SEAIR INC.

Interim Condensed Consolidated Financial Statements (unaudited)

For the three months ended November 30, 2014 and 2013

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	November 30 2014 (unaudited)	August 31, 2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 128,709	$ 190,422
Trade and other receivables	5	101,083	321,171
Inventory	6	50,000	50,000
Prepaid expenses		37,769	30,512
		317,561	592,105
Property and equipment	7	144,793	156,388
Intangibles	8	98,482	97,206
		$ 560,836	**$ 845,699**
LIABILITIES & SHAREHOLDERS' EQUITY			
LIABILITIES			
Trade and other payables	9	$ 2,687,418	$ 3,254,511
Advances from related parties	11b	234,868	261,000
Current portion of obligation under finance lease	12	94,906	113,896
		3,017,192	3,629,407
Convertible debenture	10	4,886,011	4,611,444
		7,903,203	8,240,851
SHAREHOLDERS' EQUITY			
Share capital	13b	14,923,713	14,455,362
Warrants	13d	3,655,410	3,096,837
Contributed surplus	13g	861,850	861,850
Convertible debenture - equity portion	10	2,239,463	2,519,227
Accumulated deficit		(29,022,803)	(28,328,428)
		(7,342,367)	(7,395,152)
		$ 560,836	**$ 845,699**

Reporting entity and continuance of operations (note 1)
Commitments (note 23)
Subsequent events (note 24)

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

Approved on behalf of the Board:

"Paul Casey", Director *"John Goetz",* Director

Interim Condensed Consolidated Statements of Loss & Comprehensive Loss (unaudited)
For the three months ended November 30, 2014 and 2013
(Expressed in Canadian Dollars)

		Three months ending November 30	
		2014	**2013**
REVENUE	Note		
Revenue		$ 171,793	$ 603,693
Direct costs		33,756	215,216
		138,037	388,477
EXPENSES			
General and administrative	17	433,224	543,361
Operating		25,257	20,288
Amortization		11,595	41,403
Foreign exchange loss/(gain)		(1,058)	1,362
Finance expenses	15	418,394	302,587
Gain on disposal of equipment	7	(55,000)	-
		832,412	909,001
NET AND COMPREHENSIVE LOSS		$ (694,375)	$ (520,524)
BASIC AND DILUTED LOSS PER SHARE	18	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC		57,014,284	50,510,231
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED		57,092,988	50,510,231

Interim Condensed Consolidated Statements of Equity (unaudited)
(Expressed in Canadian Dollars)

	Share Capital (Note 13b)	Warrants (Note 13d)	Contributed Surplus (Note 13g)	Convertible Debenture - Equity portion (Note 10)	Deficit	Total
As at September 1, 2013	$ 14,018,937	$2,049,900	$ 502,881	$ 980,048	$ (19,371,188)	$ (1,819,422)
Fair value allocated to warrants	(929,157)	929,157	-	-	-	-
Debt exchanged for shares	134,175	-	-	-	-	134,175
Net and comprehensive loss for the period	-	-	-	152,800	(520,524)	(367,724)
As at November 30, 2013	$ 13,223,955	$2,979,057	$ 502,881	$ 1,132,848	$ (19,891,712)	$ (2,052,971)

	Share Capital (Note 13b)	Warrants (Note 13d)	Contributed Surplus (Note 13g)	Convertible Debenture - Equity portion (Note 10)	Deficit	Total
As at September 1, 2014	$ 14,455,362	$3,096,837	$ 861,850	$ 2,519,227	$ (28,328,428)	$ (7,395,152)
Private placement of shares	214,687	-	-	-	-	214,687
Fair value allocated to warrants	(558,573)	558,573	-	-	-	-
Debt exchanged for shares	421,456	-	-	-	-	421,456
Convertible debt converted to shares	279,764	-	-	-	-	279,764
Debenture interest converted to shares	111,017	-	-	-	-	111,017
Net and comprehensive loss for the period	-	-	-	(279,764)	(694,375)	(974,139)
As at November 30, 2014	$ 14,923,713	$3,655,410	$ 861,850	$ 2,239,463	$ (29,022,803)	$ (7,342,367)

Interim Condensed Consolidated Statement of Cash Flows (unaudited)
For the three months ended November 30, 2014 and 2013
(Expressed in Canadian Dollars)

	Note	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Loss from operations		$ (694,375)	$ (520,524)
Adjustments for non-cash items:			
Amortization of equipment		11,595	41,403
Amortization of financing costs	10	67,969	11,041
Gain on disposal of equipment	7	(55,000)	-
Debt converted to shares	13e	421,456	134,175
Debenture interest converted to shares	10	111,017	-
Convertible debenture accrued interest	10	(6,832)	(413)
Accretion of debenture issue costs	10	213,430	154,753
NET CHANGES IN NON-CASH WORKING CAPITAL	20	(354,262)	141,939
		(285,002)	(37,626)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment	7	55,000	-
Payment for intangible assets	8	(1,276)	-
		53,724	-
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from demand loan		-	148,364
Proceeds from private placements	13c	221,000	-
Debenture and share issue costs	13c	(6,313)	-
Repayment of advances to related parties	11b	(26,132)	-
Payments for finance leases		(18,990)	(17,158)
		169,565	131,206
Increase (decrease) in cash		(61,713)	93,580
Cash (bank indebtedness), beginning of period		190,422	(310,490)
Cash (bank indebtedness), end of period		$ 128,709	$ (216,910)

SUPPLEMENTAL INFORMATION

		2014	2013
Cash paid for interest during the period		$ 23,167	$ 136,095

1. REPORTING ENTITY AND CONTINUANCE OF OPERATIONS

Seair Inc. (the "Company") was incorporated under the Business Corporations Act of Alberta on April 12, 2001. The Company is a technology corporation engaged in developing proprietary diffusion technology that is expected to have global applications in several industry sectors. The Company's head office is located at 250 Diamond Avenue Spruce Grove, Alberta T7X 3A6. The Company is listed on the TSX Venture Exchange under the symbol "SDS". On January 31, 2014, the Company incorporated Seair US Inc., a wholly-owned US subsidiary.

Prior to the sale of its septic assets in the last fiscal year, the Company operated two distinct business units. Since the completion of the sale, the Company has only been operating Seair Diffusion Systems Inc., which focuses on research and development, with the intention of developing markets for other applications of the proprietary diffusion technology.

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on the basis of the going concern assumption, assuming that Seair Inc. will be able to realize assets and discharge its liabilities in the normal course of operations for the foreseeable future.

As at November 30, 2014, the Company has negative working capital of $2.7 million (August 31, 2014 – negative $3.0 million), a shareholders' deficit of $29.0 million (August 31, 2014 - $ 28.3 million), incurred a net loss from operations of $0.7 million for the three months ended November 30, 2014 ($9.0 million for the year end August 31, 2014) and incurred a cash flow deficiency from operating of $0.3 million for the three months ended November 30, 2014 ($0.8 million for the year end August 31, 2014). The Company continues to be faced with a number of significant uncertainties.

On October 28, 2014, the Company announced it had closed a non-brokered private placement of 1.5 million common shares to the Company's Chief Executive Officer at a purchase price of $0.15 per share for aggregate gross proceeds of up to $220,000. The shares are subject to an agreed upon twelve month hold from date of issue.

Subsequent to the first quarter end, on December 9, 2014 and December 18, 2014, the Company closed two tranches of a non-brokered private placement financing for gross proceeds of approximately $1.2 million by the issuance of 6,722,229 at $0.18 per unit. Each unit was comprised of one common share and one-half of one common share purchase warrant. Each full common share purchase warrant and one-half of one common share purchase warrant entitles the holder thereof to purchase an additional share at $0.23 for up to two years from the closing date.

Despite these proceeds, the Company will still need to raise additional funds over the current fiscal year in order to continue to roll out its business plan including the ability to execute important technology trials with potential partners.

The Company's ability to continue as a going concern and to fully carry out its necessary ongoing research and development activities is contingent upon the reliance on non-operational sources of financing to fund its operations and to meet its obligations on a timely basis, the continued support of its creditors, shareholders, lenders, suppliers and clients and ultimately achieving profitability.

While management believes the use of the going concern assumption is appropriate, there is no assurance that the Company's initiatives to improve its liquidity and financial position will be successful. These financial statements do not include any disclosures or adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue as a going concern and these adjustments and reclassifications may be material.

The information contained herein is current as of January 23, 2015.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Reporting Interpretations Committee ("IFRIC"). The policies applied in these interim condensed consolidated financial statements are based on the IFRS issued and outstanding as at the date the Board of Directors approved these interim condensed consolidated financial statements for issue. These interim condensed consolidated financial statements of the Company were authorized for issue by the Board of Directors in accordance with a resolution of the Company on January 23, 2015.

(b) Basis of measurement

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments measured at fair value.

(c) Functional and presentation currency

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are translated at the rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS, ESTIMATES AND ASSUMPTIONS

(a) Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Seair Diffusion Systems Inc. and Seair Septic Inc. for the entire year and Seair US Inc. since its incorporation in January 2014. All significant intercompany balances and transactions have been eliminated.

(b) Accounting policies

In preparing these interim condensed financial statements, the accounting policies, methods of computation and significant judgements made by management in applying the Company's accounting policies, as well as key sources of estimation uncertainty, were the same as those applied to the audited consolidated financial statements as at and for the year ended August 31, 2014 and 2013, except as disclosed below and in note 4(a).

On September 1, 2013, the Company adopted new accounting standards, all issued in May 2011, IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement.* All standards were effective for annual periods beginning on or after January 1, 2013. The adoption of these standards had no impact on the financial statements as at September 1, 2013 or on the comparative periods.

(c) Future accounting policies

The following pronouncements from the International Accounting Standards Board ("IASB") are not yet effective and have not been early adopted by the Company. The Company intends to adopt these standards when they become effective.

IFRS 9, *Financial Instruments,* as issued reflects the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2108 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation,* outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of instruments as financial assets, financial liabilities and equity instruments and when such instruments can be offset. The new standard is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

(Expressed in Canadian Dollars)

IFRS 2, *Share-based Payments*, was amended to clarify the definition of vesting conditions. Vesting conditions are conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. All changes are to be applied prospectively. The amended standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*, outlines how and when a company will recognize revenue as well as requiring such entities to provide increased disclosure regarding revenue in the financial statements. The new standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

4. CHANGE IN ESTIMATE

(a) Warrant expiry date

In October 2014, the Company received approval from the TSXV to extend the expiry date on 18,619,106 of the Company's warrants for an additional year from the previously revised expiry date of October 31, 2014 to October 31, 2015. When determining the revised fair value, this change was accounted for as a change in estimate of the term of these options from two to three years. All other assumptions used in the original determination of fair value remained unchanged. As a result, an additional $559,000 in fair value was assigned to the warrants and recorded during the period. In October 2013, the Company had previously received approval from the TSXV to extend the expiry date on the same warrants described above for an additional year from the original expiry date of October 31, 2013 to October 31, 2014. As a result, an additional $929,000 in fair value was assigned to the warrants and recorded during the prior year.

5. TRADE AND OTHER RECEIVABLES

	November 30, 2014 (unaudited)	August 31, 2014
	($)	($)
Trade receivables	101,083	321,171
Balance, end of period	101,083	321,171

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

Following is an aging of the Company's trade and other receivables balances:

	Total	< 30 days	30-60 days	60-90Days	> 90 days
	($)	($)	($)	($)	($)
November 30, 2014 (unaudited)	101,083	55,464	36,722	-	8,897
August 31, 2014	321,171	321,171	-	-	-

(Expressed in Canadian Dollars)

6. INVENTORY

	November 30, 2014 (unaudited)	August 31, 2014
	($)	($)
Raw materials	-	-
Finished goods	50,000	50,000
Total	50,000	50,000

7. PROPERTY AND EQUIPMENT

(unaudited)	September 1, 2014	Additions	Disposals	November 30, 2014
	($)	($)	($)	($)
Cost:				
Vehicles	354,257	-	-	354,257
Machinery	30,225	-	-	30,225
Office and computer equipment	30,990	-	-	30,990
Diffuser equipment	41,394	-	-	41,394
	456,866	-	-	456,866
Accumulated amortization:				
Vehicles	207,366	11,017	-	218,383
Machinery	25,429	240	-	25,669
Office and computer equipment	27,962	213	-	28,175
Diffuser equipment	39,721	125	-	39,846
	300,478	11,595	-	312,073
Net book value:				
Vehicles	146,891			135,874
Machinery	4,796			4,556
Office and computer equipment	3,029			2,815
Diffuser equipment	1,673			1,548
	156,388			144,793

The Company has assets with cost of $311,000, accumulated amortization of $187,000, and a net book value of $124,000 (August 31, 2014 - $134,000) included in vehicles that are owned pursuant to finance leases.

During the first quarter, the Company received $55,000 in insurance proceeds related to an outstanding insurance claim filed several years ago with respect to damaged equipment and accordingly recorded a gain on disposal of equipment for that amount.

(Expressed in Canadian Dollars)

8. INTANGIBLES

	Cost	Accumulated Amortization	Net Book Value
	($)	($)	($)
At September 1, 2013	95,865	89,606	6,259
Impairment	(95,865)	(89,606)	(6,259)
Additions	97,206	-	97,206
At August 31, 2014	97,206	-	97,206
Additions	1,276	-	1,276
At November 30, 2014	98,482	-	98,482

Costs incurred in the current period of $1,300 (year ended August 31, 2014 - $97,200) relating to the patents surrounding the Company's diffusion technology were capitalized.

As a result of a prior year decision by management to direct its focus solely to the Company's diffusion technology, management determined that the value of the intangibles consisting primarily of development and patent costs and patents related to the Company's septic business unit recorded on the Company's balance sheet are impaired and has accordingly recognized impairment in the prior year of $6,300 relating to these intangibles.

9. TRADE AND OTHER PAYABLES

		Past Due			
	Total	< 30 days	30-60 days	60-90 days	> 90 days
	($)	($)	($)	($)	($)
November 30, 2014 (unaudited)	2,687,418	173,632	83,518	341,079	2,089,189
August 31, 2014	3,254,511	410,715	44,633	190,953	2,608,210

Trade payables are non-interest bearing. A significant portion of the Company's payables are currently over 90 days as a result of prior cash flow challenges. Management is working diligently to settle the liabilities over time as cash flow permits.

10. CONVERTIBLE DEBENTURES

On May 22, 2014, the Company closed a private placement of 618 8% secured, subordinate, convertible, redeemable debentures ("debentures") at a price of $1,000 per debenture for aggregate gross proceeds of $618,000. The debentures bear interest at a rate of 8.00% per annum payable quarterly. Each debenture is convertible at the holder's option into common shares of the Company at any time after the issuance and prior to December 31, 2015 at the conversion price of $0.30 per common share. A commission of $49,440 plus 164,800 broker warrants which are exercisable at $0.30 per common share was paid. The broker warrants expire December 31, 2015 and were assigned a fair value of $0.10 per warrant for a total of $16,480. Net proceeds after commissions, regulatory and legal fees amounted to $545,000.

On June 21, 2007 the Company issued 10,000 secured subordinated debentures ("old debentures") at a face value of $1,000 per debenture for an aggregate principal amount of $10,000,000. These debentures bore interest at 8% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 each year. The debentures were originally due on June 21, 2012 and the maturity date was later extended to October 31, 2012 at a meeting of debenture holders held on June 20, 2012. At the same meeting the debenture holders approved an increase in the annual interest rate from 8% to 10% for the period from June 21, 2012 to October 31, 2012.

On October 31, 2012, the Company closed the exchange of its old debentures into either new debentures (the "New Debentures") or new units (the "New Units"). The New Debentures have a coupon of 8% maturing in one year and are convertible into Common Shares at $0.40 per share with a forced conversion provision if after six months from the closing date the 20 day moving average trading price for the Common Shares is greater than $0.45 per share. The New Units form part of the private placement described in note 16(c) of these consolidated financial statements.

Approximately 94% of the outstanding debentures were converted, resulting in the issuance of New Debentures in a principal amount of $6,086,947 and the issuance of 8,259,954 New Units as part of the October 31, 2012 private placement. A total of $502,540 in principal and interest was paid out in cash to retire the remaining outstanding debentures that were not converted.

The convertible debentures have been segregated into their debt and equity components using the residual valuation approach. The financial liability component has been assigned a value equal to the discounted present value of the future interest and principal payments. The remaining component, representing the value ascribed to the holder's option to convert the principal balances into common shares, is classified in shareholders' equity.

Effective, October 31, 2013, the maturity date on the Company's convertible debentures was amended from October 31, 2013 to December 31, 2013 as a result of a vote held at an extraordinary meeting of Debentureholders. Further, the closing of the Company's private placement on December 30, 2013 satisfied the condition of raising additional equity such that the maturity date on the Company's existing 8% convertible debentures was then further extended from December 31, 2013 to December 31, 2015. In addition, the issuance of equity at $0.20 resets the optional conversion price of the convertible debentures to $0.26, and the Company has the option to compel conversion if the moving average share price exceeds $0.30 for 20 days.

The Company accounted for these maturity date extensions as a change in estimate of the maturity date of the convertible debentures which has been accounted for prospectively. Accordingly, the value of the convertible debentures was adjusted based on the revised maturity dates with all other assumptions remaining unchanged other than an additional $256,000 in new financing costs which were incurred to effect the change in maturity date. As a result of the most recent maturity date extension, the convertible debentures now mature on December 31, 2015 and accordingly are now presented as a long-term liability in the Company's Statement of Financial Position.

(Expressed in Canadian Dollars)

During the three months ended November 30, 2014, a total of $280,000 (2013 – nil) in convertible debentures including accrued interest were converted to common shares. As a result of the conversion a total of 1.1 million (2013 – nil) in common shares were issued.

The convertible debentures have been segregated into their debt and equity components using the residual valuation approach. The financial liability component has been assigned a value equal to the discounted present value of the future interest and principal payments. The remaining component, representing the value ascribed to the holder's option to convert the principal balances into common shares, is classified in shareholders' equity.

The convertible debentures outstanding at November 30, 2014 and August 31, 2014 have been recorded as follows:

	November 30, 2014 (unaudited)	August 31, 2014
	($)	($)
Balance, beginning of period	8,751,000	8,751,000
Interest accrued on old debentures	316,476	316,476
Interest accrued on converted debentures	3,444	3,444
Convertible debt and accrued interest converted to equity	(3,297,316)	(3,017,552)
Old debentures paid out in cash	(502,540)	(502,540)
New debentures issued	618,000	618,000
Interest accrued on new debentures	85,717	92,549
Financing costs	(294,734)	(362,703)
Accretion of liability	1,445,427	1,231,997
Balance, end of period	7,125,474	7,130,671

	November 30, 2014 (unaudited)	August 31, 2014
Allocated to:	($)	($)
Liability	4,866,011	4,611,444
Equity	2,239,463	2,519,227
	7,125,474	7,130,671

(Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURE

(a) Compensation of key management personnel

Compensation of key management is reported based on the accrual basis of accounting consistent with the amounts recognized in these consolidated financial statements. Key management includes the Company's Board of Directors, the Chief Executive Officer, President and Chief Financial Officer. Compensation awarded to key management is summarized as follows:

(unaudited)	Three months November 30 2014	Three months November 30 2013
	($)	($)
Salaries and benefits	120,000	153,000
Share-based payment expense	-	-
Total	120,000	153,000

(b) Advances from related parties

In April 2014, the Company signed an agreement requiring the repayment of the $261,000 in advances in ten equal instalments commencing September 30, 2014 with the last payment on June 30, 2015. Interest is payable at a rate of 1% on the outstanding principal balance at the end of each month effective January 1, 2014. All related parties were controlling shareholders at the time the transactions occurred. These transactions were measured at the exchange amount, which is the amount of consideration agreed to by the related parties. The September instalment was paid in September and the two instalments due for the months of October and November plus all accrued interest as of November 30, 2014 was paid in December 2014.

(Expressed in Canadian Dollars)

12. OBLIGATION UNDER FINANCE LEASE

The Company leases vehicles for use in operations. The leases contain an average interest rate of 9%, and are for terms that encompass substantially all of the assets' useful lives. The obligations are secured by the underlying assets and originally matured in fiscal year 2015. In the first quarter of the year, the Company arranged to extend the maturity dates of the remaining leases by one year. The future minimum lease payments under the finance leases are as follows:

	November 30, 2014 (unaudited)	August 31, 2014
	($)	($)
Total future minimum lease payments	103,217	117,629
Interest included in installments	8,311	3,733
Obligation under finance leases	94,906	113,896
Current portion	94,906	113,896
Long-term portion	-	-

Future minimum lease payments under the finance leases are as follows:

Fiscal year 2015	95,000
Fiscal year 2016 and thereafter	-
Total obligation under finance leases	95,000

13. SHARE CAPITAL

(a) Authorized: Unlimited Common voting shares, Unlimited Preferred shares
(b) Issued and outstanding Common and Preferred shares

	November 30, 2014 (unaudited)		August 31, 2014	
	Shares	Amount	Shares	Amount
		($)		($)
Opening	53,709,549	17,114,183	49,949,874	16,068,837
Private placements [note 13(c)]	1,466,667	214,687	-	-
Convertible debt to shares [note 13(c)]	1,076,016	279,764	2,075,258	539,565
Transfer from contributed surplus [note 13(g)]	-	-	-	207,581
Debenture interest paid in shares [note 13(f)]	616,769	111,017	573,234	114,644
Debt converted to shares [note 13(e)]	1,950,181	421,456	1,111,183	183,556
Balance, end of period Common shares	58,819,182	18,141,107	53,709,549	17,114,183
Fair value allocated to warrants [note 13(d)]	-	(3,655,410)	-	(3,096,837)
Preferred shares	2,500,000	438,016	2,500,000	438,016
Balance, end of period		14,923,713		14,455,362

(c) Private placements

On October 28, 2014, the Company announced it had closed a non-brokered private placement of 1.5 million common shares to the Company's Chief Executive Officer at a purchase price of $0.15 per share for aggregate gross proceeds of up to $220,000. The shares are subject to an agreed upon twelve month hold from date of issue.

On December 30, 2013, the Company closed a non-brokered private placement financing of convertible redeemable preferred shares ("Preferred Shares"), series 1 in the capital of the Company. An aggregate of 2,500,000 Preferred Shares were issued at a purchase price of $0.20 per share for total gross proceeds of $500,000 and net proceeds of $438,000. The Preferred Shares are subject to a statutory hold period of four months and a day from the closing date of the offering.

The holders of Preferred Shares are entitled to receive, as and when declared by the board of directors, fixed preferential non-cumulative dividends at the rate of $0.016 per share per annum. The Preferred Shares are convertible on a 1:1 basis into common shares in the capital of the Company (i) at any time at the option of the holder, and (ii) from time to time at the Company's option if the current market price (as such term is defined in the Company's articles of incorporation) of the Common shares exceeds $0.30 per share.

The closing of the private placement satisfied the condition of raising additional equity such that the maturity date on the Company's existing 8% convertible debentures, described in more detail in note 12, has been extended from December 31, 2013 to December 31, 2015. In addition, the issuance of equity at $0.20 resets the optional conversion price of the Debentures

to $0.26, and the Company has the option to compel conversion if the moving average share price exceeds $0.30 for 20 days. In connection with the closing of the private placement, the Company agreed to pay a cash finder's fee of $23,750 to certain parties who identified investors to the Company.

In conjunction with the closing of the private placement, the authorized share capital of the Company was amended on December 30, 2013 by the creation of the first series of preferred shares, which have been designated as Convertible Redeemable Preferred shares, Series 1.

(d) Warrants

On May 22, 2014, in conjunction with the closing of a private placement, the Company issued 164,800 broker warrants which are exercisable at $0.30 per Common Share and expire December 31, 2015. The common share purchase warrants are subject to a hold period of four months and a day from the date of issuance. A total fair value of $16,480 was assigned to the warrants determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.31% and an expected volatility of 143%.

(Expressed in Canadian Dollars)

On February 18, 2014, pursuant to the terms of an agreement, the Company issued 533,333 common share purchase warrants at an exercise price of $0.15 per share for the period expiring 24 months from the date of issue. The common share purchase warrants are subject to a hold period of four months and a day from the date of issuance. A fair value of $101,300 was assigned to the warrants determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.63% and an expected volatility of 158%.

During the year, 261,682 (2013- nil) warrants expired.

On October 23, 2014, the Company announced that it has received approval to extend the expiry date on 18,619,106 common share purchase warrants which were set to expire on October 31, 2014 for an additional one year to October 31, 2015. All remaining terms and conditions of the warrants remain unchanged. As described in more detail in note 4(a), this extension was accounted for as a change in estimate of the term of the warrants from two to three years. The warrants were re-valued using the new term and an additional fair value of $559,000 was assigned to the warrants determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 2.3% and an expected volatility of 97.42%.

Previously, on October 31, 2013, the Company received approval to the extension of the expiry date of its 18,619,106 issued and outstanding common share purchase warrants to October 31, 2014 from their original expiry date of October 31, 2013. At that time, the extension was accounted for as a change in estimate of the term of the warrants from one to two years. The warrants were re-valued using the new term and an additional fair value of $929,000 was assigned to the warrants.

In prior years, the Company had issued a total of 261,682 warrants at a price of $1.34 for which a fair value of $nil was assigned. The warrants expired on January 1, 2014.

A summary of warrants outstanding at November 30, 2014 and August 31, 2014 is as follows:

	November 30, 2014 (unaudited)		August 31, 2014	
	Number	Fair value	Number	Fair value
		($)		($)
Balance, beginning of period	19,317,239	3,096,837	18,880,788	2,049,900
Additional fair value assigned as a result of warrant expiry extension (note 4(a))	-	558,573	-	929,157
Expired	-	-	(261,682)	-
Issued	-	-	698,133	117,780
Balance, end of period	19,317,239	3,655,410	19,317,239	3,096,837

(Expressed in Canadian Dollars)

(e) Shares issued in exchange for debt

On September 9, 2014, the Company issued an aggregate of 1,950,181 common shares of the Company in exchange for $421,456 of debt. Two of the individuals were former officers of the Company and represent 27% of the total shares issued.

On April 24, 2014, the Company issued a total of 246,903 common shares at a deemed price of $0.20 per share to a former officer of the Company in settlement of $49,381 in debt.

On October 2, 2013, the Company issued 864,280 common shares at deemed prices ranging from $0.13 to $0.20 pursuant to services contracts with three individuals for past consulting and advisory services totaling $134,175. Two of the individuals issued shares were former officers of the Company.

(f) Shares issued in lieu of cash interest payable on convertible debentures

In October 2014, the Company issued an aggregate of 616,769 common shares in satisfaction of an aggregate of $111,017 in interest payable to holders of the Company's convertible debentures on September 30, 2014.

In July 2014, the Company issued an aggregate of 573,234 common shares in satisfaction of an aggregate of $114,644 in interest payable to holders of the Company's convertible debentures on June 30, 2014.

(g) Contributed surplus

A summary of the contributed surplus at November 30, 2014 and August 31, 2014 is as follows:

	November 30, 2014 (unaudited)	August 31, 2014
	($)	($)
Balance, beginning of period	861,850	502,881
Share-based payments	-	566,550
Options expired, cancelled or exercised	-	(207,581)
Balance, end of period	861,850	861,850

(h) Convertible debentures

As described in note 10, the Company has issued debentures which are convertible into common shares of the Company.

(Expressed in Canadian Dollars)

14. SHARE-BASED PAYMENT PLAN

The Company has a stock option plan that provides for the issuance of stock options to employees, directors and officers.

During the three months ended November 30, 2014, no options (2013 – nil) were granted by the Company, no options were exercised and no options (2013 – nil) were cancelled or expired. A total of $nil in share-based payments expense was recorded for both the three months year ended November 30, 2014 and 2013.

As at November 30, 2014, the Company has 2.1 million (August 31, 2014 – 1.5 million) options available for issue under the Company's stock option plan.

	November 30, 2014 (unaudited)		August 31, 2014	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
		($)		($)
Balance, beginning of period	3,825,000	0.27	1,007,500	0.67
Granted	-	-	3,225,000	0.20
Cancelled, expired or exercised	-	-	(407,500)	0.68
Outstanding at end of period	3,825,000	0.27	3,825,000	0.27
Exercisable	1,830,000	0.36	1,680,000	0.32

The option prices and expiry dates of the 3.8 million stock options outstanding as at November 30, 2014 are as follows:

Expiry date	Number of options outstanding	($) Exercise price
June 8, 2016	400,000	0.46
May 2, 2017	200,000	1.10
January 31, 2019	3,225,000	0.20
Total	3,825,000	
Weighted average exercise price		0.27

The 3.2 million options granted in the prior year were granted at an exercise price of $0.20 and expire in January 2019. A total of 950,000 of the options granted vested immediately on the date of the grant with the remainder vesting at various dates over the next three years. As fair value of $0.18 per option was assigned to the options based on the following assumptions: a risk-free interest rate of 1.63% and a volatility of 158%. The volatility was determined based on the closing weekly share price over previous fifty-two weeks prior to the date of the grant.

(Expressed in Canadian Dollars)

15. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The following reflects the income and share data used in the basic and diluted earnings per share computations for the three months ended November 30, 2014 and 2013:

	Three months November 30	
(unaudited)	2014	2013
	($)	($)
Net loss	(694,375)	(520,524)
Weighted average number of common shares outstanding during the period	57,014,284	50,510,231
Loss per share, basic	(0.012)	(0.010)
	($)	($)
Net loss	(694,375)	(520,524)
Weighted average number of common shares outstanding during the period	57,092,988	50,510,231
Loss per share, diluted	(0.012)	(0.010)

The majority of the Company's options and warrants to purchase common shares as well as the preferred shares and convertible debentures that were outstanding as of November 30, 2014 and 2013 were not included in the computation of diluted earnings per share, since the effect of these were anti-dilutive. Only warrants to purchase common shares at an exercise price of $0.15 were considered dilutive and included in the above computation.

16. INCOME TAXES

As at November 30, 2014, the Company and its subsidiaries had income tax losses carried forward for tax purposes aggregating $16.8 million (August 31, 2014 - $16.1 million) that are available for the reduction of future years' taxable income. No recognition has been given in these financial statements to any potential tax savings arising from application of these losses. The losses expire between 2015-2035.

(Expressed in Canadian Dollars)

The Company's $5.1 million (August 31, 2014 - $4.9 million) in deferred tax assets, including $4.2 million (August 31, 2014 - $4.0 million) of non-capital losses, and $677,000 (August 31, 2014 - $677,000) of deductible Scientific Research and Experimental Development expenditures are available for the reduction of future years' taxable income. Also included are $125,000 (August 31, 2014 - $125,000) in investment tax credits carried forward arising from expenditures in Scientific Research and Experimental Development. The investment tax credits will be applied directly against future taxes incurred. Due to the uncertainty that these deferred tax assets are likely to be realized the Company's net deferred asset has not been recognized in these financial statements. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the following:

(unaudited)	Three months November 30, 2014	Three months November 30, 2013
	($)	($)
Salaries and benefits	210,839	120,435
Professional and consulting fees	137,487	279,440
Travel and trade shows	9,765	18,246
Rent	44,133	55,956
Other	31,000	69,284
General and administrative expenses	433,224	543,361

18. FINANCE EXPENSES

Finance expenses include the following:

(unaudited)	Three months November 30, 2014	Three months November 30, 2013
	($)	($)
Interest expense on convertible debentures	121,930	121,405
Interest – other	15,065	15,388
Amortization of financing costs	67,969	11,041
Accretion on convertible debentures	213,430	154,753
Finance expenses	418,394	302,587

(Expressed in Canadian Dollars)

19. SEGMENTED INFORMATION

The Company operates two distinct business units, as described below:

Seair Diffusion Systems Inc. focuses on research and development, with the intention of developing markets for other applications of the proprietary diffusion technology. This division has three (2013 – two) major customers whose sales represent 98% (2013 - 81%) of divisional sales and 98% (2013 – 35%) of consolidated sales.

Prior to its sale in the later part of the prior fiscal year, Seair Septic Inc. owned and operated a fleet of rental portable wastewater treatment units which were primarily used to perform sewage treatment at remote campsites throughout Alberta. This division had no (2013 – two) major customers whose sales represent 0% (2013 - 79%) of divisional sales and 0% (2013 – 45%) of consolidated sales.

There are no inter-segment sales. All operations are located in Canada.

	Three months ended November 30, 2014		
(unaudited)	Seair Septic Rentals	Sale of Diffusion Units	Total
	($)	($)	($)
Revenue	-	171,793	171,793
Direct costs	-	33,756	33,756
Expenses	(23,311)	425,734	402,423
Finance expense	5,288	413,106	418,394
Amortization	11,017	578	11,595
Income (loss) from operations	7,006	(701,381)	(694,375)
Identifiable assets	148,074	412,762	560,836

	Three months ended November 30, 2013		
(unaudited)	Seair Septic Rentals	Sale of Diffusion Units	Total
	($)	($)	($)
Revenue	285,460	318,233	603,693
Direct costs	74,846	140,370	215,216
Expenses	200,175	364,836	565,011
Finance expense	15,377	287,210	302,587
Amortization	37,203	4,200	41,403
Loss from operations	(42,141)	(478,383)	(520,524)
Identifiable assets	6,831,503	534,041	7,365,544

(Expressed in Canadian Dollars)

20. NET CHANGE IN NON-CASH WORKING CAPITAL

(unaudited)	November 30 2014	November 30 2013
	($)	($)
Trade and other receivables	220,088	(19,968)
Inventory	-	-
Prepaid expenses	(7,257)	9,695
Trade and other payables	(567,093)	152,212
	(354,262)	141,939

21. RISK MANAGEMENT

Risk exposure and management
The Company is exposed to market risk, credit risk, liquidity risk and currency risk.

The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Market risk
The Company is exposed to market risk through its reliance on the oil and gas industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business. Management has no basis to quantify this risk exposure but acknowledges it is material and can occur suddenly.

The Company is indirectly exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids to the extent that such fluctuations impact activity levels in the oil and gas industry. The Company has no material direct exposure to commodity price risk.

Credit risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily within accounts receivable. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information. At November 30, 2014, 91% (August 31, 2014 – 72%) of the Company's accounts receivable was owed from two (August 31, 2014 – one) customers.

(Expressed in Canadian Dollars)

At November 30, 2014, 9% (August 31, 2014 – 0%) of net accounts receivable was outstanding for 90 days or more. Virtually all of the Company's receivables are due from large oil companies that management consider to be credit worthy and management does not believe there is any material exposure with respect to collection or credit risk for any accounts receivable outstanding at November 30, 2014.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company is exposed to liquidity risk in the event that it is unable to sell a financial asset quickly at close to its fair value.

At November 30, 2014 the contractual obligations related to financial liabilities are as follows:

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 3 years	Thereafter
	($)	($)	($)	($)	($)	($)
Trade/other payables	2,687,000	2,687,000	2,687,000	-	-	-
Finance leases	95,000	95,000	95,000	-	-	-
Advances from related parties	235,000	235,000	235,000	-	-	-
Convertible debentures	5,889,000	5,889,000	-	5,889,000	-	-
	8,906,000	8,906,000	3,017,000	5,889,000	-	-

The Company's liquidity requirements are primarily met through the cash generated from operations and additional equity financing. Management monitors and manages its liquidity risk through regular monitoring of its financial liabilities against the constraints of its available financial assets.

Currency risk
The Company is exposed to currency risk with regards to its US denominated accounts receivable and US dollar denominated purchases. The Company has not engaged in any hedging activity to mitigate this risk. Based on the monetary assets and liabilities held at year end, a non-exceptional change in the $US - $CAD foreign exchange would not materially impact the Company's net earnings.

(Expressed in Canadian Dollars)

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to protect its ability to meet its ongoing financial obligations and to maximize shareholder returns over the long term. Protecting the ability to pay current and future liabilities includes maintaining a prudent base of capital, ensuring adequate liquidity and financial flexibility and satisfying internally determined capital guidelines based on risk management.

Capital is comprised of the Company's share capital, cash and cash equivalents and convertible debentures. As at November 30, 2014, the Company's share capital was $14.9 million (August 31, 2014 - $14.5 million), cash and cash equivalents were $129,000 (August 31, 2014 – $190,000), liability portion of convertible debentures was $4.9 million (August 31, 2014 - $4.6 million) and equity portion of convertible debentures was $2.2 million (August 31, 2014 - $2.5 million).

23. COMMITMENTS

The Company has obligations under a lease for its office premises which expires on April 30, 2017. The lease commitments are exclusive of operating costs. Minimum lease payments in future fiscal years are as follows:

2015	123,000
2016	164,000
2017	109,000

24. SUBSEQUENT EVENTS

(a) Private placement

On December 9, 2014, the Company closed a non-brokered private placement financing for gross proceeds of approximately $1.2 million by the issuance of 6,444,451 at $0.18 per unit. Each unit was comprised of one common share and one-half of one common share purchase warrant. Each full common share purchase warrant and one-half of one common share purchase warrant entitles the holder thereof to purchase an additional share at $0.23 until December 9, 2016.

Further, on December 18, 2014, the Company closed a second tranche of the non-brokered private placement financing initially closed on December 9, 2014 for gross proceeds of approximately $50,000 by the issuance of 277,778 at $0.18 per unit. Each unit was comprised of one common share and one-half of one common share purchase warrant. Each full common share purchase warrant and one-half of one common share purchase warrant entitles the holder thereof to purchase an additional share at $0.23 until December 18, 2016.

(b) Debt for shares

On December 9, 2014, the Company announced that they have agreed to issue an aggregate of approximately 854,116 common shares, based on a price per share of $0.21, to suppliers in exchange for satisfying outstanding obligations totaling $179,364.

(c) Shares in lieu of cash interest payable on convertible debentures

In January 2015, the Company issued an aggregate of 527,108 common shares in satisfaction of an aggregate of $105,422 in interest payable to holders of the Company's convertible debentures on December 31, 2014.