



Management Discussion and Analysis May 10, 2010

For the first quarter ended March 31, 2010

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with ProSep Inc.’s (“ProSep” or the “Company”) Unaudited Interim Consolidated Financial Statements for the three-month periods ended March 31, 2010 and 2009 and should also be read with the Company’s Annual Audited Consolidated Financial Statements and MD&A for the year ended December 31, 2009.

Regulatory Filings

The Company’s continuous disclosure material including interim filings, annual MD&A and Audited Consolidated Financial Statements, Annual Information Form and Notice of Annual Shareholder Meeting and Proxy Circular are available at www.sedar.com and on the Company’s website at www.prosepinc.com.

Caution Regarding Forward-Looking Statements

This MD&A may contain forward-looking statements, including statements regarding the business and anticipated financial performance of ProSep. These statements are based, among others, on management’s current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which the Company operates or which could affect its activities, the Company’s ability to attract new clients and consumers as well as its operating costs, raw materials and energy supplies which are subject to a number of risks and uncertainties. Forward-looking statements can generally be identified by the use of the conditional tense, the words “may”, “should”, “would”, “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “foresee”, “objective” or “continue” or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include but are not limited to the Company’s ability to develop, manufacture, and successfully commercialize value-added equipment and services, the availability of funds and resources to continue its operations and pursue its projects, legislative or regulatory developments, competition, technological change, changes in government and economic policy, inflation and general economic conditions in geographic areas where ProSep operates. These and other factors should be considered carefully and undue reliance should not be placed on the forward-looking statements.

Use of estimates

In the course of the preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”), management must make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period. Actual results could differ from these estimates.

All amounts are in Canadian Dollars unless otherwise specified.

Non-GAAP Measurements

This MD&A contains the terms "earnings before interest, taxes, depreciation and amortization" ("EBITDA") and "Net Invested Working Capital" ("NIWC") which should not be considered as an alternative to or more meaningful than net earnings or cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. These terms do not have any standardized meaning as prescribed by GAAP. ProSep's determination of EBITDA and NIWC may not be comparative to that reported by other companies.

Management uses EBITDA, among other measures, to assess the operating performance of the ongoing businesses without the effects of depreciation expense. ProSep excludes depreciation expense because it largely depends on the accounting methods and assumptions a company uses, as well as on non-operating factors such as the historical cost of capital assets. The following table reconciles EBITDA with net income.

	Three months ended March 31,	
	2010	2009
	\$	\$
Net loss	(1,304,705)	(1,984,516)
Plus		
Future tax provision (recovery)	(554,461)	83,573
Current tax provision	2,051	39,333
Amortization	378,507	375,472
Net Financial charges	802,310	1,338,488
EBITDA	(676,298)	(147,650)

NIWC is also used by management to analyze the total amount invested to support outstanding contracts and is defined as the sum of restricted cash related to letters of guarantee, receivables, inventories and prepaid expenses less the sum of the accounts payable, accrued liabilities and deferred revenue.

The following table shows the calculation of this non-GAAP measure.

	March 31, 2010	December 31, 2009
	\$	\$
Restricted cash	2,292,315	2,022,940
Receivables	11,510,953	12,807,205
Inventories	375,446	392,709
Prepaid expenses	700,535	665,162
Total (a)	14,879,249	15,888,016
less		
Accounts payable and accrued liabilities	11,729,768	12,836,057
Deferred revenue	206,398	71,796
Total (b)	11,936,166	12,907,853
Net Invested Working Capital (a minus b)	2,943,083	2,980,163

Comparative Figures

Comparative figures for the financial information related to the three-month period ended March 31, 2009 have been reclassified to conform with the March 31, 2010 presentation.

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1. OVERALL PERFORMANCE

1.1 Highlights of the Quarter Ended March 31, 2010 and Subsequent Events

- Recorded revenues of \$9.4 million, a decrease of 29% when compared to \$13.2 million for the corresponding period of 2009.
- Generated gross margin of \$2.6 million (27% of revenues) compared to \$3.2 million (24% of revenues) for the corresponding period of 2009.
- Recorded net loss of \$1.3 million compared with a net loss of \$2 million for the corresponding period of 2009.
- Announced approximately \$11.6 million in new contracts during the quarter to supply process equipment to large national and international oil and gas producers.
- Obtained approximately \$3M (NOK 18 million) of short term additional credits from the bank to finance working capital.
- Concluded \$2.7 million new equity issuance to support working capital requirements.
- Announced the sale of an offshore water treatment solution to Pemex in the Gulf of Mexico.
- Announced that its proprietary technology will be used at an important large-scale carbon capture testing facility owned by Statoil, Norske Shell and Gassnova.
- Sales backlog stood at \$ 11.3 million at April 1, 2010.

1.2 Material Events and Important Subsequent Events

In this section, all material events and commitments for the three-month period are presented, followed by information on important subsequent events, up to the date of this MD&A.

On May 7, 2010, ProSep announced the closing of a \$2.7 million private placement.

On May 3, 2010, ProSep announced the sale of a water treatment system for installation on an offshore platform in the Gulf of Mexico.

On March 25, 2010 ProSep announced that its proprietary technology will be used as an important process component for carbon capture technologies to be tested by Statoil, Norske Shell and Gassnova at their European CO₂ Technology Center at Mongstad in Norway. The project is valued at \$400,000.

On January 27, 2010 ProSep announced it was awarded a \$3.6 million contract to supply a 35,000 BWP (barrels of water per day) proprietary CTour produced water treatment system for an offshore redevelopment project located in the Norwegian Continental Shelf.

On January 18, 2010 ProSep announced it was awarded a \$3.5 million (U.S.) contract to provide gas membrane equipment to a large independent North-American oil and gas company. This system will be used for enhanced oil recovery (EOR) in Texas.

On January 12, 2010 ProSep announced it was awarded a contract to supply a 13,000 barrel per day (BPD) proprietary produced water treatment system to a major oil and gas producer, for installation on an offshore processing platform in South East Asia.

On January 1, 2010 both Harald Linga PhD and Kjell-Inge Arnevig were promoted as co-leads of the Europe and Middle East operations in replacement of Petter Hovland.

2. COMPANY OVERVIEW

2.1 Business Overview

ProSep designs, develops, manufactures, and commercializes process solutions to treat, separate and purify oil, gas, and water for the oil & gas (O&G) upstream industry. ProSep has a wide range of conventional and proprietary process equipment sold in units or in packages to O&G producers and engineering procurement and construction firms (“EPC”) with or without process warranties.

Global Business Model: ProSep is a solutions provider supplying high efficiency process equipment packages with process warranty.

ProSep provides:

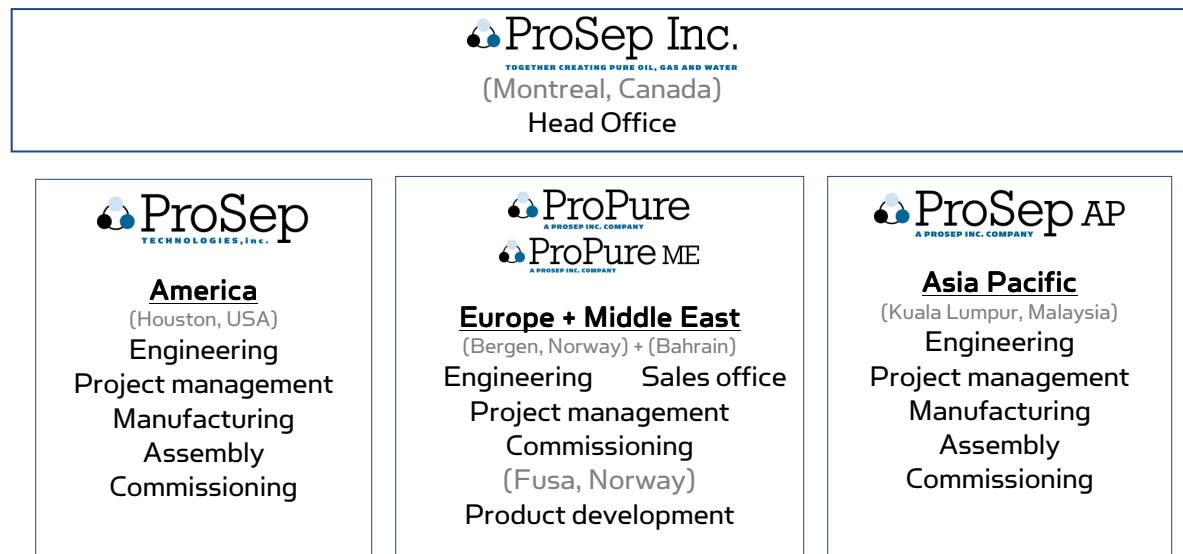
- In-house engineering from process to details; and
- Direct and hands-on involvement with project management that includes fabrication, assembly, commissioning and services

ProSep operates around the world in the most important O&G service hubs with operations in Houston (USA), Bergen (Norway), Fusa (Norway), Kuala Lumpur (Malaysia), and Manama (Bahrain). The head office is in Montreal (Canada).

ProSep has approximately 100 employees, mainly technical sales people, process engineers, product engineers and project managers. ProSep also has workers in its new 55,000 square foot assembly shop located in Houston.

2.2 Corporate Model and Sales Network

ProSep has three diversified business units that promote the Company’s solutions across all regional markets. Each business unit has developed its own specific expertise and reputation by tailoring the Company’s solutions to the markets it serves. Each business unit has its own team of engineers and experienced sales people including a select network of agents.



2.3 Business Environment and Strategy

In 2009, the global upstream O&G market contracted significantly as the global financial crisis, recession and depressed energy demand. Even as prices for crude improved, upstream CAPEX spending budgets were reduced. Many projects were delayed, suspended or cancelled. For most equipment providers and other suppliers to the upstream O&G industry, this has resulted in decreased revenues and profitability.

Upstream capital spending expected to recover

The economic recovery has prompted the International Energy Agency to reiterate its forecast for growth in global oil demand. The agency indicated in its monthly Oil Market Report (released mid-April 2010) that demand would reach an average of 86.6 million bpd this year, up from 84.93 million last year, although consumption in Europe still looks weak.

Before the global recession affected demand levels, capital spending grew at a record pace to reach \$375 billion in 2008¹. The IEA's 2009 World Energy Outlook report expects upstream CAPEX spending in 2009 to have been reduced by 19%, as many capital intensive projects were rendered uneconomical with the then prevailing price levels. GlobalData forecasts² that in the short- to mid-term, increases in CAPEX spending is expected to come mainly from the National Oil Companies (NOC's) as they currently have the necessary financial strength to fund capital-intensive projects. GlobalData also predicts that in 2010, capital expenditure programs of listed oil and gas companies will grow by 16%.

Improving industry fundamentals leading many oil and gas companies to revive their CAPEX budgets, ProSep has noticed an increase in the number of requests for quotation and has been invited to tender on large projects. This trend is being observed across the Company's operations, except for its European-focused activities. ProSep hopes to see its backlog to follow in line with the industry and to start improving in the second half of 2010 and into 2011.

In the longer term, oil and gas producers face a common supply challenge. The world's conventional proven reserves are depleting and new discoveries are mostly unconventional, and thus will require newer treatment technologies. As downhole improvements such as drilling, fracturing and enhanced recovery have changed the profile of the industry, ProSep believes that innovative process solutions are needed to continue improving the economics of oil and gas production.

By continuing to develop its portfolio of products, accelerating their validation cycle and focusing on its produced water treatment offering, ProSep hopes to be well positioned to help oil and gas producers meet their economic objectives while respecting the environment.

To achieve its growth objective, ProSep will continue to focus on its core business. In 2009, the Company expanded its offering and invested in a larger state-of-the-art manufacturing facility. ProSep is able to package its various solutions and bid on larger projects. This strategy started delivering results with recent produced water treatment sales, the supply of an important technology component for a high profile carbon capture project and a \$13 million CO₂ gas treatment system. By accelerating the validation cycle of promising technologies, ProSep plans to substantially differentiate its offering from the competition. By working to position the Company as a market leader in technology oriented process solutions, this key differentiation factor should lead to improved gross margins in a highly competitive environment.

As the oil and gas equipment industry is entering a new economic cycle, ProSep must face and manage robust competition and increased pressure on gross margins. The challenge this year will be to position the Company on a solid profitability track to benefit from increasing market opportunities.

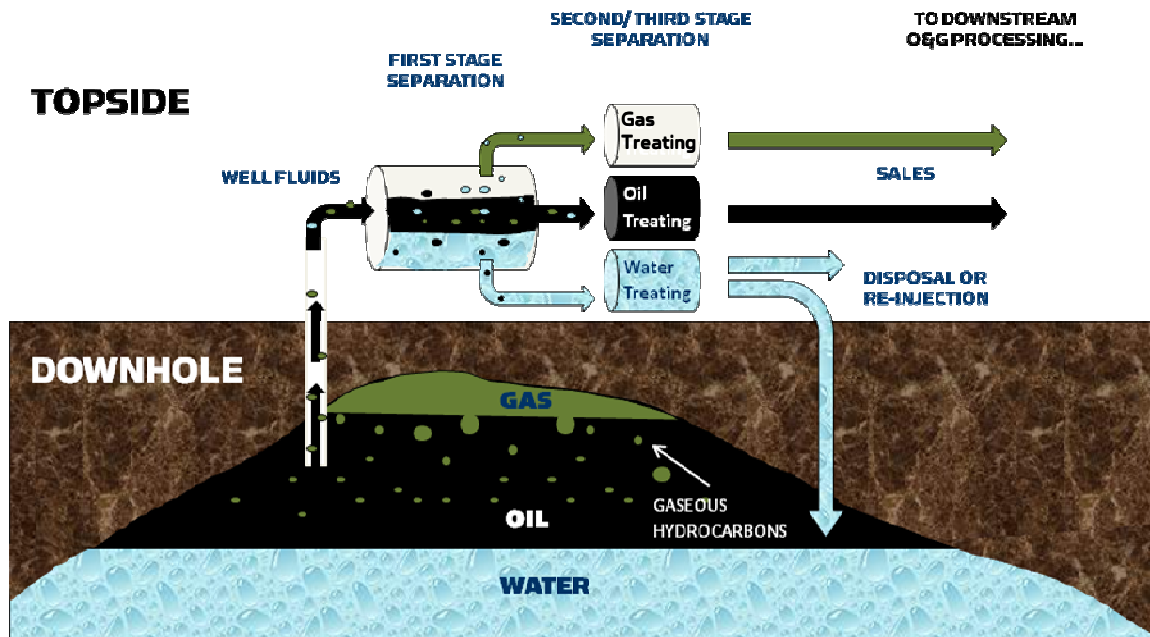
¹ Simmons & Company, Perspectives on Oil Services Companies, Perspectives and Trends, October 2009.

² "Global Oil & Gas Capital Expenditure Outlook - 2010: National Oil Companies (NOCs) to Drive Investment", January 2010 report.

3. PRODUCTS

3.1 Market Segments and Product Penetration

ProSep's international team of engineers has developed extensive knowledge of process solutions for the upstream O&G treatment market. The Company's expertise lies in the development of technically advanced separation solutions destined to treat gas, oil and produced water for upstream production activities.

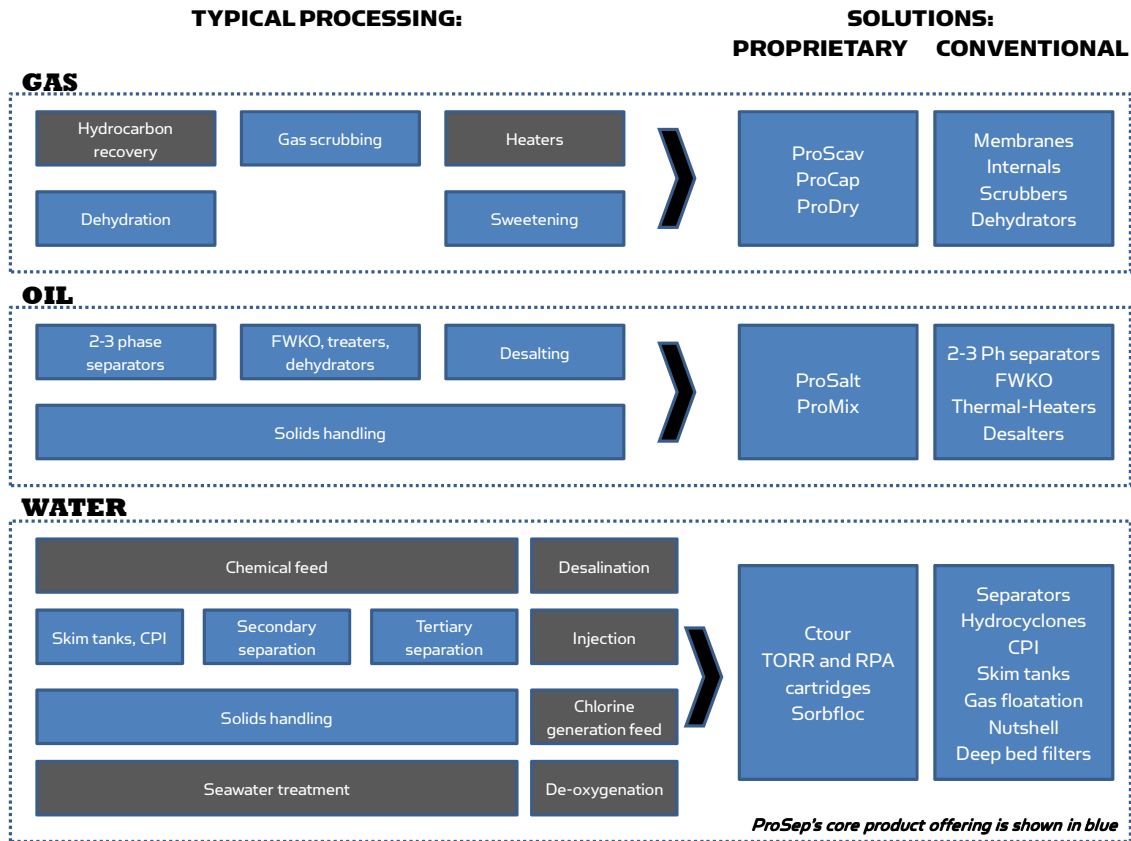


Topside Oil and Gas Separation

Whether recovered from onshore or offshore production facilities, the extracted hydrocarbon stream (oil, gas, water and solids) is brought to the surface (topside) to be processed and separated. Oil must be cleaned of salt and dissolved gas and other components, gas must be stabilized and cleaned of all liquids and unwanted components such as hydrogen sulphide and carbon dioxide before being commercialized. Produced water needs to be treated to remove all dissolved components, organic materials and solids before being disposed of or used for re-injection.

3.2 Product and Services Overview

ProSep designs customer specific solutions by utilizing its wide range of equipment to separate, treat and polish well fluids and gas before they can be sent downstream for further refining, disposed of or used for re-injection. The following is a diagram of the Company's core product offering/penetration:



Process Design Experts:

ProSep’s process engineers developed a wide range of complementary branded proprietary and conventional technologies. Offered as individual equipment or complete custom-designed packages, ProSep’s technically advanced process solutions are used by O&G producers around the world to optimize separation and treatment of produced water, oil and gas. ProSep’s solutions offer environmental and economic efficiencies, allowing oil and gas producers to meet industry and regulatory requirements while optimizing profitability. The company believes this is an important and unique value-added proposition as the industry faces increasing production challenges such as diminishing production at older wells, difficult production environments, unconventional resources and increasing use and co-production of water.

For a complete list and description of the Company’s conventional and proprietary offering, refer to the most recent Annual Information Form document available at www.sedar.com and www.prosepinc.com.

4. RESULTS OF OPERATIONS

4.1 Contracts

Sales originate from several contracts supplying conventional and proprietary gas, oil and water treatment systems to large international Oil and Gas companies (“IOC”) as well as national Oil and Gas companies (“NOC”). ProSep’s systems have been delivered and installed on onshore and offshore oil and gas fields around the world.

Table of announced contracts in 2009 and during the first quarter of 2010

Date	Value	Product	Customer	End User
Jan. 2009	US\$3.7 M	Fuel gas package	n/a: Major EPC firm	n/a: Asia Offshore IOC
Feb. 2009	US\$1.2 M	Separator	Worley Parsons	BP Exploration
March 2009	US\$2.0 M	Fuel gas package	Powertium/MMHE	Petronas
March 2009	US\$2.1 M	Gas membrane units	Whiting Petroleum	Whiting Petroleum
May 2009	\$1.4 M	ProDry "JIP"	Total, Statoil, Con.Phil.	-
July 2009	\$1 M	ProSalt, ProDry	-	BP, Con.Phil, Maersk
October 2009	US\$12.9 M	Gas separation	Ecopetrol	Ecopetrol
January 2010	\$1 M	Water treatment (TORR)	-	n/a: Asia Offshore NOC
January 2010	US\$3.5 M	Gas membrane	-	n/a: US Onshore producer
January 2010	\$3.6 M	Water treatment (CTour)	-	n/a: Offshore super major
March 2010	\$0.4 M	Proprietary mixer for CO2 capture project	Statoil, Norske Shell, Gassnova	Statoil, Norske Shell, Gassnova
May 2010	n/a	Water treatment	Dragados	Dragados-Pemex

n/a: Information could not be revealed for competitive reasons.

4.2 Revenues

	US operations	European & Middle East operations	Asia Pacific operations	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$
Q1 2010 Revenues	5,583,031	2,230,076	1,604,551	(9,968)	9,407,690
Q1 2009 Revenues	10,019,310	1,173,178	2,236,052	(241,760)	13,186,780

For the three-month period ended March 31, 2010, ProSep reported revenues of \$9,407,690, a 29% decrease from \$13,186,780 for the previous three-month period ended March 31, 2009. Affected by residual weakness in upstream capital expenditure programs, delays in contracts as well as unfavourable exchange rates, the Company's US and Asia Pacific operations reported negative revenue growth during the quarter, offsetting a positive performance in European and Middle East operations.

ProSep's *US operations* generated revenues of \$5,583,031 during the quarter ended March 31, 2010, a decrease of 44% from \$10,019,310 reported in 2009. Lower sales levels are explained by the completion of major contracts, by lower order intake and by an unfavourable US currency exchange rate that affected revenues by \$1.2 million. During the first quarter of 2010, the average currency conversion rate for sales concluded by the US operations, which represent 60% of the Company's total consolidated revenues, was 1.02 USD/CAD compared to 1.24 USD/CAD in 2009.

European and Middle East operations reported revenues of \$2,230,076 during the first quarter of 2010, which represents an increase of 90% over \$1,173,178 reported in the corresponding period of 2009. This increase is explained by the \$3.6M order for a proprietary CTour produced water treatment system for an offshore redevelopment project located on the Norwegian Continental Shelf.

Asia Pacific operations' revenues for the first quarter of 2010 were \$1,604,551, a decrease of 28% when compared to \$2,236,052 in 2009. Delays in contract completion of fuel gas packages partly related to changes in orders and requisitioning has limited the operation's ability to recognize more revenues in the quarter. However, CAPEX programs remain strong in the region fuelled by national oil companies that are

looking to mitigate overall declining oil production and bolster gas reserves and production. ProSep's growing reputation in the region enables the Company to be invited to tender on larger projects and gain an important market share of the Malaysian offshore gas treatment processing market.

4.3 Cost of Goods Sold and Gross Margin

		US Operations	European & Middle East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
		\$	\$	\$	\$	\$	\$
For the three-month period ended	Cost of goods sold	4,375,597	967,920	1,495,832	-	(9,968)	6,829,381
March 31, 2010	Gross margin	1,207,434	1,262,156	108,719	-	-	2,578,309
		22%	57%	7%			27%
For the three-month period ended	Cost of goods sold	7,744,313	840,006	1,627,549	-	(241,760)	9,970,108
March 31, 2009	Gross margin	2,274,997	333,172	608,503	-	-	3,216,672
		23%	28%	27%			24%

Fueled by the European and Middle East operations which are focusing on the Company's proprietary product offering, the Company reported a first quarter 2010 consolidated gross margin of 27% of revenues at \$2,578,309 compared to 24% of revenues at \$3,216,672 for the three-month period ended March 31, 2009.

In line with a reduction in revenues, the *US Operations* reported a lower gross margin of \$1,207,434 or 22% of revenues, compared to \$2,274,997 or 23% of revenues in 2009. This small decrease in gross margin percentage is attributable to a contract mix where contracts had a slightly lower margin due to their relative size than in the comparable period of the previous year. Most of the first quarter margin of the US operations is related to the US \$12.9M Ecopetrol gas separation skid contract announced in October 2009 and the US \$3.5M gas membrane order announced in January 2010.

As mentioned above, *European & Middle East operations* contributed positively to the consolidated first quarter 2010 gross margin with \$1,262,156 or 57% of revenues, compared to \$333,172 or 28% during the corresponding quarter of 2009. Current profitability is derived from the proprietary CTour produced water treatment system contract announced in January 2010. Revenues from these operations are mostly attributable to the commercialisation of proprietary systems providing higher gross margins. The relatively low margins in 2009 are explained by both contract mix and higher than expected completion costs on certain contracts.

Asia Pacific operations reported a first quarter 2010 gross margin of \$108,719 or 7% compared to \$608,503 or 27% during the corresponding quarter of 2009. This quarter's unusual low gross margin is solely related to fuel gas skids contracts. Extra costs related to changes in orders and requirements for specific parts had to be provisioned. Such extra costs were all accounted for in the quarter in line with the revenue and cost recognition methodology used by the Company. Excluding these unplanned extra costs, the Q1-2010 margin would have been in the 20% range, a better reflection of gross margin levels on current contracts.

4.4 Expenses and EBITDA

Expenses and EBITDA* for the 3-month periods ended March 31, 2010 and 2009

	Three months ended March 31,	
	2010	2009
	\$	\$
Revenue	9,407,690	13,186,780
Sales and marketing	511,088	473,979
Research and development	61,790	161,496
General and administrative	2,681,729	2,728,847
	<u>3,254,607</u>	<u>3,364,322</u>
EBITDA	(676,298)	(147,650)

* 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. Please refer to section called non-GAAP measurement

EBITDA stood at (\$676,298) for the three-month period ended March 31, 2010 compared to (\$147,650) for the same period in 2009. As total expenses remained stable at \$3,254,607 compared to \$3,364,322, a decrease of 3% over the previous corresponding period, the negative difference in EBITDA of \$528,648 is largely attributable to total lower revenues and unplanned extra costs in the Asia Pacific operations discussed above.

Sales and Marketing Expenses

Sales and marketing expenses were fairly stable at \$511,088 or 5.4% of revenues for the three-month period ended March 31, 2010 compared to \$473,979 or 3.6% for the three-month period ended March 31, 2009. The majority of these expenses relate to salaries, marketing, promotional and travel activities.

Research and Development Expenses

Research and development expenses decreased to \$61,790 in the three-month period ended March 31, 2010 from \$161,496 a year before. Higher allocation of R&D resources to direct costs of projects conducted with and paid for by industry partners explain this variance.

Development activities are conducted under the umbrella of joint industry partnerships (“JIP”) with super major oil and gas companies. This is a highly efficient collaboration model that allows the Company to develop pioneering technologies by addressing a fair portion of project financing needs and validates market interest before the applications reach commercialization. The Company retains all property rights including technology, patents and licensing fees relating to future sales of all products developed.

General and Administrative Expenses

General and administrative expenses were \$2,681,729 for the three-month period ended March 31, 2010 in line with the \$2,728,847 reported a year before. The majority of these expenses relate to salaries (including benefits and option costs) and professional fees (which include regulatory fees, legal fees, accounting and audit fees, investor and public relation fees and consulting fees) and office infrastructure related expenses.

4.5 Financial Charges

Total financial charges were \$802,310 for the quarter ended March 2010 compared to \$1,338,488 for the same period of 2009. The decrease of about \$0.5 million is mostly attributable to reduced interest expenses in relation to the balance sheet restructuring initiative completed in the third quarter of 2009. Overall, this

initiative reduced the principal amount of the indebtedness by \$7,8 million, short-term debt repayment obligations by over \$2.4 million and provided \$3.9 million of cash representing net gross proceeds from the Rights Offering.

4.6 Income Tax

Total income taxes were negative (recovery of) at \$552,410 in the three-month period ended March 31, 2010 compared to a provision of \$122,906 in the three-month period ended March 31, 2009. This quarter's recovery is explained by lower gross margins, which resulted in a net loss at our US operations. This compares to a net profit for these operations in the first quarter of 2009. The Company's operating revenues and expenses are reported by various operations located around the world and are subject to various fiscal jurisdictions. Some of these business units are profitable while others have yet to generate net income and some have accumulated tax losses.

4.7 Net Loss

The Company reported a net loss of \$1,304,705 (\$0.01 per share) for the three-month period ended March 31, 2010 compared to a net loss of \$1,984,516 (\$0.03 per share) for the three-month period ended March 31, 2009. The reduction of the net loss in spite of lower revenues and EBITDA is attributable to lower net financial charges and income taxes discussed above.

Basic and diluted loss per share were calculated using the weighted-average number of common shares outstanding during the period: 163,255,910 shares for the first quarter ended March 2010 and 64,443,451 shares for the corresponding quarter of 2009.

4.8 Foreign Currency Translation Adjustment (Part of Comprehensive Loss)

During the first quarter of 2010, the Company recorded a positive \$98,354 foreign currency translation adjustment resulting from the conversion of the balance sheet of the foreign subsidiaries into Canadian currency. This amount is mainly the result of the conversion of the debt denominated in Norwegian Kroner that depreciated in relation to the Canadian dollar in the quarter. In the fourth quarter of 2009, following several significant changes, the Company reconsidered the functional currency of each of the Company's domestic and foreign operations and concluded that all foreign subsidiaries were self-sustaining. The underlying changes in measurement currencies of the foreign subsidiaries was accounted for prospectively effective October 2009 with no change to previously reported results or balances. As such, no amount was accounted for with respect to the foreign currency translation adjustment in the first quarter of 2009.

4.9 Legal Proceedings

ProSep is the defendant in a claim made by Westend Enviro Consultants ("Westend"). Westend commenced an action in the Supreme Court of British Columbia on March 31, 2006 claiming damages for breach of contract and fraudulent misrepresentation for an amount totaling \$280,000. This claim has now been settled to the satisfaction of both Westend and ProSep for a total amount of \$102,000 plus interest. A provision covering this amount had been taken in the previous year.

5. SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Performance

	2010	Year Ending December 31, 2009				Year Ending December 31, 2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (000 \$)	9,408	9,730	9,186	9,316	13,187	14,799	12,548	15,141	9,117
Net income (loss) (000 \$)	(1,305)	(1,306)	(3,440)	(7,148)	(1,985)	27 ²	1,848 ¹	(162)	(3,338)
Basic EPS* (loss) (\$)	(0.01)	(0.01)	(0.02)	(0.11)	(0.03)	0.00	0.03	(0.00)	(0.05)
Diluted EPS (loss) (\$)	n/a	n/a	n/a	n/a	n/a	0.00	0.03	n/a	n/a

*EPS: Earnings per share
Revenue and income are in thousands, all amounts are in Canadian dollars.

¹Net income includes a reversal of \$1.3 million of warranty provision.

²Net income includes a further reversal of \$1.3 million of warranty provision.

At this stage of the Company's life, interim operating results are still considered volatile.

6. BALANCE SHEET ITEMS

6.1 Assets

Total assets at March 31, 2010 were \$50,458,625 representing a decrease of \$2,936,684 from the December 31, 2009 amount of \$53,395,309. At the end of March 31, 2010, ProSep had \$6,345,680 in cash and cash equivalents compared to \$7,689,695 at December 31, 2009. At March 31, 2010, ProSep had restricted cash in relation to the issuance of letters of guarantee ("LG") required to receive advance payments on contracts that amounted to \$2,292,315. The increase over the \$2,022,940 at December 31, 2009 is related to a new LG issued for the Ecopetrol contract. The Company's receivables were \$11,510,953 at March 31, 2010, a decrease of \$1,296,252 from \$12,807,205 at December 31, 2009. This decrease is in line with the reduction in revenue. Other than the income tax recoverable which mostly increased due to the lower profitability of the US operations, no major changes have occurred in other short-term asset accounts since the beginning of the year.

Total long-term investments stood at \$3,424,775 at March 31, 2010. No changes occurred in the fair market value of the investments in the first quarter. The very small \$225 difference compared to the December 31, 2009 amount relates to a capital repayment.

Goodwill totalled \$14,804,176 at March 31, 2010 compared to \$15,195,645 at December 31, 2009. This decrease is due to changes in foreign exchange conversion rates as goodwill is recorded in the local currency of each operating unit. Total intangible assets were \$8,518,203 at March 31, 2010 compared to \$8,918,517 in December of 2009. This decrease relates to amortization as well as to adjustments reflecting the current foreign exchange conversion rates.

6.2 Liabilities

Total liabilities at March 31, 2010 were \$31,683,629 representing a decrease of \$1,749,049 from the December 31, 2009 amount of \$33,432,678. The variance mainly relates to lower accounts payable and

accrued liabilities of \$11,729,768 on March 31, 2010 compared to \$12,836,057 on December 31, 2009. This decrease relates to a lower level of activity as well as timing on contracts. Adjustment of long-term debt in relation to the foreign exchange rate used for the conversion to Canadian dollars also contributed to the decrease in total liabilities.

6.3 Equity

The Company's net equity at March 31, 2010 was \$18,774,996 compared to \$19,962,631 at December 31, 2009. The decrease is in line with the net loss and other comprehensive loss reported in the first quarter of 2010.

7. OFF BALANCE SHEET ARRANGEMENTS

The Company did not enter into off balance sheet arrangements during the quarter ended March 31, 2010.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 Cash Flows

Operating Activities

In spite of a lower net loss, ProSep generated a negative cash flow from operations of \$654,859 during the quarter ended March 31, 2010 compared to a negative \$253,220 a year before. This reduced cash flow mainly relates to interest on long-term investments received in the first quarter of 2009 which was related to the previous year. It is also related to a reduced change in operating working capital. Investment in operating working capital was required to support ongoing contracts.

Investing Activities

Investments during the first quarter are mostly comprised of \$269,375 in restricted cash related to the issuance of a LG required to receive an advance payment on the Ecopetrol contract. Investing activities also include \$195,252 to acquire shop equipment as well as leasehold improvements and furniture following the relocation of the corporate office to smaller premises.

In the first quarter of 2009, the Company invested \$54,910 for equipment required in the assembly facility in Houston.

Financing Activities

First quarter 2010 financing activities are comprised of inflows of \$52,033 coming from additional drawings on the line of credit to finance the operations.

8.2 Liquidities and Working Capital

At March 31, 2010 ProSep had \$6,345,680 in cash and cash equivalents compared to \$7,689,695 at December 31, 2009.

At March 31, 2010, ProSep also had \$2,292,315 of restricted cash in relation to the Ecopetrol contract for the issuance of LGs maturing on October 5, 2010. It is therefore anticipated that such amount will become available to fund the operations of the Company in October 2010.

At March 31, 2010, ProSep had net invested working capital (NIWC – see definition on page 2) of \$2,943,083 or 7.8% of annualized sales in line with the \$2,980,163 at December 31, 2009 (7.2% of annual sales). The small decrease of about \$40K in NIWC to \$2,292,315 mostly relates to lower receivables net of payables and additional restricted cash of \$0.3M. This amount was required to support the issuance of a LG relating to the Ecopetrol contract. The NIWC represents the total net investment made by the Company to support outstanding contracts. Management is actively monitoring the NIWC in order to ensure it is at its lowest possible level.

The level of NIWC can be quite volatile depending on contracts' structure and advancement and can at times reach 20% or more of annualized sales. The NIWC is financed through cash on hand and bank line of credit and is reduced by customer advances or progress payments on contracts. In some cases, such advances or payments require the issuance of LGs using the DnB NOR NOK 15 million facility (\$2,563,489 at March 31, 2010), support provided by Export Development Canada ("EDC") or simply by pledging cash to secure the issuance of such LG. At March 31, 2010 the total (DnB, EDC and LG secured by restricted cash) outstanding LG amounted to \$7,203,518 (\$5,589,867 at December 31, 2009). On April 1, 2010, an additional LG was issued in relation to the Ecopetrol contract for an amount of \$2,616,502. Such LG was secured by pledging cash on hand for the equivalent amount. As such, and at April 1, 2010, the total restricted cash pledge to secure a LG for the Ecopetrol contract reached \$4,878,817. As mentioned above, this amount will become available to fund the operations of the Company in October 2010. As sales are migrating to countries where ProSep does not have a physical presence, the requirement for an increased level of NIWC and a LG is anticipated to become more and more important.

ProSep intends to finance its future NIWC requirements from cash on hand, cash flow from operating activities, support from EDC, bank credit lines and funds from external sources such as equity issuance. Considering the total amount of restricted cash and the requirement to finance ongoing NIWC, DnB NOR granted on May 11, 2010 a temporary additional capacity of 18 million NOK (approximately \$3 million) on the overdraft facility until the end of July 2010. In exchange for this temporary increase the capacity on the guarantee facility was reduced by 6 million NOK (approximately \$1 million).

In order to ensure adequate capacity to manage the NIWC to fund current and anticipated contracts, ProSep recently announced and closed (May 7, 2010) a private placement of \$2.7 million with a group of current and new shareholders.

8.3 Bank Overdraft Facilities and Obligations under Financial Liabilities

ProSep's Bank Credit Facility at March 31, 2010

Lender	Description	Currency	Capacity (CAD)	Drawn (CAD)	Available (CAD)
DnB NOR	Overdraft	NOK/USD	\$5,126,978	\$4,789,741	\$337,237
	Guarantee facility	NOK	\$2,563,489	\$1,480,912	\$1,082,577

As mentioned above, the capacity of the overdraft facility was increased on May 11, 2010 by an amount of 18 million NOK (approximately \$3 million) for a total capacity of 48 million NOK (approximately \$8.2 million) until the end of July 2010. In exchange for this temporary increase, the capacity of the guarantee facility was reduced by 6 million NOK (approximately \$1 million) to 9 million NOK (approximately \$1.5 million).

8.3.1 Financial Covenants

At March 31, 2010, the Company was in breach of one of its financial covenants under the credit facility with DnB NOR. The breached covenant called for ProSep to repay entirely the line of credit twice a year for a period of three weeks. Due to the activity level and ongoing contracts, ProSep required full usage of its working capital resources and thus was unable to comply with this covenant. On April 30, a long-term waiver was obtained for such covenant breach confirming a verbal agreement obtained prior to the end of the quarter. In exchange for the waiver, the Company agreed to perform a full repayment of its line of credit for a period of three weeks before December 1, 2010.

ProSep is having discussions with the bank to modify the long-term and credit facility structure in order to ease the capital repayment schedule and have more appropriate financial covenants.

8.3.2 Obligation under Financial Liabilities

ProSep's Debt and Credit Facility Repayment Schedule at March 31, 2010

	Carrying Amount	One to nine months	Nine to twelve months	One to five years	More than five years
DnB bank credit facility	\$4,789,741	-	\$4,789,741	-	-
DNB NOR long-term credit facility	\$4,614,280	\$1,538,093	-	\$3,076,187	-
Convertible unsecured debenture	\$3,615,011	-	-	\$3,615,011	-
Revolving credits with National Bank	\$4,780,339	-	\$123,797	\$4,656,542	-
Other	\$90,209	\$35,170	\$13,740	\$41,299	-
Total	\$17,889,580	\$1,573,263	\$4,927,278	\$11,389,039	-

9. TRANSACTIONS WITH RELATED PARTIES

During the quarter ended March 31, 2010, ProSep did not make any transactions with related parties.

10. DESCRIPTION OF CAPITAL STRUCTURE

ProSep's authorized share capital consists of an unlimited number of common shares, of which 163,255,910 common shares are issued and outstanding at March 31, 2010. On May 7, 2010, the Company issued 20,394,616 new shares at a price of \$0.13 for total proceeds of \$2.7 million.

The Company is authorized to issue an unlimited number of common shares without par value. The holders of the common shares are entitled to receive notice of and to attend all annual and special meetings of shareholders and to exercise one vote in respect of each common share held at all such meetings. The holders of the common shares are entitled, at the discretion of the Company's Board of Directors, to receive any or all profits or surplus available for the payment of dividends, as well as any dividend declared by the Board of Directors and payable by the Company on the common shares. The holders of the common shares will participate rateably in any distribution of the Company's assets upon liquidation, dissolution or winding-up or other distribution of assets among shareholders for the purpose of winding up the Company's affairs. Such

participation will be subject to the rights, privileges, restrictions and conditions attached to any securities issued and outstanding at such time ranking in priority to the common shares upon liquidation, dissolution or winding-up.

At March 31, 2010, options to purchase 420,000 common shares of the Company issued pursuant to ProSep's stock option plan were outstanding.

The Company grants restricted share units to attract, retain and motivate key personnel and reward officers and employees for significant performance and distributable cash flow growth. Each restricted share unit is equal in value to one common share of the Company. The shares will be issued from the treasury of the Company. The number of shares reserved at any time must not exceed 10% of the aggregate number of shares.

At March 31, 2010, 7,030,000 restricted share units were issued and outstanding.

At March 31, 2010, warrants to purchase 4,460,242 common shares of the Company were outstanding.

11. IFRS CHANGEOVER PLAN

As described in the last annual MD&A, the Company has established a changeover plan to adopt IFRS by 2011. Based on the work performed to date, many of the differences identified between IFRS and Canadian GAAP are not expected to have a material impact on our reported results and financial position. In addition, the effects on the Company's commercial activities in terms of financial covenants, contractual agreements, incentive plans, budgeting and financial risk management strategies for example have been assessed as relatively minor to date. Accordingly, efforts with respect to the areas of training, internal and external communications are expected to be minor. Requirements to adapt or modify information systems and the control environment are also expected to be minor. However, there may be significant changes as a result of IFRS accounting principles and provisions for first time adoption. The Company has not yet determined the full accounting effects of adopting IFRSs, since some key accounting policy alternatives and implementation decisions are still being evaluated.

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of January 1, 2010 based on standards that will be applicable as at December 31, 2011. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

First-Time Adoption of IFRS

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. The Company will complete the analysis of the various accounting policy choices available during the next two quarters and will implement those determined to be most appropriate in the circumstances. The exemptions that had been identified to date as having the most relevance for the Company relate to cumulative foreign currency translation differences and employee future benefits whereby the balance of the cumulative translation adjustments and the balance of the unamortized experience gains and losses can respectively be reset to a nil amount as of January 1, 2010. In addition, it is expected that IFRS 3 "Business Combinations" will not be applied retrospectively to business combinations completed before January 1, 2010, and that compound financial instruments that are no longer outstanding as at January 1, 2010, will not be separated in accordance with IAS 32 "Financial Instruments: Presentation". The Company expects that key decisions on currently available IFRS 1 exemptions will be approved by senior management and reviewed by the Audit Committee of the Board of Directors during 2010. In anticipation of the finalisation of these decisions, the Company will begin during the next two

quarters the work around the preparation of IFRS compliant annual and interim financial statements and notes.

Expected Areas of Significance

No areas of significance other than those already described in the last Annual MD&A have been identified, namely impairment of assets. It should be remembered that our analysis of possible changes is still in process and not all decisions have been made where choices of accounting policies are available. Until our analyses and choices are finalized, the Company is not able to reliably quantify the impacts expected on our consolidated financial statements for these differences.

We note also that the standard-setting bodies that promulgate IFRS and, to a lesser extent, Canadian GAAP, continue to have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements in future years. There are a significant number of ongoing projects at the International Accounting Standards Board that may become required after 2011 and that may be possible to early adopt to reduce the number of accounting changes in the future. Such projects that may be relevant to the Company include Liabilities, Employee Future Benefits, Revenue Recognition and Leases. Depending on the timing of publication of the final standards that may arise from those projects and their impact on the Company, opportunities to early adopt any such new standard will be assessed during 2010 and 2011. We have processes in place to ensure that such potential changes are monitored and evaluated. The future impacts of IFRS will also depend on the particular circumstances prevailing in those years. The differences described are those existing based on Canadian GAAP and IFRS today.

The Company's IFRS project continues to be on target to meet the changeover date.

12. CRITICAL ACCOUNTING ESTIMATES

Please refer to the March 31, 2010 consolidated financial statements as well as the annual 2009 MD&A for an extended discussion on critical accounting estimates.

13. INTERNAL CONTROLS

In order to comply with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has conducted an evaluation of the design of its disclosure controls and procedures. The implementation of NI 52-109 involves a continuous improvement process, which has led the Company to ensure that all relevant processes and controls are documented.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Internal control over financial reporting includes policies and procedures which pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions, provide reasonable assurance that transactions are recorded as necessary, thereby permitting preparation of consolidated financial statements in accordance with determined authorizations, and provide reasonable assurance regarding prevention or timely detection of unauthorized use of assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

At December 31, 2009, management had evaluated the design of its internal controls over financial reporting as defined in NI 52-109, and based on that evaluation had determined that certain aspects of its internal controls over financial reporting were not designed effectively but were mitigated by additional compensating procedures. As part of the evaluation conducted, the Company has implemented entity-level controls that are in accordance with the COSO control framework. This results in a much greater level of confidence in the mitigating controls to compensate for the identified deficiencies. The control deficiencies identified by the Company did not result in adjustments to our consolidated financial statements for the quarter ended March 31, 2010. Management's assessment had identified the following significant deficiencies along with related remediation:

Entity-Level Controls

During the course of 2009, the Company had ensured its entity-level controls were maintained in accordance with the COSO control framework. The entity-level controls have continuously evolved during the last financial year as the Company finalized implementing the previously identified entity -level controls. The Company now regularly reviews and continues to update on a quarterly basis policies to ensure they remain relevant and up to date. Amended policies are communicated to appropriate employees of the Company.

In order to mitigate the risks on entity-level controls inherent to the continuously changing business, management has maintained the following activities:

- Communication to employees and management of their roles and responsibilities with regard to internal control over financial reporting;
- Production of bi-weekly management reports;
- Bi-weekly management committee meetings;
- Bi-weekly disclosure committee meetings (included in management committee meetings);
- Full-time availability of all policies and procedures to employees, managers, and directors;
- Evaluation of the design of the internal controls and continuous implementation of additional controls to ensure an increased level of confidence;
- Monthly financial statements are established by the corporate controller and reviewed and analyzed by all vice-presidents and the President and CEO. An analytic review is provided with the financial statements in order to explain variances between actual and budget figures; and
- Quarterly financial statements along with all related documents are reviewed by members of the audit committee and approved by the Board of Directors.

In conclusion, the Company has implemented a number of controls during the year ended December 31, 2009 and those controls are continuing to be applied in the current financial year. The Company will be testing the implemented controls to validate their effectiveness and performance as part of the annual certification process in the fourth quarter of the year.

Segregation of Duties

As part of the effectiveness assessment as of December 31, 2009, the Company had determined that the controls within its accounting and finance department were deficient relating to segregation of duties. Such deficiencies are inherent to its size. As a result of the limited number of personnel in the accounting and finance department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization.

To mitigate this risk, we continue to implement improved monitoring systems, other procedures to prevent potential fraud, properly assign roles and responsibilities to employees to maximize segregation of duties within the limited environment, and rely on procedures and controls as described in "Entity-Level Controls" above.

It should be noted that some of the deficiencies mentioned above are related to the size of the Company. Management is nevertheless committed to establishing effective internal controls over financial reporting and as such will continue to assess existing controls and implement additional controls as deemed necessary.

14. SELECTED RISKS

This section presents the most important risks associated with ProSep's business operations and is periodically reviewed by management and overseen by the Board of Directors. During the quarter ended March 31, 2010 risks and proposed remedies and risk management practices have not materially changed. Refer to the 2009 annual MD&A for a complete list of risks and proposed remedies.



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ProSep Inc. is traded on the Toronto Stock Exchange under the symbol "PRP"

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