

ProSep Inc.
Unaudited Consolidated Interim Financial Statements
For the three-month period ended
March 31, 2009

ProSep Inc.
Consolidated statements of loss and comprehensive loss
For the three-month periods ended March 31, 2009 and 2008

(Unaudited)

	Three months ended March 31,	
	2009	2008
	\$	\$
Revenue (Note 3)	13,186,780	9,117,043
Cost of goods sold	9,970,108	6,584,464
Gross margin	3,216,672	2,532,579
Expenses		
Sales and marketing	473,979	561,064
Research and development	161,496	303,205
General and administrative	2,728,847	2,109,371
	3,364,322	2,973,640
	(147,650)	(441,061)
Decrease in fair value of investment in ABCP	-	450,000
Financial charges (Note 4)	1,338,488	1,958,870
Amortization	375,472	363,857
Loss before income taxes	(1,861,610)	(3,213,788)
Current tax provision	39,333	205,168
Future tax recovery	83,573	(81,142)
Income taxes	122,906	124,026
Net loss and comprehensive loss	(1,984,516)	(3,337,814)
Weighted average number of shares (basic and diluted)	64,443,451	62,556,566
Basic and diluted loss per share (Note 5)	(0.03)	(0.05)

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

ProSep Inc.
Consolidated balance sheets
As at March 31, 2009 and December 31, 2008
(Unaudited)

	March 31, 2009	Audited December 31, 2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	8,923,145	7,615,119
Restricted cash (Note 6)	4,400,239	1,037,846
Receivables (Note 7)	20,511,093	20,004,848
Inventories	737,416	669,881
Prepaid expenses	1,131,738	886,085
	35,703,631	30,213,779
Restricted cash	-	3,158,986
Long-term investment (Note 8)	5,531,000	5,815,000
Property and equipment	1,705,394	1,856,279
Goodwill	20,407,126	20,407,126
Intangible assets	7,682,368	7,852,042
Future tax assets	167,540	192,398
	71,197,059	69,495,610
Liabilities		
Current liabilities		
Bank credit facilities (Note 9)	13,339,212	11,596,044
Accounts payable and accrued liabilities	21,512,549	20,953,507
Income tax payable	10,759	114,043
Deferred revenue	1,173,916	484,078
Current portion of long term debt (Note 10)	3,551,756	3,322,106
	39,588,192	36,469,778
Long-term debt (Note 10)	12,561,711	12,087,493
Future tax liabilities	1,093,649	1,117,599
Pension obligation (Note 11)	344,219	289,838
	53,587,771	49,964,708
Shareholders' equity		
Share capital	55,488,839	55,488,839
Contributed surplus	12,590,041	12,527,139
Deficit	(50,469,592)	(48,485,076)
	17,609,288	19,530,902
	71,197,059	69,495,610

Going concern (Note 1)

Approved by the Board

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

" *G rard Caron* " G rard Caron, Director

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

ProSep Inc.
Consolidated statements of deficits
For the three-month periods ended March 31, 2009 and 2008

(Unaudited)

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Deficit, beginning of the period	(48,485,076)	(46,605,116)
Net loss and comprehensive loss	(1,984,516)	(3,337,814)
Deficit, end of the period	(50,469,592)	(49,942,930)

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

ProSep Inc.
Consolidated statements of contributed surplus
For the three-month periods ended March 31, 2009 and 2008
(Unaudited)

	Three months ended March 31, 2009			
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at December 31, 2008	2,548,774	8,000,821	1,977,544	12,527,139
Stock-based compensation	62,902	-	-	62,902
Contributed surplus as at March 31, 2009	2,611,676	8,000,821	1,977,544	12,590,041

	Three months ended March 31, 2008			
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at December 31, 2007	2,066,473	7,433,980	632,273	10,132,726
Stock-based compensation	135,997	-	-	135,997
Contributed surplus as at March 31, 2008	2,202,470	7,433,980	632,273	10,268,723

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

ProSep Inc.
Consolidated statements of cash flows
For the three-month periods ended March 31, 2009 and 2008

(Unaudited)

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Operating activities		
Net loss and comprehensive loss	(1,984,516)	(3,337,814)
Interests received on investment in ABCP	298,526	-
Items not affecting cash		
Stock-based compensation	62,902	135,997
Amortization of property and equipment	205,795	194,181
Amortization of intangible assets	169,674	169,676
Accreted interest	164,994	61,731
Decrease (Increase) in fair value of investment in ABCP	(16,000)	450,000
Periodic pension cost in excess of contribution	54,381	9,216
Future income taxes	83,573	(81,142)
Change in fair value of derivative financial instruments	-	239,998
Unrealized exchange loss	379,332	1,484,719
	(581,339)	(673,438)
Changes in operating working capital items	328,119	(2,234,270)
	(253,220)	(2,907,708)
Investing activities		
Acquisition of property and equipment	(54,910)	(52,465)
	(54,910)	(52,465)
Financing activities		
Bank credit facilities	1,441,483	1,913,588
Reimbursement of long-term debt	(8,280)	(4,327)
	1,433,203	1,909,261
Effect of exchange rate on cash and cash equivalents	182,953	108,819
Increase (Decrease) in cash and cash equivalents	1,308,026	(942,093)
Cash and cash equivalents, beginning of period	7,615,119	8,662,634
Cash and cash equivalents, end of period	8,923,145	7,720,541

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 periods ended March 31, 2009 and 2008

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, 2008 with the exceptions disclosed in Note 2 below.

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

The accompanying financial statements 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 losses of \$1,984,516 as at March 31, 2009, had an accumulated deficit of \$50,469,592 and has not so far generated positive cash flow from operations. In addition the Company is subject to several restrictive financial covenants. Such conditions require that the Company continuously seek non operational sources of financing to fund its operations as well as work on achieving profitability in a near future. The Company has concluded in April a new covenant structure with DNB Nor allowing for the release of the \$3,362,393 (18 000 000 NOK) that was held in a separate escrowed bank account (Refer to note 10 and 15 for further details). The company also accepted an offer from National Bank regarding revolving term loans totaling \$7,180,564 in replacement of the \$7,200,000 term loan due on April 30, 2009. (refer to Notes 8 and 9).

In light of the new covenant structure with DnB Nor, the Company has initiated restructuring discussions with holders of its debentures. The outcome of such discussions may result in swapping (all or in part) debentures into equity and recapitalizing the Company.

However, there are no assurance that either additional financing can be obtained on favorable terms, if at all or the company achieve profitability in the very near future. As a result there is significant doubt on the company's ability to continue as a going concern.

While management believes the use of going concern assumptions is appropriate, there is no assurance that the above will be successful. 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. Changes in accounting policies

On January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which superseded Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this new standard did not have a significant impact on the financial statements.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities.

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)**

For the three-month periods ended March 31, 2009 and 2008

3. 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. At the beginning of 2008, the Company has determined five reportable segments. Segments were based on geographic locations except for Product Development and Corporate Office which were separated based on their distinct operations. US Operations, ProPure & Middle-East and ProSep Asia Pacific relate to manufacturing and commercialization of process solutions. Product Development relates to research and development activities. Corporate Office relates to head office activities to support segments.

*Revenue and expenses by business units***For the three-month period ended March 31, 2009**

	US Operations	ProPure & Middle-East	ProSep Asia Pacific	Product Development	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue third party	9,944,627	999,467	2,068,975	173,711	-	-	13,186,780
Revenue inter segment *	74,683	-	167,077	-	-	(241,760)	-
Total revenue	10,019,310	999,467	2,236,052	173,711	-	(241,760)	13,186,780
Cost of goods sold	7,744,313	723,537	1,627,549	116,469	-	(241,760)	9,970,108
Gross margin	2,274,997	275,930	608,503	57,242	-	-	3,216,672
Operating expenses	1,381,060	712,091	207,649	166,399	897,123	-	3,364,322
EBITDA**	893,937	(436,161)	400,854	(109,157)	(897,123)	-	(147,650)

For the three-month period ended March 31, 2008

	US Operations	ProPure & Middle-East	ProSep Asia Pacific	Product Development	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue third party	7,767,263	1,140,735	128,853	80,192	-	-	9,117,043
Revenue inter segment *	-	-	690,411	-	-	(690,411)	-
Total revenue	7,767,263	1,140,735	819,264	80,192	-	(690,411)	9,117,043
Cost of goods sold	5,573,214	851,363	782,199	68,099	-	(690,411)	6,584,464
Gross margin	2,194,049	289,372	37,065	12,093	-	-	2,532,579
Operating expenses	992,563	673,536	180,637	290,356	836,548	-	2,973,640
EBITDA**	1,201,486	(384,164)	(143,572)	(278,263)	(836,548)	-	(441,061)

* These transactions were carried out at exchange amount which is the value established and accepted by the parties.

** 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.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month periods ended March 31, 2009 and 2008

3. Segmented information (continued)

Revenue originated from:

For the three-month period ended March 31, 2009

	US Operations	ProPure & Middle-East	ProSep Asia Pacific	Product Development	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	10,019,310	-	-	-	-	(74,683)	9,944,627
Norway	-	899,443	-	173,711	-	-	1,073,154
Canada	-	100,024	-	-	-	-	100,024
Malaysia	-	-	2,236,052	-	-	(167,077)	2,068,975
	10,019,310	999,467	2,236,052	173,711	-	(167,077)	13,186,780

Three clients of US Operations represented respectively 11%, 21% and 27% of the Company's revenue for the three-month ended March 31, 2009.

For the three-month period ended March 31, 2008

	US Operations	ProPure & Middle-East	ProSep Asia Pacific	Product Development	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	7,767,263	-	-	-	-	-	7,767,263
Norway	-	992,775	-	80,192	-	-	1,072,967
Canada	-	147,960	-	-	-	-	147,960
Malaysia	-	-	819,264	-	-	(690,411)	128,853
	7,767,263	1,140,735	819,264	80,192	-	(690,411)	9,117,043

One client of US Operations represented 51% of the Company's revenue for the three-month ended March 31, 2008.

Assets

As at March 31, 2009

	US Operations	ProPure & Middle-East	ProSep Asia Pacific	Product Development	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Total assets	23,538,485	4,910,929	2,941,319	-	39,806,326	-	71,197,059

As at December 31, 2008

Total assets	21,145,815	4,305,381	768,682	-	43,275,732	-	69,495,610
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ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month periods ended March 31, 2009 and 2008

3. Segmented information (continued)

Geographic information

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Sales to customers situated in:		
United States	6,141,939	1,736,330
Argentina	-	4,680,930
Kuwait	2,789,180	92,888
Malaysia	1,195,557	-
Venezuela	1,003,981	-
Algeria	-	812,456
Norway	537,314	868,868
Other countries	1,518,809	925,571
	13,186,780	9,117,043

Assets

As at March 31, 2009

	United States	Norway	Malaysia	Canada	Consolidated operations
	\$	\$	\$	\$	\$
Property and equipment	676,848	539,460	33,004	456,082	1,705,394
Goodwill	10,161,126	7,559,000	2,687,000	-	20,407,126
Intangible assets	3,305,521	1,968,986	2,201,898	205,963	7,682,368
	14,143,495	10,067,446	4,921,902	662,045	29,794,888

As at December 31, 2008

	United States	Norway	Malaysia	Canada	Consolidated operations
	\$	\$	\$	\$	\$
Property and equipment	702,566	599,311	36,710	517,692	1,856,279
Goodwill	10,161,126	7,559,000	2,687,000	-	20,407,126
Intangible assets	3,377,733	2,012,000	2,250,000	212,309	7,852,042
	14,241,425	10,170,311	4,973,710	730,001	30,115,447

4. Financial charges

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Financial charges		
Other financial liabilities		
Interest on long-term debt	471,315	373,854
Accretion on long-term debt	164,994	61,731
Interest charges	177,553	139,211
Sub-total	813,862	574,796
Held for trading		
Change in fair value of derivative financial instrument	-	239,998
Interest revenue on held for trading financial assets	(17,000)	(69,804)
Sub-total	(17,000)	170,194
Loss on foreign exchange	541,626	1,213,880
	1,338,488	1,958,870

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: 64,443,451 shares for the three-month period ended March 31, 2009 and 62,556,566 shares for the three-month period ended March 31, 2008.

As a result of the loss for the three-month period ended March 31, 2009, 27,635,027 potentially dilutive warrants, 436,500 potentially dilutive options and 4,061,500 potentially dilutive restricted units have not been included in the calculation of diluted loss per share because the effect would have been anti-dilutive. For the three-month ended March 31, 2008, 25,599,027 potentially dilutive warrants, 2,762,500 potentially dilutive options and 455,000 potentially dilutive restricted share units have not been included in the calculation for the same reason.

6. Restricted cash

	March 31,	December 31,
	2009	2008
	\$	\$
Restricted cash short term	4,400,239	1,037,846
Restricted cash long term	-	3,158,986
	4,400,239	4,196,832

On October 25, 2007, \$1,037,846 was deposited following the acquisition of Pure Group AS. In November 2008, 18,000,000 NOK (\$3,362,393) was required under the credit facility with DnB NOR. This amount is now presented as short term (Note 15).

7. Receivables

	March 31,	December 31,
	2009	2008
	\$	\$
Trade accounts receivable	11,213,723	4,889,791
Unbilled receivables *	9,163,851	14,528,661
Sales taxes and other	133,519	586,396
	20,511,093	20,004,848

* Unbilled receivables represent revenue recorded in accordance with revenue recognition criteria for which the amounts have not yet been invoiced.

8. Long-term Investment

As at December 31, 2008, the Company held commercial paper ("ABCP") acquired on July 12, 2007, with a nominal value of \$9,000,000. During the month of August 2007, the ABCP market experienced liquidity problems. The maturity date of the ABCP held by the Company was August 14, 2007, and the amount due was not repaid.

The restructuring efforts of the Pan Canadian restructuring committee under the Companies' Creditors Arrangement Act led to a final restructuring, the closing of which occurred on January 21, 2009. As expected, the restructuring plan led to the replacement of the ABCP held by the Company by new floating rate notes that have maturities based on the maturities of the underlying assets. The key elements of the plan relevant to the Company are as follows:

Creation of a new trust named "Master Asset Vehicle 2" ("MAV 2"):

- MAV 2 regroups the so-called 100% synthetic transactions, that is a combination of assets provided as collateral and credit default swaps and hybrid transactions, that is a combination of synthetic assets and traditional assets.
- MAV 2 also includes the ineligible (subprime) assets originally associated with these transactions.
- Creation of five categories of notes for MAV 2 (A-1, A-2, B, C and IA).
- The IA notes are subdivided in multiple series of tracking notes that pass through to the holders the cash flows generated by the underlying assets.

According to the restructuring plan, the Company has received in January 2009 long-term floating rate MAV 2 notes (the "Replacement Notes") with the following nominal amounts:

	\$
Class A-1 Notes:	371,936
Class A-2 Notes:	4,291,318
Class B Notes:	778,993
Class C Notes:	168,316
Class IA, series 1 and 2 Notes:	3,365,062

The MAV 2 A-1, A-2, B and C Notes legally mature in 2056. However, the expected maturity date is in 2016. The Class A-1 and A-2 Notes have been originally rated A by DBRS. The Class B and C Notes have not been rated. The Class A-2 Notes have however been placed under review with negative implications on April 24, 2009.

The Replacement Notes are considered as new financial instruments and have been designated as held for trading and are classified as long-term investments.

In addition to the Replacement Notes, the Company has received in January 2009 upon the restructuring an initial cash payment amounting to \$298,526 representing accrued interest on the ABCP for the period from August 2007 to August 2008, net of the estimated restructuring costs incurred by the Pan-Canadian restructuring committee.

The Replacement Notes held by the Company have not traded in an active market since the restructuring and as of March 31, 2009, there were no quotations from an active market available.

The fair value of the Replacement Notes as of March 31, 2009, was determined based on management's judgment using available information and assumptions market participants would use in pricing such Replacement Notes as at the balance sheet date. The Company reviewed information provided by the Pan-Canadian restructuring committee and DBRS 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 and general economic conditions in considering the fair value of the investment.

8. Long-term Investment (continued)

The Company estimated the fair value of the Replacement Notes using the discounted cash flow evaluation technique based on observable market assumptions to the extent possible. The main assumptions are comprised of the accrued interest expected to be received for the period from August 2008 to January 2009, the anticipated interest coupons and the anticipated maturity of the Replacement Notes and an appropriate discount rate considering the underlying risks. The estimated discount rate was determined based on observable market assumptions for similar securities. For the Replacement Notes backed by ineligible assets, the fair value was established taking into consideration the terms of the proposed agreement with National Bank of Canada ("National Bank") as is further described below. The Company used the following discount factors to evaluate the Replacement Notes:

Replacement Notes	Expected Yield	Market related Discount factors
Class A-1 and A-2	140 basis points*	Canada Bond rate plus 625 basis points
Class B	140 basis points*	Canada Bond rate plus 1030 basis points
Class C	140 basis points*	Canada Bond rate plus 1530 basis points
Class IA	0 basis points*	Canada Bond rate plus 500 basis points

* March 31, 2009 BA rate of 1.90% minus 50 basis points

The risk premiums added to the basic Canadian government bond rates reflect the liquidity, credit and other risks. Regarding the IA Replacement Notes, the nominal amount used in the yield and discount calculation was reduced by 25% to take into consideration the agreement proposed by the National Bank which was conditional upon the implementation of the ABCP restructuring plan prepared by the Pan-Canadian committee, and the final terms of which were accepted by the Company in April 2009.

The final terms of which were accepted by the Company in April 2009, for these IA Replacement Notes, a \$2,523,797 revolving credit facility agreement representing an amount equal to 75% of such Notes. This credit facility is valid for a minimum of two years and bears interest at the prime rate less 1%. The agreement also grants to the Company the right to sell to National Bank the IA Replacement Notes at the end of two years. The proceeds from the sale has to be used to reduce the outstanding amount under the credit facility and any remaining balance under the credit facility is without recourse to the Company. Consequently, by accepting this agreement, the Company will incur a maximum loss of 25% on the nominal amount on the IA Replacement Notes.

The Company has also accepted in April 2009 the offer from National Bank for a second revolving credit facility totalling \$4,656,767 or 83% of the total nominal amount of the MAV 2 Class A-1, A-2, B and C Replacement Notes (collectively the "Eligible Notes"). These credit facilities are valid for a minimum term of 3 years and also bear interest at the prime rate less 1%. The agreement provides for borrowings to be made under two tranches: a first tranche representing 45% of the nominal amount of the Eligible Notes and a second tranche representing 38% of the nominal amount of the Eligible Notes. It also grants the Company the right to sell to National Bank the Eligible Notes at the end of 3 years. The proceeds from the sale of the Eligible Notes has to be used to settle the first tranche and then the second tranche of the credit facility. Any remaining balance under the first tranche of the credit facility is without recourse to the Company. Consequently, by accepting this agreement, the Company will incur a maximum loss of 55% of the nominal amount on the Eligible Notes.

These credit agreements will provide the Company with \$7,180,564 in long term financing facilities in replacement of the previous term loan that was secured with the ABCP and maturing on April 30, 2009. The bank's recourse with respect to these new credit facilities will be limited to the Replacement Notes.

Based on its assessment of fair values, the Company did not recognize any impairment charge during the three-month period ended March 31, 2009 (\$450,000 for the three-month period ended March 31, 2008) for a cumulative impairment charge of \$3,469,000 since the acquisition of the original ABCP, representing a cumulative impairment of 38.5% of the original cost.

The above 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, numerous reasonable assumptions exist. While management believes that its valuation technique is appropriate under the circumstances, changes in significant assumptions, especially those relating to returns, credit risk and liquidity risk could significantly affect the value ascribed to the Replacement Notes in the next quarters. Following the analysis, the Company identified that the discount rate related to Classes A-1 and A-2 of MAV 2, generate the vast majority of the volatility in the valuation model of the ABCP's fair value. For example, a 50 basis point increase in the discount rate for A-1 and A-2 notes results in a \$100,000 decrease on the investments' value.

The Company has provided a first ranking hypothecation of the ABCP to secure a term loan with recourse (Note 9). This recourse is in third ranking hypothecation.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month periods ended March 31, 2009 and 2008

9. Bank credit facilities

On March 25, 2008, the Company renewed its agreement with the National Bank of Canada and converted the credit facility payable on demand to a term loan with a new maturity date of April 30, 2009. The amount of this term loan of \$7,200,000 is presented as a bank credit facility as at March 31, 2009 and December 31, 2008 and is secured by the long-term investment in ABCP (Note 8), in addition to third ranking universal hypothecation. The interest rate of 1.0% comprises the Canadian prime rate currently at 2.5% minus 1.5% per annum payable on a monthly basis. In April 2009, the Company has accepted the offer of National Bank to replace this term loan by two revolving credit facilities (Note 15).

The company has a bank credit facility with DnB NOR which consists of a senior overdraft facility of 30,000,000 NOK (\$5,604,020 at March 31, 2009) and a guarantee facility of 15,000,000 NOK (\$2,802,010 at March 31, 2009) to be used to provide customer guarantees against advances received under sales contracts. The bank credit facility outstanding is \$6,139,212 at March 31, 2009 (\$4,396,044 at December 31, 2008). The interest rate of 5.83% is Norwegian Interbank Offered Rate (NIBOR) 3 month, equal to 3.58% plus 2.25% per annum. The excess drawing over the credit capacity is related to certain of the Company's bank accounts that are showing positive cash position which are considered by DnB NOR against the overall drawn amounts (cash pooling). The excess drawing was also related to a temporary excess authorized by the bank due to a large customer payment delay. This temporary excess was covered in early April 2009.

The letters of guarantee outstanding amount to \$2,363,015 as at March 31, 2009 (\$2,123,508 as at December 31, 2008). There is no letter of credit outstanding as at March 31, 2009 (nil as at December 31, 2008).

10. Long-term debt and Interest payable

	March 31, 2009		December 31, 2008	
	Loan	Interest payable	Loan	Interest payable
	\$	\$	\$	\$
Secured convertible loans due by ProSep Inc. in the aggregate principal amount of \$1.5 million, convertible into common shares, bearing interest at 12% per annum compounded and maturing on October 29, 2009.	1,081,294	712,762	979,540	649,540
Unsecured debenture due by ProSep Inc. in the principal amount of \$4 millions USD (\$5,036,000 as at March 31, 2009), bearing interest at 13.25% per annum, payable monthly. The principal amount and interest are payable in 48 equal monthly instalments of \$107,807 USD (\$135,863 as at March 31, 2009) starting on July 1, 2009 and expiring on June 1, 2013. *	5,036,000	55,660	4,898,400	55,208
Credit facility with DnB NOR due by Torr Acquisition Norway AS (wholly owned subsidiary of ProSep Inc.). The interest rate of 5.83% is the three month Norwegian Interbank Offered Rate (NIBOR) +2.25% and the principal amount is payable in 10 equal instalments of 4 500 000 NOK (\$840,603 as of March 31, 2009) every 6 months. Expiration date is October 25, 2012. **	6,724,824	103,350	6,318,006	98,447
Convertible unsecured subordinated debenture due by ProSep Inc. in the principal amount of \$5.1 million, bearing interest at 13% payable monthly and maturing on April 30, 2013.	3,171,404	275,708	3,108,165	110,283
Obligations under capital leases	99,945	-	105,488	-
	16,113,467	1,147,480	15,409,599	913,478
Current portion of long term debt and interest payable	(3,551,756)	(1,147,480)	(3,322,106)	(913,478)
Long-term debt and interest payable	12,561,711	-	12,087,493	-

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month periods ended March 31, 2009 and 2008

10. Long-term debt and Interest payable (continued)

* Following an agreement obtained during the period, the Company can delay its first principal payment scheduled for April 1 to July 1, 2009.

** At December 31, 2008, Torr Acquisition Norway AS (wholly owned subsidiary of ProSep Inc.) was in breach of one of its financial covenants under the credit facility with DnB NOR. The Company has since obtained a long-term waiver for such breach. In exchange of the waiver, the Company must maintain an amount of 18 000 000 NOK (\$3,362,393) in a separate escrow account to be held until the new covenant structure of the credit facility is determined. As part of this agreement the margin applicable to the interest rate has been increased by 0.75% in 2009. This covenant is related to two clean-down periods of no less than three weeks during a rolling twelve months period, each clean-down period to be divided by at least eight weeks. On March 31, 2009, the Company was still in breach of the same covenant. The Company has since signed a new covenant structure, (Note 15 Subsequent events).

Under this new covenant structure, the subsidiaries of ProSep Inc. are restricted from transferring funds in the form of dividends, loans or otherwise to ProSep Inc. in excess of \$3,7 million for fiscal year 2009. Therefore, as at March 31, 2009, due to the short-term maturities of certain credit facilities, committed cash obligations and expected level of expenses for the upcoming 9 months exceed committed sources of funds and cash and cash equivalents on hand.

11. Pension Obligation

For the three months ended March 31, 2009, an amount of \$54,381 has been recorded in the statement of loss to account for the increase in the pension obligation (\$9,216 for the three months ended March 31, 2008).

12. Capital management

The Company is not a capital intensive corporation, but is working capital intensive. During the past years, the company has accumulated a large deficit. The objective of the Company is to achieve and maintain positive earnings and cash flow from operating activities as soon as possible and to have sufficient credit facilities to support growth.

The Company defines capital as being equity plus debt, plus bank indebtedness, less cash and cash equivalents.

	March 31, 2009	December 31, 2008
	\$	\$
Shareholders' equity	17,609,288	19,530,902
Bank credit facilities	13,339,212	11,596,044
Long term debt, including current portion	16,113,467	15,409,599
	47,061,967	46,536,545
Less cash and cash equivalents	8,923,145	7,615,119
Capital	38,138,822	38,921,426

13. Contingent liabilities

In addition of letters of guarantee disclosed in Note 9, the Company has an amount of \$3,434,034 of letters of guarantee with Exportation Development Canada.

14. Comparative figures

Comparative figures for the consolidated financial statements for the three-month period ended March 31, 2008 have been reclassified to conform with the March 31, 2009 presentation.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month periods ended March 31, 2009 and 2008

15. Subsequent events

On April 29, 2009, the Company agreed to a new covenant structure effective April 30, 2009 on its credit facility with DnB NOR. Pursuant to this new structure, \$3,362,393 (18 000 000 NOK) that was held in a separate escrowed bank account until the new covenant structure was determined, was released.

The new covenant structure maintained most of the existing covenants, the clean-down period was reset to April 1, 2009 and added restrictions on cash flow between the parent company and its subsidiaries.

The Company accepted in April 2009 the offer from National Bank to replace the term loan by two revolving credit facilities (Note 8).