of stock option awards requires individual "tranche based" valuations for those options with graded vesting, while former Canadian GAAP allows a single valuation for the entire grant. Therefore, under IFRS each installment of options will be treated as a separate grant and the fair value of each installment will be amortized over each installment's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. As well, under IFRS, forfeitures are estimated at the time of grant while under the previous GAAP, forfeitures were recorded when incurred.
- *Impairment of Assets:* At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the

MANAGEMENT DISCUSSION AND ANALYSIS

Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Recoverable amount of an asset or CGU is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount by reducing the carrying amount of goodwill allocated to the CGU and then reducing the carrying amount of others assets in the CGU on a pro rata basis. Impairment losses are recognized in profit or loss.

- *Business Combinations:* Under IFRS, the Company accounts for all business combinations from January 1, 2010 onwards in accordance with *IFRS 3 Business Combinations*. The Company did not adopt former Canadian CICA Handbook Section 1582 as of January 1, 2010. As such, transaction costs that were capitalized as part of the purchase price allocation, must be excluded from the allocation and expensed. These expenses are included in general and administrative expenses in the relevant quarter of 2010. As well, contingent consideration in terms of earn-out provisions in the agreements must be recorded at the time of acquisition at their fair value. These contingencies have been recorded as an increase to goodwill with an offsetting liability.

- *Functional Presentation:* Under IFRS, operating expenses must be presented on either a functional or nature of expenditure basis. Under former Canadian GAAP, operating expenses could be presented using a mix of both function and nature of expenditure. We have elected to use the functional classification basis for the presentation of its operating expenses. As a result, depreciation and amortization expense and acquisition costs, which were individually presented in the Statement of Operations under former Canadian GAAP, have been reallocated to research and development, sales and marketing, engineering and operations, and general and administrative expense under IFRS.

IFRS - OTHER IMPACTS

In addition to the above noted impacts to our financial statements and accounting policies, we have also reviewed the impact of our conversion to IFRS on our information technology and data systems, internal controls over financial reporting, business processes, contractual arrangements and compensation arrangements and have made the appropriate adjustments to transition from former Canadian GAAP to IFRS.

MANAGEMENT DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENT APPLIED

Our consolidated financial statements are prepared in accordance with IFRS, which require us to apply judgment when making estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the financial statements. The estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ from these estimates. The following are our most critical accounting estimates, which are those that require management's most challenging, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The application of these and other accounting policies are described more fully in note 3 to the March 31, 2011 condensed consolidated interim financial statements.

REVENUE RECOGNITION

Revenues under certain contracts for equipment sales provide for receipt of payment based on achieving defined milestones. Revenues are recognized under these contracts based on management's estimate of progress achieved against these milestones or on the proportionate performance method of accounting. Changes in management's estimated costs to complete a contract may result in an adjustment to previously recognized revenues.

ASSET IMPAIRMENT

The carrying amounts of our non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. CGUs, to which goodwill has been allocated, reflects the lowest level at which goodwill is monitored for internal reporting purposes. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of the CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying

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amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. We perform the annual review of goodwill as at December 31 of each year, more often if events or changes in circumstances indicate that it might be impaired.

INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences) and for loss carry-forwards. The resulting changes in the net deferred tax asset or liability are included in income.

Deferred tax assets and liabilities are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in income in the period that includes the substantive enactment date. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

MANAGEMENT DISCUSSION AND ANALYSIS

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these financial statements:

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements
<p>IFRS 9 <i>Financial Instruments</i> In November 2009 the IASB issued IFRS 9 <i>Financial Instruments</i> (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)).</p>	<p>IFRS 9 (2009) replaces the guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.</p> <p>Financial assets will be classified into one of two categories on initial recognition:</p> <ul style="list-style-type: none"> • financial assets measured at amortized cost; or • financial assets measured at fair value. <p>Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.</p> <p>IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 expect as described below.</p> <p>Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes</p>	<p>The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

	<p>in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date.</p> <p>IFRS 9 (2010) also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value, whereas such derivative liabilities are measured at cost under IAS 39.</p> <p>IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without change.</p>	
<p>Amendments to IFRS 7 Disclosures – Transfers of Financial Assets</p> <p>In October 2010 the IASB issued <i>Amendments to IFRS 7 Disclosures - Transfers of Financial Assets</i>, which is effective for annual periods beginning on or after January 1, 2012.</p>	<p>The amendments to IFRS 7 require disclosure of information that enables users of financial statements:</p> <ul style="list-style-type: none"> • to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and • to evaluate the nature of, and risks associated with, the entity’s continuing involvement in derecognized financial assets. <p>The amendments define “continuing involvement” for the purposes of applying the disclosure requirements.</p>	<p>The Company does not expect the amendments to have a material impact on the financial statements because of the nature of the Company’s operations and the types of financial assets that it holds.</p>

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<p>Amendments to IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i></p> <p>In December 2010 the IASB issued <i>Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets</i>, which is effective for annual periods beginning on or after January 1, 2012, with early adoption permitted.</p>	<p>The amendments introduce an exception to the measurement principles for deferred tax assets and liabilities related to the depreciable component of investment properties that are measured at fair value under IAS 40 <i>Investment Property</i> and to the depreciable component of investment properties acquired in a business combination that will subsequently be measured using the fair value model. Under the amendments, when measuring deferred tax assets and liabilities in these specified circumstances, there is a rebuttable presumption that the expected manner of recovery will be entirely by sale. The Company's intention with respect to the investment properties is not relevant unless the investment properties are depreciable and held within a business model whose objective is to consume substantially all of the properties' expected economic benefits over the life of the assets.</p>	<p>The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2012. The Company does not expect the amendments to IAS 12 to have a material impact on the financial statements.</p>
<p>IFRS 10 <i>Consolidated Financial Statements</i></p> <p>In May 2011, the IASB issued IFRS 10 <i>Consolidated Financial Statements</i>, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.</p>	<p>IFRS 10 replaces the guidance in IAS 27 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation – Special Purpose Entities</i>. IAS 27 (2008) survives as IAS 27 (2011) <i>Separate Financial Statements</i>, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).</p>	<p>The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.</p>

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<p>IFRS 11 Joint Arrangements In May 2011, the IASB issued IFRS 11 <i>Joint Arrangements</i>, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.</p>	<p>IFRS 11 replaces the guidance in IAS 31 <i>Interests in Joint Ventures</i>. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 <i>Impairment of Assets</i>. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.</p>	<p>The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. It is expected that IFRS 11, when initially adopted, will have an impact on the Company's financial statements as it had previously accounted for its interest in Pure Technologies (China) Ltd. using proportionate consolidation. However, the Company is not able at this time to reasonably estimate the impact that IFRS 11 will have on the financial statements.</p>
<p>IFRS 12 Disclosure of Interests in Other Entities In May 2011, the IASB issued IFRS 12 <i>Disclosure of Interests in Other Entities</i>, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not to apply IFRS 10,</p>	<p>IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and noncontractual involvement that exposes an entity to variability of returns from the performance of the other entity.</p>	<p>The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. When applied, it is expected that the amendment to IFRS 12 will increase the current level of disclosure of interests in other entities.</p>

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<p>IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time.</p>	<p>The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.</p>	
<p>IFRS 13 Fair Value Measurement In May 2011, the IASB published IFRS 13 <i>Fair Value Measurement</i>, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.</p>	<p>IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.</p>	<p>The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.</p>
<p>Amendments to IAS 28 Investments in Associates and Joint Ventures In May 2011, the IASB issued <i>Amendments to IAS 28 Investments in Associates and Joint Ventures</i>, which is</p>	<p>IAS 28 (2011) carries forward the requirements of IAS 28 (2008), with the following limited amendments: ☐ <i>Associates and joint ventures held for sale</i>. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an</p>	<p>The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 28 to have a material impact on the</p>

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<p>effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) at the same time.</p>	<p>investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. <i>Changes in interests held in associates and joint ventures.</i> Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.</p>	<p>financial statements.</p>
<p>Amendments to IAS 19 Employee Benefits</p> <p>In June 2011, the IASB published an amended version of IAS 19 <i>Employee Benefits</i>. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted.</p> <p>The amendment is generally applied retrospectively with certain exceptions.</p>	<p>The amendments will require the following:</p> <ul style="list-style-type: none"> • Recognition of actuarial gains and losses immediately in other comprehensive income • Full recognition of past service costs immediately in profit or loss • Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation • Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty 	<p>The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

	<p>of future cash flows, and details of any asset-liability match strategies used to manage risks.</p> <p>The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 <i>Provisions</i>, and when the entity can no longer withdraw the offer of the termination benefits.</p>	
IFRS 27 <i>Separate Financial Statements</i>	IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.	The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- Material information related to the Company is made known to them, particularly during the period in which the interim filings were being prepared; and
- Information required to be disclosed in the Company's filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported with the time periods specified in securities legislation.

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There has been no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2011 and ended on September 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES

Investors should carefully consider the risks and uncertainties described in our Annual Information Form which remain substantively unchanged. The risks and uncertainties described in our Annual Information Form are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. For a more complete discussion of the risks and uncertainties which apply to our business and our operating results, please see our Annual Information Form and other filings with Canadian securities regulatory authorities (www.sedar.com).

CAUTION REGARDING 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 organic growth of the Company in 2011 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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Additional information relating to Pure can be found on its website at www.puretechltd.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 www.puretechltd.com or directly through the SEDAR system at www.sedar.com.

PURE TECHNOLOGIES LTD.

Third Quarter 2011 Consolidated Interim Financial Statements
and Results of Operations
(unaudited)

Condensed Consolidated Statement of Financial Position
As at September 30, 2011

In Canadian \$ (unaudited)	Note	September 30, 2011	December 31, 2010 Note 10
Assets			
Current assets			
Cash and cash equivalents		20,716,682	14,172,933
Accounts receivable	3	39,217,178	41,394,359
Inventory	6	8,340,540	4,313,249
Prepaid expenses		1,018,437	1,203,056
Net investment in lease		-	35,735
		69,292,837	61,119,332
Property and equipment		7,794,277	5,674,870
Goodwill	7	23,503,760	22,124,477
Intangible assets		13,070,267	11,465,790
Deferred tax asset		3,677,553	1,251,392
Total assets		117,338,694	101,635,861
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		3,715,143	6,179,581
Acquisition holdback payable	5	4,250,031	4,250,031
Contingent consideration	5	1,897,862	146,615
Deposits on sales contracts		3,428,032	3,546,042
		13,291,068	14,122,269
Contingent consideration	5	4,036,358	-
Total liabilities		17,327,426	14,122,269
Shareholders' equity			
Share capital	8	111,853,977	91,360,007
Equity reserve		3,979,190	2,751,653
Share purchase warrants	8	-	993,160
Accumulated other comprehensive income		719,427	702,872
Deficit		(16,541,326)	(8,294,100)
Total shareholders' equity		100,011,268	87,513,592
Total shareholders' equity and liabilities		117,338,694	101,635,861

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Statement of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2011

In Canadian \$ (unaudited)	Three months ended September 30, 2011	Three months ended September 30, 2010 Note 10	Nine months ended September 30, 2011	Nine months ended September 30, 2010 Note 10
Revenue				
Equipment sales	2,575,940	5,697,018	5,716,576	16,906,974
Inspection services	4,738,753	4,919,870	17,132,384	6,590,140
Consulting services	449,468	1,512,065	3,041,198	4,847,684
Monitoring and technical support	747,534	1,179,361	2,636,093	3,485,979
Total revenue	8,511,695	13,308,314	28,526,251	31,830,777
Cost of sales	1,751,015	5,061,914	7,649,434	12,180,958
Gross profit	6,760,680	8,246,400	20,876,817	19,649,819
Expenses				
Marketing	1,589,145	1,621,920	4,882,912	4,267,379
Engineering and operations	3,345,229	2,084,053	10,397,477	5,037,416
General and administration	3,798,035	4,891,324	13,328,363	8,325,640
Research and development	1,092,953	792,813	2,554,891	2,065,025
	9,825,362	9,390,110	31,163,643	19,695,460
Results from operating activities	(3,064,682)	(1,143,710)	(10,286,826)	(45,641)
Finance income	44,068	36,182	122,927	76,826
Finance costs	(84,396)	-	(84,396)	-
	(40,328)	36,182	38,531	76,826
Profit (loss) before income taxes	(3,105,010)	(1,107,528)	(10,248,295)	31,185
Income taxes				
Current	(434,886)	95,809	246,880	214,089
Deferred recovery	(239,528)	(20,106)	(2,247,948)	(60,318)
	(674,414)	75,703	(2,001,068)	153,771
Loss for the period	(2,430,596)	(1,183,231)	(8,247,227)	(122,586)
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	(91,806)	138,930	16,555	(15,003)
Other comprehensive income (loss) for the period	(91,806)	138,930	16,555	(15,003)
Comprehensive loss for the period	(2,522,402)	(1,044,301)	(8,230,672)	(137,589)
Loss per share				
-Basic loss per share	(0.05)	(0.03)	(0.17)	(0.003)
-Diluted loss per share	(0.05)	(0.03)	(0.17)	(0.003)
Weighted average number of shares outstanding				
-Basic	48,860,166	42,567,427	47,204,319	39,832,928
-Diluted	48,860,166	42,567,427	47,204,319	39,832,928

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

For the nine month ended September 30, 2011

In Canadian \$ (unaudited)	Number of Shares	Amount \$	Number of warrants	Amount \$	Equity Reserve \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Equity \$
Balance at January 1, 2010	33,484,096	45,576,346			1,983,013	(47,805)	(10,642,498)	36,869,056
Issued on equity financing	7,000,000	30,100,000	700,000	993,160				31,093,160
Shares issued on acquisition	3,782,476	16,794,193						16,794,193
Share issuance costs		(3,189,619)						(3,189,619)
Exercise of options	81,998	154,228						154,228
Transfer on exercise of options		59,256			(59,256)			-
Share-based payments					626,270			626,270
Comprehensive loss for the period						(15,003)	(122,586)	(137,590)
Balance at September 30, 2010	44,348,570	89,494,404	700,000	993,160	2,550,027	(62,808)	(10,765,084)	82,209,698
Shares issued on acquisition	169,355	735,001						735,001
Exercise of options	122,501	219,032						219,032
Transfer on exercise of options		97,833			(97,833)			-
Share-based payments					299,460			299,460
Share issuance costs – tax effect		813,737						813,737
Comprehensive income for the period						765,680	2,470,984	3,236,664
Balance at December 31, 2010	44,640,426	91,360,007	700,000	993,160	2,751,653	702,872	(8,294,100)	87,513,592
Issued on equity financing	3,922,000	20,002,200						20,002,200
Exercise of options	457,716	1,041,915						1,041,915
Transfer on exercise of options		433,786			(433,786)			-
Share-based payments					668,163			668,163
Share issuance costs, net of tax		(983,931)						(983,931)
Transfer on expiry of warrants			(700,000)	(993,160)	993,160			-
Comprehensive loss for the period						16,555	(8,247,227)	(8,230,672)
Balance at September 30, 2011	49,020,142	111,853,977	-	-	3,979,190	719,427	(16,541,326)	100,011,268

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Statement of Cash Flows
For the nine months ended September 30, 2011

In Canadian \$ (unaudited)	Note	Nine months ended September 30, 2011	Nine months ended September 30, 2010 (Note 10)
Cash provided by (used for):			
Operating activities			
Loss for the period		(8,247,227)	(122,586)
Items not affecting cash:			
Depreciation and amortization		5,505,260	1,741,779
Share-based payment transactions	9	668,163	626,271
Loss on disposal of assets		86,996	-
Finance costs		84,396	-
Unrealized foreign exchange (gain) loss		(781,542)	65,071
Income taxes recovery		(2,087,056)	(60,318)
		(4,771,010)	2,250,217
Change in non-cash working capital			
Accounts receivable		2,205,729	(9,220,108)
Inventory		(4,010,445)	(2,622,538)
Prepaid expenses		187,078	341,833
Accounts payable and accrued liabilities		(1,618,514)	(4,128,830)
Deposits on sales contracts		(115,096)	210,760
		(3,351,248)	(15,418,883)
Net cash used in operating activities		(8,122,258)	(13,168,666)
Financing activities			
Issuance of share capital, net of costs		19,722,635	28,154,034
Net cash from financing activities		19,722,635	28,154,034
Investing activities			
Additions to property and equipment		(1,358,607)	(826,210)
Acquisition of STS	5	(1,135,440)	-
Acquisition of Aqua		20,201	-
Acquisition of EMTEK	5	(2,930,400)	-
Acquisition of PPIC, net of acquisition costs		-	(8,800,565)
Patent and trademark expenditure		(74,862)	(25,147)
Change in net investment in lease		35,735	57,310
Other non-cash expenses		262,000	-
Net cash used in investing activities		(5,181,373)	(9,594,612)
Net increase in cash and cash equivalents		6,419,004	5,390,756
Cash and cash equivalents at December 31		14,172,933	15,565,161
Effect of exchange rate fluctuations on cash and cash equivalents		124,745	(70,926)
Cash and cash equivalents at September 30		20,716,682	20,884,991

See accompanying notes to the condensed consolidated interim financial statements

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

1. Reporting entity

Pure Technologies Ltd. (the “Company”) is incorporated under the laws of the Province of Alberta. The Company provides information and communications technology for the monitoring and assessment of critical infrastructure.

2. Basis of presentation

a) Statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ended December 31, 2011. The accounting policies the Company expects to adopt in its financial statements as at and for the year ending December 31, 2011 are disclosed in Note 3 of the Company’s interim financial statements as at and for the three months ended March 31, 2011, with which reference should be made to in reading these condensed consolidated interim financial statements.

As these condensed consolidated interim financial statements are prepared using International Financial Reporting Standards (“IFRS”), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company’s most recent annual financial statements, prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), were included in the Company’s financial statements as at and for the three months ended March 31, 2011.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, consolidated financial performance and consolidated cash flows of the Company is provided in Note 10.

These condensed consolidated interim financial statements, should be read in conjunction with the Company’s 2010 annual financial statements and in consideration of the IFRS transition disclosures included in Note 10 to these statements and the additional annual disclosures included in, the Company’s interim condensed financial statements, as at and for the three months ended March 31, 2011.

These condensed consolidated financial statements were approved by the Board of Directors on November 10, 2011.

b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for:

- Contingent consideration at fair value

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

c) Functional currency and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring management to make estimates include revenue recognition, goodwill, asset impairment, and income taxes.

3. Financial instruments and risk management

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

This note presents information about the Company's exposure to particular risks and the Company's objectives, policies and processes for measuring and managing those risks. 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 facing 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.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

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 11% of the Company's revenue for the year to date is attributable to sales transactions with a single customer.

At September 30, 2011, a total of \$23,941,199 is due from one customer located in Libya. This concentration of credit risk is mitigated by a letter of credit provided by the customer held by a Libyan bank. Further to the receipt of the permits from Canada's Minister of Foreign Affairs, the Company has been advised that approval from the US Treasury's Office of Foreign Asset Control is no longer required and is working to secure payment for outstanding receivables. The outstanding receivable for contracts in Libya at September 30, 2011 was \$25,342,581. As at September 30, 2011, out of total receivables of \$39,217,178, past due receivables in excess of 90 days were \$30,900,580. Accounts receivable are net of an allowance for doubtful accounts of \$26,823 (December 31, 2010 – \$73,860). The Company has no individually significant 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 September 30, 2011, the Company had a cash balance of \$20,716,682 (December 31, 2010 – \$14,172,933) to settle current liabilities of \$13,291,068 (December 31, 2010 – \$14,122,269). In addition, the Company maintains a demand bank loan facility authorized to a maximum \$3,000,000. At September 30, 2011 and December 31, 2010, no amounts were drawn on the facility.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

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.

Interest rate risk

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. A plus or minus 0.5% change in interest rates would affect equity and net profit by \$46,132 per annum. This analysis assumes that all other variables remain constant.

4. Segment information

The Company's business operates in three market segments:

- Americas
- Africa
- Other

Segment revenues and segment profit (loss) represent the primary financial measures used by senior management in assessing performance and allocating resources, and include revenues, cost of sales and expenses for which management is held accountable.

Costs associated with shared services and other shared costs are allocated based on revenue. Corporate amounts include expenses for research and development that are not attributable to individual segments, marketing, operations and general and administration, which apply generally across all segments and are reviewed separately by senior management.

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

Three months ended September 30, 2011	Americas \$	Africa \$	Other \$	Total \$
Revenue				
Equipment sales	120,992	-	2,454,948	2,575,940
Inspection services	3,297,970	1,875	1,438,908	4,738,753
Consulting services	427,906	-	21,562	449,468
Monitoring and technical support	699,307	-	48,227	747,534
	4,546,175	1,875	3,963,645	8,511,695
Profit (loss) before taxes	(1,040,397)	(240,021)	2,097,668	817,250
Amount to allocate				
Marketing	205,262	-	177,881	383,143
Engineering and operations	315,972	-	312,371	628,343
General and administration	1,141,499	-	760,447	1,901,946
Research and development	629,100	-	379,728	1,008,828
Net profit (loss) before taxes	(3,332,230)	(240,021)	467,241	(3,105,010)

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Three months ended September 30, 2010	Americas \$	Africa \$	Other \$	Total \$
Revenue				
Equipment sales	793,665	4,875,862	27,491	5,697,018
Inspection services	4,755,167	24,000	140,703	4,919,870
Consulting services	487,064	950,824	74,176	1,512,064
Monitoring and technical support	615,770	323,438	240,154	1,179,362
	6,651,666	6,174,124	482,524	13,308,314
Profit before taxes	1,187,477	3,047,918	320,701	4,556,096
Amount to allocate				
Marketing	434,820	394,729	30,762	860,311
Engineering and operations	350,460	337,201	26,470	714,131
General and administration	1,581,747	1,754,676	139,938	3,476,361
Research and development	329,902	262,805	20,114	612,821
Net profit (loss) before taxes	(1,509,452)	298,507	103,417	(1,107,528)

Nine months ended September 30, 2011	Americas \$	Africa \$	Other \$	Total \$
Revenue				
Equipment sales	3,212,075	37,433	2,467,069	5,716,577
Inspection services	12,669,624	46,875	4,415,885	17,132,384
Consulting services	2,288,045	638,908	114,244	3,041,197
Monitoring and technical support	2,238,706	281,053	116,334	2,636,093
	20,408,450	1,004,269	7,113,532	28,526,251
Profit (loss) before taxes	1,202,627	(2,026,821)	1,875,861	1,051,667
Amount to allocate				
Marketing	912,885	44,922	318,194	1,276,001
Engineering and operations	1,688,719	83,099	588,617	2,360,435
General and administration	3,882,992	182,857	1,295,232	5,361,080
Research and development	1,654,339	73,951	574,156	2,302,446
Net loss before taxes	(6,936,307)	(2,411,650)	(900,338)	(10,248,295)

Nine months ended September 30, 2010	Americas \$	Africa \$	Other \$	Total \$
Revenue				
Equipment sales	3,531,686	13,347,797	27,490	16,906,973
Inspection services	6,275,998	16,500	297,642	6,590,140
Consulting services	1,709,291	2,798,680	339,713	4,847,684
Monitoring and technical support	1,898,211	876,042	711,727	3,485,980
	13,415,186	17,039,019	1,376,572	31,830,777
Profit before taxes	2,341,574	8,358,398	500,521	11,200,493
Amount to allocate				
Marketing	903,341	1,147,360	92,695	2,143,396
Engineering and operations	671,419	852,789	68,896	1,593,104
General and administration	2,338,128	2,969,725	239,922	5,547,775
Research and development	794,453	1,009,058	81,522	1,885,033
Net profit (loss) before taxes	(2,365,767)	2,379,466	17,486	31,185

All of the segment revenue reported above is from external customers. There were no inter-segment sales in the quarters presented.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

5. Business Combinations

a) On June 13, 2011, the Company completed a business combination agreement with the Electromechanical Technologies Inc. ("EMTEK"), a Salt Lake City-based developer of advanced pipeline inspection technologies. The initial cash purchase was USD \$3,000,000 (CAD \$2,930,400). In addition to the initial payment, the purchase price includes an earn out amount. The earn out cannot exceed USD \$4,000,000 (CAD \$4,131,600) based on a percentage of revenue recognized from the purchased technologies to the end of 2013. Additional consideration cannot exceed USD \$2,000,000 (CAD \$2,065,800) in any year. As per the agreement, any additional payments would be paid approximately 75% in cash and 25% in Pure's common stock but, subject to Pure's discretion, could be paid entirely in cash.

Costs relating to the acquisition were \$50,000 and are included in general and administration expense in the consolidated statement of comprehensive income.

Since acquisition date, revenue from EMTEK was \$46,066 and the loss was \$296,474.

Cash consideration	2,930,400
Contingent consideration	3,546,055
Total consideration	6,476,455
Fair value of net assets acquired:	
Accounts receivable	252,831
Property and equipment	2,051,280
Intellectual property	4,448,866
Accounts payable	(276,522)
	6,476,455

The acquisition of the EMTEK technology will enable the Company to enter the condition assessment market for metallic pipelines.

Contingent consideration

The Company has agreed to pay the selling shareholders additional consideration of USD 4,000,000 (CAD \$4,131,600) based on a percentage of revenue recognized from the purchased technologies to the end of 2013. The Company has included this amount as contingent consideration at its fair value at acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the probability weighted expected contingent consideration and a discount rate of five percent.

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments will be made to these amounts as values subject to estimates are finalized.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

b) On January 1, 2011, the Company completed a business combination agreement with the Inspection Division of Specialized Technical Services Est., "STS", an Abu Dhabi based company involved in inspection and monitoring of water, wastewater and oil and gas pipelines. The initial

cash purchase was AED 4,150,000 (CAD \$1,135,440). In addition to the initial payment, the purchase price includes an earn out amount. The earn out cannot exceed AED 4,680,000 (CAD \$1,316,016) and will be paid over 3 years.

Costs relating to the acquisition were \$38,528 these costs are included in general and administration expense in the consolidated statement of comprehensive income.

Since acquisition date, revenue from STS was \$607,712 and the loss was \$283,075.

Cash consideration	1,135,440
Contingent consideration	1,179,259
Total consideration	2,314,699
Fair value of net assets acquired:	
Capital assets	662,766
Customer contracts & relationships	137,290
Goodwill	1,514,643
	2,314,699

The acquisition of STS will enable the Company to enter new markets in United Arab Emirates, primarily the oil and gas inspection market. The acquisition is expected to provide the Company with an increased share of the UAE inspection market through access to the acquiree's customer base. The Company also expects to reduce operating costs through the use of the staff in selected regions of the world.

The goodwill is attributable mainly to the skills and technical talent of STS's work force, and the synergies expected to be achieved from integrating the company's technologies into the existing business of the division.

Contingent consideration

The Company has agreed to pay the selling shareholders additional consideration of AED 4,680,000 (CAD \$1,316,016) calculated as the aggregate of 50% of the Gross Qualifying Revenue in the first Financial Year following the acquisition date; 50% of the Gross Qualifying Revenue in the second Financial Year following the acquisition date; and 50% of the Gross Qualifying Revenue in the third Financial Year following the acquisition date up to a maximum of AED 4,680,000. Gross Qualifying Revenue is revenue earned excluding any revenue generated in the water sector in Saudi Arabia. The Company has included this amount as contingent consideration at its fair value at acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the probability weighted expected contingent consideration and a discount rate of four percent.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Goodwill recognized is not deductible for income tax purposes.

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments will be made to these amounts as values subject to estimates are finalized.

c) The acquisition holdback payable relates to the acquisition of The Pressure Pipe Inspection Company Ltd. on August 12, 2010. The holdback was to be paid on August 12, 2011. The amount has not been paid due to claims filed with the vendor's representative. The holdback will be paid when the claims are finalized.

6. Inventory

Inventory includes raw materials of \$3,787,107 (December 31, 2010 - \$2,832,346) and work in progress of \$4,553,433 (December 31, 2010 - \$1,480,903).

Write-downs of inventories and reversals of write-downs are included in the cost of sales. During the nine months ended September 30, 2011, the write-down of inventories amounted to \$236,736 (September 30, 2010 - \$0).

No inventory is pledged as security for liabilities.

7. Goodwill

	September 30, 2011	December 31, 2010
	\$	\$
Balance at beginning of period	22,124,477	1,988,265
Additional amounts recognized from business combinations occurring during the period	1,514,643	20,136,212
Adjustments to previously recorded business combinations	(299,200)	-
Effect of foreign currency exchange differences	163,840	-
Balance at end of period	23,503,760	22,124,477

8. Share capital

a) Issued

Authorized	Unlimited voting common shares without par value Unlimited preferred shares without par value and issuable in series
Issued and outstanding	49,020,142 (September 30, 2010 – 44,348,570) Common shares

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

In accordance with the terms of an employment contract that was entered into concurrent with the acquisition of The Pressure Pipe Inspection Company Limited (PPIC), the Company determined during the quarter that it would not extend the employment contract and accordingly, was required to repurchase 751,420 of the Company's shares at a price of \$4.95 per share. The shares were not repurchased but sold to third parties. The Company paid the difference between the market price and the repurchase price. This expense amounted to \$1,324,378 and was charged to general and administration expense in the current quarter.

In addition, if shares are issued as partial payment of the holdback amount relating to the PPIC acquisition in accordance with the release of holdback requirements of the share purchase agreement, up to 162,001 shares will be repurchased at a price of \$4.95 per share. A further compensation expense of \$82,621 has been charged to general and administration expense for the difference between the repurchase price of \$4.95 per share and the issuance price of \$4.44 per share.

On April 13, 2011, the Company completed a short form prospectus equity financing for 3,922,000 common shares at a price of \$5.10 per common share for gross proceeds of \$20,002,200.

b) Warrants

	Warrants	Amount
Balance, beginning of year (i)	700,000	\$ 993,160
Expired (ii)	(700,000)	\$ (993,160)
Balance, September 30, 2011	-	-

- (i) The fair value for the warrants issued February 23, 2010 was estimated at \$1.42 using the Black-Scholes Merton option pricing model and has been included in share purchase warrants with the offset to share issue costs. The following assumptions were used: zero dividend yield, expected volatility of 49.41%, risk-free interest rate of 1.21% and expected life of 18 months.
- (ii) On August 23, 2011, 700,000 warrants that were previously issued to agents have expired.

9. Share-based payments

a) Employee share option plan

The Company has a stock option plan (the "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 granted vest 1/3 every year over a 3 year period from the date of grant and expire 5 years from grant. Under the Plan, the Board of Directors may, at its discretion, grant options to purchase shares in the Company to certain employees, officers, directors and consultants of the Company. The exercise price is determined as the closing market price the day prior to the approval of the option grants.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

b) Fair value of share options granted in the quarter

The fair value of each granted option on the award date was estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

	September 30, 2010 Series
Grant date share price	\$4.60
Exercise price	\$4.60
Expected volatility	50.391%
Option life	4 years
Dividend yield	-
Risk-free interest rate	1.95%

The stock-based compensation expenses pertaining to the options granted were amortized using the graded vesting method. A compensation expense of \$668,163 was recorded during the nine month period ended September 30, 2011 (September 30, 2010 - \$626,271).

c) Movements in share options during the period

The following reconciles the share options outstanding at the beginning and end of the period:

	September 30, 2011		September 30, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	3,526,137	\$3.25	2,876,637	\$2.69
Granted during the period	-	-	35,000	4.64
Forfeited during the period	(193,755)	4.41	(81,998)	1.71
Exercised during the period	(457,716)	2.24	(110,001)	3.81
Balance at end of period	2,874,666	\$3.33	2,719,638	\$2.70

d) Share options exercised during the period

457,716 share options were exercised during the period for proceeds of \$1,041,915.

e) Employee share purchase plan

The Company offers all of its employees the opportunity to participate in an employee share purchase plan. To participate, the employees can direct up to 10% of their salary to purchase Company shares. After one year of service the Company will match the employees' contribution.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

10. Transition to IFRS

The policies set out in the *Summary of Significant Accounting Policies* section of the condensed consolidated interim financial statements for the period ended March 31, 2011, have been applied in preparing the financial statements for the nine months ended September 30, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 *First-time adoption of IFRS*, in preparing its transitional statements. IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS.

Exceptions that are mandated by IFRS-1

Estimates – IFRS-1 prohibits use of hindsight to create or revise previous estimates. The estimates the Company previously made under Canadian GAAP have not been revised for application of IFRS. In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Reconciliation of Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. The following is an explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Statement of Financial Position at September 30, 2010

		Canadian GAAP	Effect of transition to IFRS	IFRS
September 30, 2010				
	Note	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		20,884,991		20,884,991
Accounts receivable		31,991,212		31,991,212
Inventory		4,097,987		4,097,987
Prepaid expenses		797,811		797,811
ITC receivable		298,668		298,668
Income tax receivable		290,781		290,781
Net investment in lease		55,166		55,166
		58,416,616		58,416,616
Property and equipment	a	5,093,250	(90,624)	5,002,626
Goodwill	d	22,249,887	(2,039,884)	20,210,003
Intangible assets		11,030,737		11,030,737
Total assets		96,790,490	(2,130,508)	94,659,982
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		6,584,023		6,584,023
Acquisition holdback payable		4,250,031		4,250,031
Deposit on sales contracts		467,376		467,376
		11,301,430	-	11,301,430
Deferred tax liabilities		1,148,854	-	1,148,854
Total liabilities		12,450,284	-	12,450,284
Shareholders' equity				
Share capital		89,494,404		89,494,404
Equity reserve	b	2,288,669	261,358	2,550,027
Share purchase warrants		993,160		993,160
Accumulated other comprehensive income (loss)	a, c	(274,461)	211,653	(62,808)
Deficit	a, b, c, d	(8,161,566)	(2,603,519)	(10,765,085)
Total shareholders' equity		84,340,206	(2,130,508)	82,209,698
Total liabilities and shareholders' equity		96,790,490	(2,130,508)	94,659,982

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Statement of Comprehensive Income for three months ended September 30, 2010

		Canadian GAAP	Effect of Transition to IFRS Adjustments	Effect of Transition to IFRS Reclassifications	IFRS
		September 30, 2010			
	Note	\$	\$	\$	\$
Revenue					
Equipment sales		5,697,018			5,697,018
Inspection services		4,919,870			4,919,870
Consulting services		1,512,065			1,512,065
Monitoring and technical support		1,179,361			1,179,361
Total revenue		13,308,314			13,308,314
Cost of sales		5,061,914			5,061,914
Gross profit		8,246,400			8,246,400
Expenses					
Marketing	b,f	1,544,926	(23,012)	100,006	1,621,920
Engineering and operations	a,b,f	1,784,484	29,128	270,441	2,084,053
General and administration	a,b,d,f	2,390,805	2,145,275	355,244	4,891,324
Research and development	b,f	691,424	(7,180)	108,569	792,813
Depreciation and amortization	f	834,260		(834,260)	-
Results from operating activities		1,000,501	(2,144,211)	-	(1,143,710)
Finance income		36,182			36,182
Profit (loss) before taxes		1,036,683	(2,144,211)	-	(1,107,528)
Income taxes					
Current		95,809			95,809
Deferred recovery		(20,106)			(20,106)
		75,703			75,703
Net income (loss) for the period		960,980	(2,144,211)		(1,183,231)
Other comprehensive income					
Foreign currency translation differences foreign operations		-	138,930	-	138,930
Other comprehensive income for the period		-	138,930	-	138,930
Comprehensive income (loss)		960,980	(2,005,281)	-	(1,044,301)

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Statement of Comprehensive Income for nine months ended September 30, 2010

		Canadian GAAP	Effect of transition to IFRS Adjustments	Effect of transition to IFRS Reclassifications	IFRS
		September 30, 2010			
	Note		\$	\$	\$
Revenue					
Equipment sales		16,906,974			16,906,974
Inspection services		6,590,140			6,590,140
Consulting services		4,847,684			4,847,684
Monitoring and technical support		3,485,979			3,485,979
Total revenue		31,830,777			31,830,777
Cost of sales		12,180,958			12,180,958
Gross profit		19,649,819			19,649,819
Expenses					
Marketing	b, f	4,041,544	(72,774)	298,609	4,267,379
Engineering and operations	a,b,f	4,286,987	99,838	650,591	5,037,416
General and administration	a,b,d,f	5,818,202	2,023,791	483,647	8,325,640
Research and development	b, f	1,786,908	(30,815)	308,932	2,065,025
Depreciation and amortization	f	1,741,779	-	(1,741,779)	-
Results from operating activities		1,974,399	(2,020,040)	-	(45,641)
Finance income		76,826			76,826
Profit before taxes		2,051,225	(2,020,040)	-	31,185
Income taxes					
Current		214,089			214,089
Deferred recovery		(60,318)			(60,318)
		153,771	-	-	153,771
Net income (loss) for the period		1,897,454	(2,020,040)	-	(122,586)
Other comprehensive loss					
Foreign currency translation differences - foreign operations		-	(15,003)	-	(15,003)
Other comprehensive loss for the period		-	(15,003)	-	(15,003)
Comprehensive income (loss)		1,897,454	(2,035,043)	-	(137,589)

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

The following is a summary of the effects of the differences between IFRS and Canadian GAAP on the Company's accounting policies, statement of financial position, and statement of comprehensive income for periods previously reported under Canadian GAAP subsequent to the Transition Date to IFRS. The adoption of IFRS did not change the Company's actual cash flows, but has resulted in changes to the Company's statements of financial position and comprehensive loss.

a) Foreign currency translation of subsidiaries (Pure US and PPIC USA)

Under IFRS, the functional currency of the subsidiary determines the translation methodology. As Pure US and PPIC USA both have a functional currency of the United States dollar under IFRS, Pure US and PPIC USA will be consolidated under IFRS using the current rate method. Under Canadian GAAP, Pure US and PPIC USA were translated using the temporal method. The impact arising from the change is summarized as follows:

Consolidated statement of financial position	January 1, 2010 \$	September 30, 2010 \$	December 31, 2010 \$
Capital assets	(47,805)	(90,624)	(137,606)
Accumulated other comprehensive income (loss)	47,805	(20,001)	(557,017)

Consolidated statement of comprehensive income (loss)	Three months ended September 30, 2010 \$	Nine months ended September 30, 2010 \$	Year Ended December 31, 2010 \$
Engineering and operations	(4,035)	(14,090)	23,071
General and administration	143,265	124,713	694,622
Other comprehensive income (loss)	(135,821)	(67,806)	604,822

b) Stock-based payments

Under Canadian GAAP, the Company valued stock-based compensation that vests in tranches as a single grant. IFRS requires that each share-based compensation tranche be valued as a separate grant with a separate vesting date. Therefore under IFRS, the fair value of each share-based compensation tranche will be amortized over each tranche's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. As a result of this difference, the Company has recorded a charge to contributed surplus for unvested stock-based compensation awards. The impact arising from the change is summarized as follows:

Consolidated statement of financial position	January 1, 2010 \$	September 30, 2010 \$	December 31, 2010 \$
Equity reserve	391,825	261,358	255,403

Consolidated statement of comprehensive income (loss)	Three months ended Sept 30, 2010 \$	Nine months ended Sept 30, 2010 \$	Year Ended December 31, 2010 \$
Marketing	(23,012)	(72,774)	(92,093)
Engineering and operations	33,163	113,928	154,327
General and administration	(37,874)	(140,807)	(181,609)
Research and development	(7,180)	(30,815)	(17,047)

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

c) *Accumulated other comprehensive loss*

As stated in note 10 (a), the Company has elected to reset its historical cumulative translation loss to nil at the Transition Date and therefore the Corporation has recorded a charge to accumulated deficit in the IFRS opening statement of financial position. The impact arising from the change is summarized as follows:

Consolidated statement of financial position	January 1, 2010 \$	September 30, 2010 \$	December 31, 2010 \$
Accumulated other comprehensive loss	(191,652)	(191,652)	(191,652)
Deficit	(191,652)	(191,652)	(191,652)

d) *Business combinations*

The Company has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations will not be restated. Any goodwill arising on such business combinations before January 1, 2010 will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions except as required under IFRS 1. The differences resulting from the application of IFRS 3 resulted in an adjustment of \$2,408,973 to the amounts previously determined under Canadian GAAP relating to the expensing of transaction costs for acquisitions completed by the Company during 2010, subsequent to the transition date of January 1, 2010. The impact arising from this change is summarized as follows:

Consolidated statement of financial position	January 1, 2010 \$	September 30, 2010 \$	December 31, 2010 \$
Goodwill	-	(2,039,884)	(2,408,973)
Consolidated statement of comprehensive income (loss)	Three months ended September 30, 2010 \$	Nine months ended September 30, 2010 \$	Year Ended December 31, 2010 \$
General and administration	2,039,884	2,039,884	2,408,973

e) *Contingent consideration*

Under Canadian GAAP, a contingent liability upon a business combination was not recognized. IFRS requires an acquirer to recognize separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably.

The Company has concluded that there is an adjustment to the Company's consolidated financial statements on transition to IFRS for the measurement of provisions for the Aqua Environmental acquisition. These additional payments, which are due subject to continued employment of the key employees, will be accounted for as compensation expense and is calculated as 50% of revenue earned. These payments are subject to annual maximums of AUD \$1,000,000 (CAD \$1,011,500) per year over each of the three years following the transaction date. The impact arising from this change is summarized as follows:

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2011 and 2010 (unaudited)

Consolidated statement of financial position	January 1, 2010 \$	September 30, 2010 \$	December 31, 2010 \$
Contingent consideration	-	-	(146,615)
Consolidated statement of comprehensive income (loss)	Three months ended September 30, 2010 \$	Nine months ended September 30, 2010 \$	Year Ended December 31, 2010 \$
General and administration	-	-	(146,615)

In the first nine months of 2011, the Company has accrued \$745,766 as compensation expense relating to this agreement. Such amounts are payable annually.

f) Reclassification of depreciation

Under IFRS, operating expenses must be presented on either a functional or type of expenditure basis. The Company has elected to use the functional classification basis for presentation of its operating expenses. As a result, depreciation and amortization expense has been reallocated to marketing, engineering and operations, general and administration and research and development.

g) Effect of transition on statement of cash flows for the period ended September 30, 2010

Changes made to the statement of cash flows include the IFRS adjustments to depreciation, foreign currency and share-based payments as previously described in the notes above.

11. Commitments

The Company is committed to payments under operating leases for office premises, office equipment and vehicles through 2021.

2011	\$ 213,276	2017	\$ 189,807
2012	\$ 744,431	2018	\$ 194,533
2013	\$ 596,036	2019	\$ 199,411
2014	\$ 415,245	2020	\$ 204,290
2015	\$ 184,712	2021	\$ 209,473
2016	\$ 185,081		

12. Subsequent Events

An aggregate of 1,000,000 stock options have been granted to officers, employees and directors as part of the normal course compensation program which provides stock option grants on an annual basis and aligns variable pay with shareholder interests. The options have an exercise price of \$3.28 per share, expire on November 9, 2016, and vest over 3 years. Total options outstanding, subsequent to the current grant, are approximately 7.9% of total shares outstanding.