

ProSep Inc.
Unaudited Consolidated Interim Financial Statements
For the three and six-month periods
ended June 30, 2010

ProSep Inc.
Consolidated statements of loss and comprehensive loss
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	8,652,996	9,315,971	18,060,686	22,502,751
Cost of goods sold	6,081,680	5,599,523	12,911,061	15,569,631
Gross margin	2,571,316	3,716,448	5,149,625	6,933,120
Expenses				
Sales and marketing	498,580	631,672	1,009,668	1,105,651
Research and development	90,129	139,137	151,919	300,633
General and administrative	2,230,899	2,472,232	4,912,628	5,201,079
	2,819,608	3,243,041	6,074,215	6,607,363
Income (loss) before the following items:	(248,292)	473,407	(924,590)	325,757
Impairment of goodwill	-	6,500,000	-	6,500,000
Increase in fair value of long-term investments (Note 7)	(375,000)	-	(375,000)	-
Net financial charges (Note 3)	364,518	692,745	1,166,828	2,031,233
Amortization	366,193	394,707	744,700	770,179
Loss on sale of asset	26,268	-	26,268	-
Loss before income taxes	(630,271)	(7,114,045)	(2,487,386)	(8,975,655)
Current tax provision (recovery)	(369,293)	145,752	(367,242)	185,085
Future tax provision (recovery)	43,701	(111,945)	(510,760)	(28,372)
Income taxes (recovery)	(325,592)	33,807	(878,002)	156,713
Net loss	(304,679)	(7,147,852)	(1,609,384)	(9,132,368)
<i>Weighted average number of shares (basic and diluted)</i>	<i>176,393,780</i>	<i>64,443,451</i>	<i>169,861,137</i>	<i>64,443,451</i>
<i>Basic and diluted loss per share (Note 5)</i>	<i>(0.00)</i>	<i>(0.11)</i>	<i>(0.01)</i>	<i>(0.14)</i>

Statement of Comprehensive Income (Loss)

	2010	2009	2010	2009
	\$	\$	\$	\$
Net loss	(304,679)	(7,147,852)	(1,609,384)	(9,132,368)
Foreign currency translation adjustment (Note 15)	1,198,957	-	1,297,311	-
Comprehensive income (loss)	894,278	(7,147,852)	(312,073)	(9,132,368)

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

ProSep Inc.
Consolidated balance sheets

	Unaudited June 30,	Audited December 31,
	2010	2009
	\$	\$
Assets		
Current assets		
Cash	4,870,248	7,689,695
Restricted cash (Note 6)	5,144,359	2,022,940
Receivables	14,627,168	12,807,205
Inventories	462,312	392,709
Prepaid expenses	612,312	665,162
Income tax recoverable	944,817	544,177
Future income tax assets	207,922	207,698
	26,869,138	24,329,586
Long-term investment (Note 7)	3,729,775	3,425,000
Property and equipment	1,357,005	1,526,561
Goodwill	15,364,522	15,195,645
Intangible assets	8,433,893	8,918,517
	55,754,333	53,395,309
Liabilities		
Current liabilities		
Bank credit facilities (Note 8)	5,922,938	5,006,206
Accounts payable and accrued liabilities	12,233,784	12,836,057
Deferred revenue	401,696	71,796
Current portion of long term debt	1,577,300	1,672,602
	20,135,718	19,586,661
Long-term debt (Note 9)	10,524,742	11,689,450
Future income tax liabilities	1,167,505	1,661,127
Pension obligation	561,686	495,440
	32,389,651	33,432,678
Shareholders' equity		
Share capital (Note 10)	75,711,435	72,010,934
Contributed surplus	11,650,294	11,499,512
Accumulated other comprehensive income	3,197,822	1,900,511
Deficit	(67,194,869)	(65,448,326)
	23,364,682	19,962,631
	55,754,333	53,395,309

Approved by the Board

" *Jacques L. Drouin* " Jacques L. Drouin, Director

" *David H. Laidley* " David H. Laidley, Director

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ProSep Inc.
Consolidated statements of contributed surplus
(unaudited)

	Six-month period ended June 30, 2010				Total contributed surplus
	Stock-based compensation	Warrants	Conversion feature of loans	Other	
	\$	\$	\$	\$	
Contributed surplus, beginning of period	2,909,496	660,828	171,560	7,757,628	11,499,512
Stock-based compensation and restricted share units (Note 4)	219,452	-	-	-	219,452
Vested restricted share units settled in cash	(68,670)	-	-	-	(68,670)
Contributed surplus, end of period	3,060,278	660,828	171,560	7,757,628	11,650,294

	Six-month period ended June 30, 2009				Total contributed surplus
	Stock-based compensation	Warrants	Conversion feature of loans	Other	
	\$	\$	\$	\$	
Contributed surplus, beginning of period	2,548,774	8,000,821	1,977,544	-	12,527,139
Stock-based compensation and restricted share units	162,714	-	-	-	162,714
Contributed surplus, end of period	2,711,488	8,000,821	1,977,544	-	12,689,853

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

ProSep Inc.
Consolidated statements of deficit and accumulated other comprehensive income
(unaudited)

Deficit	Six months ended June 30,	
	2010	2009
	\$	\$
Deficit, beginning of period	(65,448,326)	(48,485,076)
Share issue costs (Note 10)	(137,159)	-
Net loss	(1,609,384)	(9,132,368)
Deficit, end of period	(67,194,869)	(57,617,444)

Accumulated other comprehensive income		
	2010	2009
	\$	\$
Balance, beginning of period	1,900,511	-
Foreign currency translation adjustment	1,297,311	-
Balance, end of period	3,197,822	-

At June 30, 2010, the sum of deficit and Accumulated other comprehensive income is \$63,997,047.

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

ProSep Inc.
Consolidated statements of cash flows
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Operating activities				
Net loss	(304,679)	(7,147,852)	(1,609,384)	(9,132,368)
Interest received on long-term investment	(1,752)	93,811	-	376,337
Items not affecting cash				
Stock-based compensation	132,066	99,812	219,452	162,714
Amortization of property and equipment	187,493	225,032	385,445	430,827
Amortization of intangible assets	178,700	169,678	359,255	339,352
Loss on sale of asset	26,268	-	26,268	-
Accretion on long-term debt	13,380	208,908	27,866	373,902
Impairment of goodwill	-	6,500,000	-	6,500,000
Increase in fair value of long-term investment	(375,000)	-	(375,000)	-
Periodic pension cost in excess of contribution	56,800	36,243	118,070	90,624
Future income taxes (recovery)	43,701	(111,945)	(510,760)	(28,372)
Unrealized exchange loss (gain)	77,528	(492,435)	483,335	(113,103)
	34,505	(418,748)	(875,453)	(1,000,087)
Changes in operating working capital items	(2,873,370)	(3,288,394)	(2,618,271)	(2,960,275)
	(2,838,865)	(3,707,142)	(3,493,724)	(3,960,362)
Investing activities				
Restricted cash	(2,773,164)	-	(3,042,539)	-
Disposal of tangible assets	554	-	554	-
Subsidies on intangible assets	44,918	-	44,918	-
Acquisition of property and equipment	(49,560)	(287,118)	(244,812)	(342,028)
	(2,777,252)	(287,118)	(3,241,879)	(342,028)
Financing activities				
Restricted cash released	-	4,196,832	-	4,196,832
Bank credit facilities	1,243,781	(3,040,419)	1,295,814	(1,598,936)
Increase in long term debt	-	67,906	-	67,906
Shares issued (net of expenses)	3,563,344	-	3,563,344	-
Repayment of long-term debt	(777,905)	(843,559)	(789,892)	(851,839)
	4,029,220	380,760	4,069,266	1,813,963
Decrease in cash	(1,475,432)	(3,487,431)	(2,819,453)	(2,179,405)
Effect of exchange rate on cash	111,465	126,069	(153,116)	309,022
Cash, beginning of period	6,345,680	8,923,145	7,689,701	7,615,119
Cash, end of period	4,870,248	5,435,714	4,870,248	5,435,714

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

ProSep Inc.
Notes to the consolidated financial statements (Unaudited)
For the three-month and six-month periods ended June 30, 2010 and 2009

1. Financial Statement Presentation and Going Concern

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial statements, following the same accounting policies as those outlined in Note 2 to the consolidated financial statements for the year ended December 31, 2009.

The interim financial statements should be read in conjunction with the most recent annual consolidated financial statements.

The accompanying financial statements of ProSep Inc. (the "Company") have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes the Company will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations.

The Company has incurred a loss of \$1,609,384 for the six-month period ended June 30, 2010, has an accumulated deficit of \$67,194,869 and has not so far generated positive cash flows from operations. In addition, the Company is subject to certain restrictive covenants. Accordingly, there exists significant doubt that the Company would be able to continue as a going concern at June 30, 2010. These conditions require that the Company continues to seek external sources of financing such as the line of credits obtained from DnB NOR in April 2010 (Note 8) and the private placement completed in May 2010 (see Note 10), in order to continue its operations and to achieve profitability in the future.

At June 30, 2010, the Company had an unrestricted cash balance of \$4,870,248 and restricted cash balance of \$5,144,359 of which \$2,744,069 is expected to be released on October 5, 2010, and \$2,400,290 is expected to be released on November 5, 2010. Taking into consideration the aforementioned additional line of credit and private placement, the Company believes that it has sufficient liquidity to meet its obligations for the next twelve months.

While management believes the use of going concern assumptions is appropriate, the financial statements do not include any adjustments or disclosures that may be necessary should the Company not be able to continue as a going concern. If this were the case, these adjustments could be material.

2. Segmented Information

Operating Segment

The Company designs, develops and manufactures process solutions to treat produced water, oil and gas for the upstream oil and gas industry. Segments are based on geographic locations except for Corporate Office that was separated based on its distinct operations. US, European & Middle East and Asia Pacific operations relate to manufacturing and commercialization of process solutions. The former Product Development segment has been integrated into European & Middle East Operations to represent the unit's operational functionality. Comparable information has been reclassified accordingly.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies.

ProSep Inc.
Notes to the consolidated financial statements (Unaudited)
For the three-month and six-month periods ended June 30, 2010 and 2009

2. Segmented Information (continued)

Revenue and Expenses by Segment

For the three-month period ended June 30, 2010

	US operations	European & Middle East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	5,400,888	1,997,623	1,254,485	-	-	8,652,996
Revenue inter segment	41,197	150	-	-	(41,347)	-
Total revenue	5,442,085	1,997,773	1,254,485	-	(41,347)	8,652,996
Cost of goods sold	4,094,664	897,571	1,130,792	-	(41,347)	6,081,680
Gross margin	1,347,421	1,100,202	123,693	-	-	2,571,316
Operating expenses	1,261,422	550,406	178,324	829,456	-	2,819,608
EBITDA*	85,999	549,796	(54,631)	(829,456)	-	(248,292)

Two clients of the US operations represented 34.9% and 12.5% of the Company's revenue and one client of the European & Middle East operations represented 11.9% of the Company's revenue for the three-month period ended June 30, 2010.

For the three-month period ended June 30, 2009

	US operations	European & Middle East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	5,211,215	1,320,666	2,784,090	-	-	9,315,971
Revenue inter segment	-	166,223	6,933	-	(173,156)	-
Total revenue	5,211,215	1,486,889	2,791,023	-	(173,156)	9,315,971
Cost of goods sold	3,040,813	534,633	2,197,233	-	(173,156)	5,599,523
Gross margin	2,170,402	952,256	593,790	-	-	3,716,448
Operating expenses	1,307,528	944,362	238,040	753,111	-	3,243,041
EBITDA*	862,874	7,894	355,750	(753,111)	-	473,407

One client from the Asia Pacific operations represented 20.6% of the Company's revenue and three clients of the US operations represented 10.4%, 11.5% and 13.3% of the Company's revenue for the three-month period ended June 30, 2009.

For the six-month period ended June 30, 2010

	US operations	European & Middle East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	10,983,551	4,218,099	2,859,036	-	-	18,060,686
Revenue inter segment	41,565	9,750	-	-	(51,315)	-
Total revenue	11,025,116	4,227,849	2,859,036	-	(51,315)	18,060,686
Cost of goods sold	8,470,261	1,865,491	2,626,624	-	(51,315)	12,911,061
Gross margin	2,554,855	2,362,358	232,412	-	-	5,149,625
Operating expenses	2,642,181	1,424,984	352,032	1,655,018	-	6,074,215
EBITDA*	(87,326)	937,374	(119,620)	(1,655,018)	-	(924,590)

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods ended June 30, 2010 and 2009****2. Segmented Information (continued)**

Two clients of the US operations represented 38.9% and 12% of the Company's revenue and one client of the European & Middle East operations represented 14.7% of the Company's revenue for the six-month period ended June 30, 2010.

For the six-month period ended June 30, 2009						
	US operations	European & Middle East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	15,155,842	2,493,844	4,853,065	-	-	22,502,751
Revenue inter segment	74,683	166,223	174,010	-	(414,916)	-
Total revenue	15,230,525	2,660,067	5,027,075	-	(414,916)	22,502,751
Cost of goods sold	10,785,126	1,374,639	3,824,782	-	(414,916)	15,569,631
Gross margin	4,445,399	1,285,428	1,202,293	-	-	6,933,120
Operating expenses	2,688,588	1,822,852	445,689	1,650,234	-	6,607,363
EBITDA*	1,756,811	(537,424)	756,604	(1,650,234)	-	325,757

Three clients of the US operations represented 11.6%, 16.4% and 15.8% of the Company's revenue and one client from the Asia Pacific operations represented 13% of the Company's revenue for the six-month period ended June 30, 2009.

* EBITDA is a non-GAAP measure and the Company defines it as earnings or loss from operations excluding depreciation and amortization, financial charges and income taxes.

Geographic Information

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Sales to customers located in:				
United States	1,505,805	2,655,136	2,970,581	8,797,075
Columbia	3,016,335	-	7,045,137	-
Kuwait	139,721	987,661	205,577	3,776,841
Malaysia	727,989	1,892,001	1,669,854	3,087,558
Venezuela	(6,164)	1,047,010	-	2,050,991
Norway	1,337,930	428,645	3,357,320	965,959
UK	395,208	-	395,208	100,000
Singapore	473,908	688,080	1,094,574	1,056,062
Other countries	1,062,264	1,617,438	1,322,435	2,668,265
	8,652,996	9,315,971	18,060,686	22,502,751

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods ended June 30, 2010 and 2009****3. Financial Charges**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest on long-term debt	240,919	378,053	434,476	849,368
Accretion on long-term debt	13,380	208,908	27,866	373,902
Other interest	40,217	123,266	193,096	300,819
Sub-total	294,516	710,227	655,438	1,524,089
Interest revenue on held for trading financial assets	(7,345)	(48,744)	(18,552)	(65,744)
Loss on foreign exchange	77,347	31,262	529,942	572,888
Financial charges, net	364,518	692,745	1,166,828	2,031,233

4. Restricted Share Units

During the three and six-month periods ended June 30, 2010, the Company granted respectively 3,650,000 restricted share units at a weighted average value of \$0.17 per share for a total of \$620,500, and 100,000 restricted share units at a weighted average value of \$0.125 per share for a total of \$12,500 (2,215,000 were granted during the three and six-month periods ended June 30, 2009 at a weighted average value of \$0.21 per share for a total value of \$462,150). The expenses recorded in the consolidated statements of loss and credited to contributed surplus for the three and six-month periods ended June 30, 2010 were respectively \$132,066 and \$219,452 (\$99,812 and \$162,714 for the three and six-month periods ended June 30, 2009).

	Six-month period ended June 30, 2010
	Number of restricted share units
Balance, beginning of period	4,161,778
Granted	3,750,000
Forfeited	(348,565)
Vested	(381,500)
Balance, end of period	7,181,713

5. Basic and Diluted Loss Per Share

Basic and diluted loss per share has been calculated using the weighted-average number of common shares outstanding during the period: 176,393,780 shares for the three-month period ended June 30, 2010 and 169,861,137 shares for the six-month period ended June 30, 2010 (64,443,451 shares for the three-month and six-month periods ended June 30, 2009).

As a result of the loss for the three-month and the six-month periods ended June 30, 2010, 4,460,242 potentially dilutive warrants, 420,000 potentially dilutive options and 7,181,713 potentially dilutive restricted share units as well as the convertible feature of the loan have not been included in the calculation of diluted loss per share because the effect would have been anti-dilutive (27,635,027 warrants, 420,000 options and 3,986,778 restricted share units as well as the convertible features of the debenture and secured loans during the period ending June 30, 2009).

6. Restricted Cash

At June 30, 2010, restricted cash of \$2,744,069 and \$2,400,290 is related to letters of credit that will be released respectively on October 5 and November 5, 2010.

ProSep Inc.
Notes to the consolidated financial statements (Unaudited)
For the three-month and six-month periods ended June 30, 2010 and 2009

7. Long term Investment and Related Credit facility

Estimate of Fair Value

At June 30, 2010, the Company held the same Notes issued by Master Asset Vehicle II (“MAV 2”) at December 31, 2009. Although there is evidence that some isolated transactions have occurred on some of these Notes since December 31, 2009, such transactions are not representative of an active market and accordingly quotations from an active market were not available at June 30, 2010. In fact, the Notes held by the Company have not traded in an active market since the restructuring of January 2009.

The fair value of the Notes at June 30, 2010 was determined using a methodology consistent with the one used at December 31, 2009 which is based on management’s judgment using available information and assumptions market participants would use in pricing such Notes at the balance sheet date. The Company took into account information provided by DBRS and BlackRock, the administrator of MAV 2, including current and anticipated credit ratings, composition and valuation estimates of the underlying assets, the estimate of the extent of leverage in the transactions underlying the MAV 2 Notes, general economic conditions and the price levels of the aforementioned irregular transactions in considering the fair value of the investment.

The Company estimated the fair value of the Notes using the discounted cash flow evaluation technique based on observable market assumptions to the extent possible. The main assumptions are comprised of the anticipated interest coupons, anticipated maturity of the Notes and an appropriate discount rate considering the underlying risks. The estimated discount rate was determined based on observable market assumptions for similar securities. The Company used the following discount factors to evaluate the Notes:

Replacement Notes	June 30, 2010		December 31, 2009	
	Expected Yield	Market related Discount factors (Canada Bond rate plus)	Expected Yield	Market related Discount factors (Canada Bond rate plus)
Class A-1	245 basis points*	375 basis points	283 basis points**	590 basis points
Class A-2	245 basis points*	470 basis points	283 basis points**	705 basis points
Class B	0 basis points*	550 basis points	283 basis points**	850 basis points
Class C	0 basis points	2,550 basis points	0 basis points	2,350 basis points
Ineligible	0 basis points	136 basis points	0 basis points	203 basis points

* June 30, 2010 bankers' acceptance swap rate of 2.95% minus 50 basis points

** December 31, 2009 bankers' acceptance swap rate of 3.33% minus 50 basis points

The risk premiums added to the basic bankers’ acceptance rates reflect liquidity, credit and other risks.

The fair value of the put options embedded in the credit facility with the National Bank of Canada at June 30, 2010 was estimated using a valuation technique that incorporates a probability-weighted approach, applied to discounted future cash flows of the underlying IA and Eligible Notes while considering: (i) the fair value of such Notes, (ii) the maximum amount that can be drawn under the respective credit facilities, (iii) the recourse features of such drawings, and (iv) the discount rate relating to National Bank.

At June 30, 2010, management concluded that the fair value of the Notes increased by \$305,000 compared to March 31, 2010 while the embedded put options varied from \$2,400,000 to \$2,470,000 from the March 31, 2010 value.

The estimated fair values may not be indicative of the ultimate net realizable value or the future fair value, because of the uncertainty in the market. While management believes that its valuation technique is appropriate under the circumstances, changes in significant assumptions, especially those relating to the probability of the scenarios, returns, credit risk and liquidity risk could significantly affect the value ascribed to the replacement notes in the future. Following the analysis, the Company identified that the discount rate related to Classes A-1 and A-2 of MAV 2, and the embedded put option on the IA Notes generate the vast majority of the volatility in the valuation model of the Notes and embedded put options fair value. For example, a 50 basis point increase or decrease in the discount rate for A-1 and A-2 Notes and the IA Notes put option would result in a \$109,701 change in the aggregate fair value of the Notes.

ProSep Inc.
Notes to the consolidated financial statements (Unaudited)
For the three-month and six-month periods ended June 30, 2010 and 2009

8. Bank Credit Facilities

The Company has a bank credit facility with DnB NOR consisting of a senior overdraft facility of 30,000,000 NOK (\$4,907,975 at June 30, 2010) and a guarantee facility of 15,000,000 NOK (\$2,453,988 at June 30, 2010) to be used to provide customer guarantees against advances received under sales contracts. The senior overdraft facility with DnB NOR was increased in May 2010 by an amount of 18 million NOK (\$2,944,785) to a total of 48 million NOK (\$7,852,761) until the end of July 2010. In exchange for this temporary increase, the guarantee facility was reduced by 6 million NOK (\$981,595) to 9 million NOK (\$1,472,393). The senior overdraft facility outstanding is 36,203,959 NOK (\$5,922,938) at June 30, 2010 (27,719,866 NOK (\$5,006,206) at December 31, 2009) and is secured by the assets of the Company. The interest rate of 4.57% (3.96% in 2009) is the one month Norwegian Interbank Offered Rate (NIBOR) of 2.57% at June 30, 2010 (1.96% at December 31, 2009), plus 2% per annum.

The letters of guarantee outstanding amount to \$1,359,047 at June 30, 2010 (\$2,083,112 at December 31, 2009).

9. Long-term Debt

	June 30, 2010	December 31, 2009
	\$	\$
Convertible unsecured subordinated debenture in the nominal amount of \$3,953,500, bearing interest of 13.25% payable semi-annually and maturing on July 16, 2014.	3,628,391	3,600,526
Revolving credit facilities with National Bank of Canada bearing interest at prime rate (2.50% at June 30, 2010) minus 1% payable monthly (Note 7).	-	-
- IA Notes facility, maturing in March 2011	2,523,797	2,523,797
- Less embedded put option	(2,470,000)	(2,400,000)
- Eligible Notes facility, first tranche, maturing in March 2012	2,524,528	2,524,753
- Eligible Notes facility, second tranche, maturing in March 2012	2,132,014	2,132,014
Obligations under capital leases	82,330	104,764
Credit facility with DnB NOR: The interest rate of 5.79% (5.11% in 2009) is the three month Norwegian Interbank Offered Rate (NIBOR) +3.00% and the principal amount is payable in 10 equal installments of 4,500,000 NOK (\$736,196 as of June 30, 2010) every 6 months. Expiration date is October 25, 2012.	3,680,982	4,876,198
	12,102,042	13,262,052
Current portion of long term debt	(1,577,300)	(1,672,602)
Long-term debt	10,524,742	11,689,450

10. Share Capital

	<u>Number of shares</u>	<u>\$</u>
Balance, December 31, 2009 and March 31, 2010	163,255,910	72,010,934
Issued pursuant to the private placement (a)	28,465,385	3,700,501
Balance, June 30, 2010	191,721,295	75,711,435

(a) Pursuant to a private placement closed on May 18, 2010, the Company issued a total of 28,465,385 common shares at a price of \$0.13 per common share for gross proceeds of \$3,700,501.

The transaction costs of \$137,159 have been accounted for as an increase in the deficit (share issue expenses).

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Notes to the consolidated financial statements (Unaudited)
For the three-month and six-month periods ended June 30, 2010 and 2009

11. Defined Benefit Pension Plan

For the three-month period ended June 30, 2010, an amount of \$39,128 has been recorded in the statement of loss to account for the increase in the pension obligation (\$36,243 for the three months ended June 30, 2009). For the six-month period ended June 30, 2010, an amount of \$94,986 has been recorded in the statement of loss to account for the increase in the pension obligation (\$90,624 for the six-month period ended June 30, 2009).

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net periodic benefit cost	39,128	36,243	94,986	90,624

12. Contingencies

In addition to the letters of guarantee disclosed in Note 8, the Company has an amount of \$3,424,471 (\$3,643,958 at December 31, 2009) of letters of guarantee outstanding with Export Development Canada.

13. Subsequent Events

As described in Note 8, the bank credit facility with DnB NOR which was granted additional capacity of 18 million NOK (\$2,944,785) in May 2010 has been reset to its contractual level of 30 million NOK (\$4,907,975) at the end of July 2010. In exchange for this temporary increase, the guarantee facility which had been reduced by 6 million NOK (\$981,595) has also been reset to its contractual level of 15 million NOK (\$2,453,988) at the end of July 2010.

14. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current period.

15. Self-sustaining Foreign Operations

Effective October 1, 2009, as all foreign subsidiaries were self sustaining, the Company translates its foreign operations using the current rate method. As a result, the Company's non-monetary assets, liabilities and Shareholders' Equity increased respectively by \$1,198,957 for the three-month period ended June 30, 2010 and \$1,297,311 for the six-month period ended June 30, 2010.