



Management Discussion and Analysis November 12, 2008

For the third quarter and nine month period ended September 30, 2008

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and nine-month period ended September 30, 2008, interim 2008 MD&A and the annual audited consolidated financial statements as of December 31, 2007 and MD&A for the year ended December 31st, 2007.

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.

Important Disclaimer

This Management Discussion and Analysis may contain forward-looking statements, including statements regarding the business and anticipated financial performance of ProSep Inc. (formerly TORR Canada Inc). 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 legislative or regulatory developments, competition, technological change, changes in government and economic policy, inflation and general economic conditions in geographic areas where ProSep Inc. operates. These and other factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. ProSep Inc. does not undertake to update any forward-looking statements.

Use of estimates

In the course of the preparation of financial statements in conformity with Canadian generally accepted accounting principles, 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

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1. OVERALL PERFORMANCE

1.1. Highlights of the Quarter

- Revenues increased by 42% totalling \$36,805,714 for the nine-month period ended September 30, 2008 compared with the corresponding period of 2007.
- Reported second consecutive quarter of positive EBITDA of \$1,313,784.
- Reported first ever net income at \$1,847,544 or \$0.03 per share.
- Signed \$11 million in new contracts during the quarter. Current sales backlog¹ stands at \$27 million.
- Appointed David Laidley, Chairman Emeritus of Deloitte & Touche LLP, to the Board of Directors.
- Named Patrice Daignault as Chief Financial Officer and Corporate Secretary.
- Concluded major contracts with large oil and gas ("O&G") producers such as PEMEX, BP, PDVSA, ENI S.p.A., Inagip D.O.O. and Petronas.
- Obtained ISO 9001:2000 Certification for South East Asian operations.
- Received Deloitte Technology Green 15 Award in recognition of the quality of its process solutions for upstream O&G companies.

1.2. Material Events and Important Subsequent Events

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

- On September 25, 2008 ProSep Inc. announced that it had received a Deloitte Technology Green 15 Award in recognition of its suite of technology solutions that deliver improved efficiencies and reduce costs to upstream O&G production activities while addressing environmental concerns.
- On September 10, 2008 ProSep Inc. announced that it was awarded a contract valued at \$1.1 million (US) by PEMEX, Mexico's state-owned O&G company, to provide its ProSalt Mixer system, a proprietary process that ensures removal of corrosive salt content from process equipment while facilitating separation of water and crude oil.
- On August 6, 2008 ProSep Inc. announced that its business units had recently been awarded new contracts totalling \$2 million to provide process equipment and services to various O&G upstream production activities.
- On July 31, 2008 ProSep Inc. announced the appointment of Patrice Daignault as Chief Financial Officer and Corporate Secretary. Mr. Daignault is a chartered accountant with more than 15 years of accounting, finance and risk management experience. Most recently, Mr. Daignault was Director of Risk and Treasury with St-Lawrence Cement Group Inc.
- On July 23, 2008 ProSep Inc. announced that David Laidley, a retired partner and Chairman Emeritus of Deloitte & Touche (Canada), was appointed to the Company's board of directors. Mr.

¹ Sales Backlog: sales concluded regarding which revenues are expected to be recognized within the next 18 months.

Laidley has more than 40 years of experience, providing taxation, financial and strategic counsel to leading organizations in a number of industries. Mr. Laidley is also a member of the board of directors of the Bank of Canada, Biovail Inc., Aviva Canada Inc. and Nautilus Indemnity Holdings Ltd., where he serves as chairman.

- On July 9, 2008 ProSep Inc. announced that it signed a contract with Powertium Sdn Bhd and Malaysia Marine and Heavy Engineering Sdn Bhd, a subsidiary of Petronas, valued at \$3.3 million (CDN). ProSep will provide a glycol regeneration package to be used by Petronas, a Fortune 500 O&G company wholly-owned by the Malaysian government, in its Gumusut-Kapap deep-water project.
- On July 7, 2008 ProSep Inc. announced that it expanded its relationship with Worley Parsons and BP Exploration Alaska, and signed a new contract valued at \$4.83 million (US). ProSep will provide BP Exploration with specialized equipment that will separate gas from produced reservoir fluids in its gas project in Prudhoe Bay, Alaska.

Important Subsequent Events:

- On November 11, 2008 ProSep Inc. announced that Fondation (le Fonds de développement de la Confédération des Syndicats Nationaux pour la coopération et l'emploi) has agreed to amended the terms of the \$4,000,000 Unsecured Debenture held by Fondation, originally issued on October 26, 2007 and maturing on April 1st, 2013. . The principal amount of the Debenture has been increased from CAD\$4,000,000 to US\$4,000,000 in consideration for which the interest rate has been reset from 13% to 13.25%. All other terms and conditions of the Debenture remain unchanged. This amendment will provide ProSep Inc. with an additional CAD\$750,000 of liquidities that will be used to support current growth and sales backlog.
- On October 20, 2008 ProSep Inc. announced that it was awarded a \$2.32 million (US) contract to supply PDSVA (Venezuela's state-owned energy company) with gas separation equipment to treat and remove water, sulphur and carbon elements. This equipment will enable PDSVA to extract and sell natural gas that would otherwise be burned or released during its oil production activities.
- On October 16, 2008 ProSep Inc. announced that it was awarded a \$1.7 million (US) contract to provide a Fuel Gas Conditioning Skid and Seal Gas Conditioning Skid to Powertium Engineering Sdn Bhd. The systems will be used to re-purpose collected natural gas associated with an off-shore production well in the South China Sea, ensuring that reservoir pressure levels are maintained while enhancing the recovery of oil.
- In October 2008, in accordance with the trust indenture, the company elected to pay, in common shares, the interest due on the unsecured convertible subordinated debenture. The Company paid the interest, due October 31st, 2008, by issuing 1,866,885 common shares at an average price of \$0.1845 per share for a total amount of \$344,440.

2. COMPANY OVERVIEW

2.1. Vision and Mission

ProSep Inc.'s vision is: **Together creating pure oil, gas, and water**

ProSep Inc.'s mission is to: Provide process solutions to upstream O&G producers by offering a wide range of conventional and proprietary process equipment and services for the treatment of oil, gas and water.

2.2. Business Overview

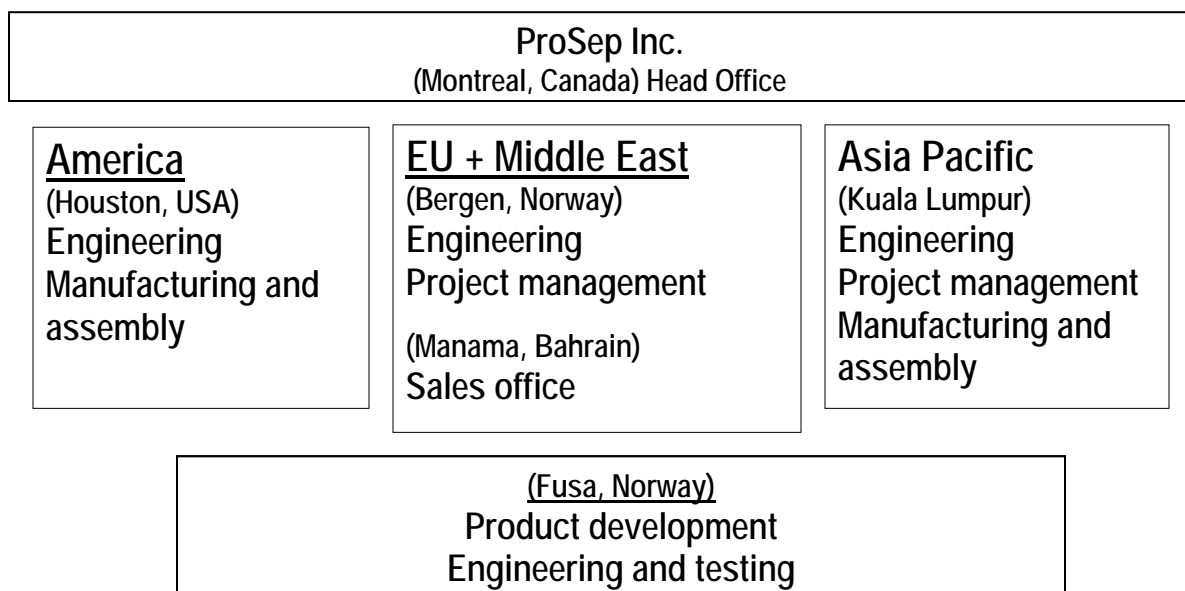
ProSep Inc. designs, develops, manufactures, and commercializes process solutions to treat and purify oil, gas, and water for the O&G upstream industry. ProSep Inc. has a wide range of conventional and proprietary process equipments sold in units or in packages to O&G producers and engineering procurement and construction firms with or without process warranties. ProSep Inc. provides in-house engineering from process to details and also provides direct and hands-on project management, manufacturing, assembly and commissioning services.

ProSep Inc. 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 Inc. has approximately 100 employees, mainly technical sales people, process engineers, product engineers and project managers and workers in the 26,000 square foot Houston assembly shop.

2.3. Corporate Model

Through its most recent corporate acquisitions, ProSep Inc. now has three diversified business units that promote all proprietary and conventional products across all regional markets. Each unit is a center of excellence based on the expertise and reputation it has built over the years and has its own engineering and sales teams and access to a wide network of agents.



2.4. Changes to Business Environment

Management believes that the current financial crisis, combined with the recent significant decline in oil prices and overall weakening in the global economic outlook, may have a negative impact on the Company's business. The recent decline in oil prices and the negative economic outlook may eventually lead to a reduction of the demand for process equipment. The market for upstream O&G process equipment is directly related to capital expenditure programs of O&G producers. These capital expenditure programs are generally sensitive to global demand, expected level of production and price of oil. Management believes that capital expenditure programs may be reduced if oil prices remain significantly below the range of \$60 to \$75 per barrel, especially from independent O&G producers, smaller O&G producers, and oil sands producers. We also believe, however, that O&G producers commonly known as National Oil Companies ("NOC") tend to have longer term expansion plans and are less sensitive to short-term oil price variations. These NOC, such as the ones in the Middle-East, have relatively low costs of production and are thus less likely to be sensitive to short-term oil price variations. If the world's demand for O&G reduces significantly and translates into less O&G production requirements, we may see a significant decline in the upstream O&G process equipment market. This could potentially result in a decrease in revenues and lower gross margins as competition becomes more aggressive. As for our proprietary lines of products, it is difficult at this stage to project the potential effect on expected revenues. In order to prepare ProSep Inc. for this eventuality, the Company will continue to control its costs, improve working capital management, solidify its balance sheet, adjust its marketing & sales strategy and focus on promising markets.

2.5. Recent Overall Performance

Corporate Achievements:

- Successfully merged the former TORR Canada and Pure Group operations and transformed the new organization into three profit centers;
- Centralized product development activities in Norway; the world's leading O&G technology hub;
- Built a new organization with qualified and experienced managers and directors;
- Obtained the qualification of the ProSalt from Saudi Aramco and positioned the TORR technology in the qualification process;

Financial Achievements:

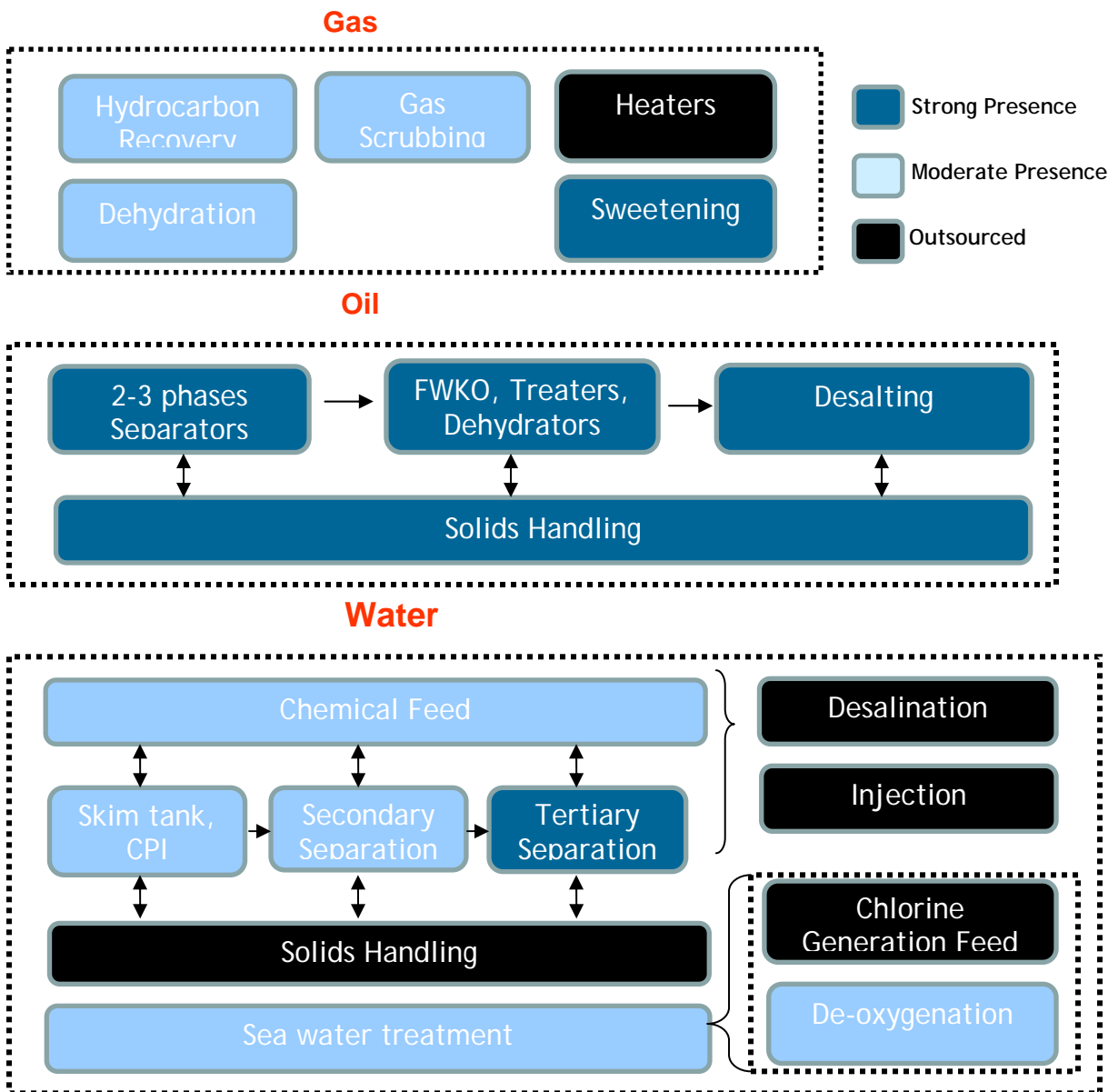
- Built a strong backlog of contracts with well established O&G producers around the World;
- Significantly increased revenues
- Transformed a consolidated pro forma negative EBITDA of \$11 million into a positive EBITDA within a few months;
- Reduced operating expenses by 40%;
- Generated positive cash flow from operations before changes in non-cash operating working capital items of \$0.8 million;
- Completed a \$5.1M financing in the form of a convertible loan.

In summary, the Company completed several achievements that shifted the business model from a non-profitable organization to a well structured, more efficient, and operationally profitable organization. Additional milestones need to be realized in order to continue progressing towards the completion of ProSep Inc.'s mission. Most importantly, the Company will look to improve its balance sheet, optimize the current tax structure, improve internal controls, implement better working capital management tools, increase sales of its proprietary product and continue developing its product offering.

3. PRODUCTS

3.1. Market Segments and Product Penetration

ProSep Inc.'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 three main production lines: produced water, oil and gas. ProSep Inc. designs customer specific solutions using its own products (a mix of proprietary and conventional technologies) and/or other solutions available on the market. The following is a diagram of the Company's product penetration within each treatment line.



3.2. Product and Services Overview

Through its wide range of proprietary and conventional products, ProSep Inc. offers custom process solutions to O&G producers that wish to optimize their produced water, oil and gas treatment, separation and polishing activities. The Company has developed practical process solutions that deliver benefits to the environment, enabling O&G producers to meet industry and regulatory requirements while optimizing profitability, an important value-added proposition as production wells mature and volumes of produced water increase globally.

A detailed description of the Company's products and services is available on-line at www.prosepinc.com and in the latest annual Management Discussion and Analysis.

4. RESULTS OF OPERATIONS

The following review of ProSep Inc.'s operating results is for the three and nine-month periods ended September 30, 2008.

Notice to reader: On October 25, 2007 the Company concluded the acquisition of Norwegian-based Pure Group AS. This transaction provided ProSep with a diversified product offering, a far reaching sales and marketing team and a presence in most major O&G hubs around the world. Subsequent to this acquisition, ProSep Inc.'s operations are substantially different from those of the previous year and quarterly revenue volatility is significantly reduced now that the Company has a diversified portfolio of traditional and proprietary process solutions. Provided in this section is a discussion of quarterly and year-to-date results, and when relevant, a comparison to results from the corresponding period of the previous year.

4.1. Revenues

For the nine-month period ended September 30, 2008 ProSep Inc. reported revenues of \$36,805,714, an increase of 42% from \$25,918,818 generated during the corresponding nine-month period ended September 30, 2007. For the third quarter ended September 30, 2008 revenues were \$12,547,837. The Company recognises revenues on a percentage of completion basis and operates in an industry that typically has a long sales and production cycle. As a result, quarterly sales variations are to be expected.

4.2. Cost of Goods Sold and Gross Margin

Gross margin was \$4,452,120 or 35% of revenues for the three-month period and \$11,514,385 or 31% of revenues for the nine-month period ended September 30, 2008. Third quarter 2008 gross margins improved by approximately 10% from the previous quarter, positively impacted by the reversal of a warranty provision of \$1,280,471 out of the total \$2,561,841 provision taken during the second half of fiscal 2007 in relation to the delivery of the seven TORR™ water treatment systems sold to SK Engineering & Construction. This reversal is related to a contractual obligation that ended during the third quarter of 2008. To the extent the balance of the provision is not used, ProSep Inc. will reverse the remaining warranty provision.

4.3. Sales and Marketing Expenses

Sales and marketing expenses were \$491,551 for the three-month period and \$1,481,606 for the nine-month period ended September 30, 2008. The majority of these expenses relate to salaries, marketing, promotional and travel activities.

4.4. Research and Development Expenses

Research and development expenses were \$353,922 for the three-month period and \$921,705 for the nine-month period ended September 30, 2008. These expenses consist mostly of salaries and are dedicated to expanding the Company's proprietary product offering.

4.5. General and Administrative Expenses

General and administrative ("G&A") expenses were \$2,292,863, or 18% of sales for the three-month period and \$6,861,454, or 19% of sales for the nine-month period ended September 30, 2008. 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.

4.6. Other Expenses

4.6.1. Change in fair value of investment in Asset Backed Commercial Paper

The Company holds a long-term investment comprised of third party asset backed commercial paper ("ABCP") acquired on July 12, 2007, rated R1 (High) by Dominion Bond Rating Services ("DBRS") at the time of purchase, the highest credit rating issued for commercial paper, with a par value of \$9,000,000. Based on its assessment of fair value, the Company recognized a total impairment charge of \$2,250,000 since the acquisition, representing 25% of the original cost. No further impairment charges were required during the three-month period ended September 30, 2008. A charge of \$450,000 was taken during the nine-month period ended September 30, 2008.

On October 20, 2008, the Pan Canadian restructuring committee announced that it continues to lead the restructuring efforts on behalf of investors but has postponed by one month the closing date that was originally targeted to occur by the end of October 2008. This delay is largely attributable to the complexity of the transaction documents, the large number of parties involved and recent market volatility. Replacement loan offerings can only be finalized after the ABCP restructuring implementation agreements have been put into final form and approved by the Ontario Superior Court, one of the key steps which will precede the closing of the ABCP restructuring. Further details are provided in sub-section 11.1 "Long Term Investments" in the Critical Accounting Estimates section and in Note 4 of the Financial Statements.

4.6.2. Financial charges

Total financial charges were negative for the third quarter of 2008, representing a contribution to net profits of \$1,311,358. This contribution is mainly attributable to a foreign exchange gain of \$1,886,988 most of which is a consequence of the Norwegian division's balance sheet conversion. On a year-to-date basis, total financial charges were \$1,213,864.

Breakdown of financial charges:

Quarterly financial charges related to interest on long-term debt, accretion and interest charges totalled \$807,033, and a gain of \$179,571 was recorded due to the change in fair value of a derivative financial instrument. Interest revenue for the same three-month period was \$51,832. These financial charges are in-line and in proportion with year-to-date charges. For the corresponding nine-month period, a charge of \$2,025,929 was taken for interest on long-term debt, accretion and interest charges. A gain of \$143,550 was recorded due to the change in fair value of a derivative financial instrument, and charges of \$532,420 and \$136,095 respectively were taken during the nine-month period due to changes in foreign exchange and interest revenue.

Information on the derivative financial instrument:

The Company holds a foreign exchange forward contract, for a contractual amount of EUR 3,103,300 at a rate of 1.469 US / EUR (US\$ 4,558,748) whereby the Company is committed to the sale of this currency. During the three-month period ended September 30, 2008, the contract maturity date was extended to November 28, 2008. The fair value of this foreign exchange forward contract is \$156,000 as at September 30, 2008, representing an increase in value of \$179,571 over the previous quarter. For the corresponding nine-month period, a gain of \$143,550 was recorded. The fair value was obtained from the financial institution from whom the foreign exchange forward contract has been purchased.

4.7. Income Tax

Income taxes for the third quarter of 2008 were \$417,913 representing a consolidated effective tax rate of 18%. A gain on foreign exchange and reversal of a warranty provision (see sub-section 4.8) positively affected the Company's EBIT and is in effect a non taxable gain under Canadian fiscal laws. On a year-to-date basis, income taxes were \$1,137,322 although the Company generated a negative EBIT of \$515,070. The Company's operating revenues and expenses are reported by various business units located around the world and subject to various fiscal jurisdictions (Refer to note 16 of the Financial Statements for a breakdown of revenues and expenses by business units). Some of these business units are profitable while others have yet to generate net income. ProSep Inc.'s management is working on establishing an optimal tax structure.

4.8. Net Income (Net Loss)

The Company reported its first ever net income of \$1,847,544 or \$0.03 per share for the third quarter of 2008 compared with a net loss of \$3,062,925 or (\$0.07) per share for the three-month period ending September 30, 2007. Net income for the three-month period ended September 30, 2008 was positively impacted by the reversal of a \$1,280,920 warranty provision related to the delivery of the TORR™ water treatment systems to SK Engineering & Construction and a significant unrealized foreign exchange gain of \$1,886,988 most of which is a consequence of the Norwegian division's balance sheet conversion. For the corresponding nine-month period ended September 30, 2008, ProSep Inc. reported a net loss of \$1,652,392 or (\$0.03) per share compared with a net loss of \$7,854,073 for the nine-month period ending September 30, 2007 or (\$0.17) per share. Year-to-date, a total foreign exchange gain of \$532,420 has been recognized.

Basic earnings (loss) per share was calculated using the weighted-average number of common shares outstanding during the period: 62,556,566 shares for the three-month and the nine-month periods ended September 30, 2008 and 46,719,695 shares for the three-month period ended September 30, 2007 and 46,706,448 shares for the nine-month period ended September 30, 2007. On a fully diluted basis, as of September 30, 2008 ProSep Inc. had a weighted average number of common shares of 73,867,677.

4.9. Other Items

4.9.1. Legal proceedings

ProSep Inc. has a policy to defend its intellectual property firmly and with conviction. In October 2005, the Company initiated legal proceedings before the Québec Superior Court against a former employee and related parties seeking injunctive relief for misappropriation and illegal use of proprietary information belonging to the Company. The legal proceedings continued during the last 3 months but no further developments have occurred.

ProSep Inc. 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. Westend claims that TORR entered into an agreement with it to provide equipment and a chemical for remediation work on a site in B.C. Westend alleges that it paid a total of \$280,000 to TORR and that it did not ever receive the specified chemical, thereby making the machine worthless. The amount of the claim as stated in the pleading is \$280,000. TORR filed a Statement of Defence on June 9, 2006, denying any liability. Document discovery has largely been completed. Examinations for discovery have been conducted. Further information and document requests remain outstanding. No trial date has been scheduled. It is premature to assess the likelihood of successfully defending this claim. No amount has been accrued.

5. SUMMARY OF QUARTERLY RESULTS

	Year Ending December 31, 2008			Six-Month Period Ending December 31, 2007		Year Ending June 30, 2007			
	Q3	Q2	Q1	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	12,547,837	15,140,834	9,117,043	5,682,824	102,405	9,401,716	16,414,696	170,319	68,385
Net income (loss)	1,847,544 ¹	(162,122)	(3,337,814)	(5,012,386)	(3,062,925)	(2,928,062) ²	(1,863,086) ³	(1,776,695)	(1,367,702)
Basic EPS (loss)	0.03	(0.00)	(0.05)	(0.09)	(0.07)	(0.06)	(0.04)	(0.04)	(0.03)
Diluted EPS (loss)	0.03	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*EPS: Earnings per share
All amounts are in CAD \$

¹ Net income includes a reversal of \$1,280,920 of warranty provision and \$1,886,988 gain on foreign exchange

² Net loss includes a \$1,385,008 warranty provision

³ Net loss includes a \$1,176,833 warranty provision

This table should be analyzed with the information provided in the summary of quarterly results and selected annual information sections in the annual MD&A and previous interim MD&A. At this stage of the Company's life, interim operating results are still considered volatile although fluctuations in revenues are decreasing, indicating a trend towards more stable revenue growth. See introduction to section 4 "Results of Operations".

6. EARNINGS GUIDANCE

As per the Company's disclosure policy, management believes that, at this stage of the Company's development, it is not feasible to make any adequate projections on profit and earnings per share.

7. CASH FLOWS

7.1. Liquidity

At the end of September 30, 2008, ProSep had \$5,943,086 of cash and cash equivalents and \$1,066,334 of restricted cash. On December 31, 2007, the Company had \$8,662,634 of cash and cash equivalents and \$1,055,846 of restricted cash.

7.2. Operating Cash Flow

During the three-month period ended September 30, 2008, ProSep Inc. generated a negative cash flow from operations of \$4,991,602 but a positive cash flow before changes in non-cash working capital items of \$813,780. During the previous quarter ended June 30, 2008, the Company generated positive cash flow from operations of \$44,580. Operating cash flows decreased during the third quarter of 2008 and is mainly a result of an increase in the level of high quality accounts receivable (a change in non-cash working capital items).

For the nine-month period ended September 30, 2008 ProSep Inc. generated negative cash flow from operations of \$5,946,035 and a positive cash flow before changes in non-cash working capital items of \$114,296.

7.3. Investing Activities

During the three-month period ended September 30, 2008 ProSep Inc. invested \$195,116 in property & equipment, mainly related to the Houston operations and consisting of computers and software including \$89,000 invested in SAP's Business One management software and in furniture and fixtures. For the corresponding nine-month period, the Company invested a total of \$489,864, mostly computers, furniture and leasehold improvements including \$117,000 invested in new management software.

7.4. Financing Activities

During the quarter ended September 30, 2008 ProSep did not conclude any financing agreements. For the corresponding nine-month period, the Company completed several financing activities resulting in net cash flows of \$3,716,351 (including long-term debt repayments). The following is a description of relevant equity and debt financings that occurred during the nine months ended September 30, 2008.

On April 24, 2008, ProSep Inc. completed a private placement of \$5,090,000. Industrial Alliance Securities Inc. and Versant Partners Inc. acted as agents for the transaction. The private placement consisted of units each comprised of a \$1,000 principal amount 13% convertible unsecured subordinated debenture due April

30, 2013 and 200 common share purchase warrants at an exercise price of \$0.30 per share. The net proceeds will be used for general working capital to finance growth, issue performance and warranty bonds and increase lines of credit of operational subsidiaries. The proceeds will be used for working capital needs, to finance growth and increase lines of credit.

As part of the private placement, the Company agreed to reduce the exercise price of 2,424,242 share purchase warrants issued on October 26, 2007 to FondAction, le fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi at an exercise price from \$1.65 to \$0.55 per common share. The maturity date of the share purchase warrants was not amended and is still on October 26, 2012. The reduction of the exercise price of the share purchase warrants of FondAction was effective on May 8, 2008.

The debentures, warrants and common shares issued resulting from the conversion of the debentures or exercise of warrants are subject to a hold period ending four months and one day after the closing date. The interest rate of 13% per annum for the debenture is payable in equal semi-annual instalments on April 30 and October 31, commencing October 31, 2008. Subject to certain conditions, the interest may be payable in cash or in common shares at the option of ProSep Inc.

8. BALANCE SHEET ITEMS

8.1. Assets

Total assets as at September 30, 2008 were \$66,157,382 representing an increase of \$5,723,547 from its December 31, 2007 amount of \$60,433,835. At the end of September 30, 2008, ProSep had \$5,943,086 in cash and cash equivalents compared with \$8,662,634 as at December 31, 2007. The Company's receivables increased from \$11,299,053 as at December 31, 2007 to \$20,087,167 as at September 30, 2008, owing mainly to an increase in high quality trade accounts receivable and unbilled receivables (work in progress). No additional impairment charge has been recognized on the long-term investment in ABCP during the three-month period ended September 30, 2008 but an additional charge of \$450,000 was taken during the corresponding nine-month period. No major changes occurred in other accounts since the beginning of the year.

8.2. Liabilities

Total liabilities at September 30, 2008 were \$47,142,119 representing an increase of \$5,380,292 from the December 31, 2007 amount of \$41,761,827. The increase is mainly a result of the liability portion of the new convertible unsecured subordinated debenture of \$3,052,302 and from an increase in accounts payable and accrued liabilities of \$2,654,703 from \$15,765,232 as at December 31, 2007 to \$18,419,935 on September 30, 2008, in-line with an increased level of activity.

8.3. Equity

The Company's net equity as at September 30, 2008, was \$19,015,263, in-line with ProSep Inc.'s December 31, 2007 amount of \$18,672,008.

As of September 30, 2008 ProSep Inc. had 62,556,566 common shares issued and outstanding, as compared to 46,706,448 common shares issued and outstanding for the corresponding nine-month period.

On a fully diluted basis, ProSep Inc. had a weighted average number of common shares of 73,867,677 on September 30, 2008.

9. OFF BALANCE SHEET ARRANGEMENTS

ProSep Inc. did not make any off-balance sheet transactions during the three-month period ended September 30, 2008 other than a foreign exchange contract. See section 4.6.2 for details of the foreign exchange forward contract.

During the third quarter of 2008 ProSep Inc. entered into a lease agreement for a new 26,000 square foot manufacturing and assembly facility located in Houston, Texas. This expansion will enable the Company to double the size of its Houston facility and allow for a significant increase its production capacity and enable it to diversify its product offering.

10. TRANSACTIONS WITH RELATED PARTIES

During the three-month period ended September 30, 2008, ProSep Inc. did not make any transactions with related parties.

11. CRITICAL ACCOUNTING ESTIMATES

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

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. These estimates include those related to revenue recognition, the relative fair value of long-term debt and equity instruments, the fair value of intangible assets, the useful lives of assets and intangible assets, the establishment of warranty provisions, the impairment of goodwill and intangible assets, the determination of pension cost, future tax, manufacturing contracts as well as fair value estimates of stock options, restricted share units and decrease in value of long-term investment. All the estimates are based on management's best knowledge of current events and actions that the Company might consider to take in the future. Actual results could differ from these estimates.

11.1. Long term Investments

The Company holds a long-term investment that is comprised of third party asset backed commercial paper ("ABCP") acquired on July 12, 2007, rated R1 (High) by Dominion Bond Rating Services "DBRS" at the time

of purchase, the highest credit rating issued for commercial paper, with a par value of \$9,000,000. This investment was classified as held for trading recognition with a fair value of \$8,963,910. During the month of August 2007, the ABCP market experienced liquidity problems. As a result, in some cases, as commercial paper matured, certain Canadian Third Party programs were unable to raise funds from new issuances and therefore were not able to refund maturing commercial paper. The maturity date on the \$9,000,000 of outstanding ABCP was August 14, 2007, and the amount due was not repaid.

On August 16, 2007 an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCP into long-term notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a Pan-Canadian Investors Committee consisting of major investors was formed. The Committee was created to propose a solution to the liquidity problem affecting the ABCP and has retained legal and financial advisors to oversee the proposed restructuring process. On October 16, 2007, it was announced that the committee expected that the restructuring would be completed on or before December 14, 2007. The ABCP in which the Company has invested has not traded in an active market since mid-August 2007 and there are currently no market quotations available as there is no assurance that the assets will be tradable within a 365 day period. As a result, the Company has classified its ABCP as long-term investments.

An impairment loss of \$1, 620,000 has been recorded in the three-month period ended September 30, 2007 representing the best estimate of fair value of the investment on the basis that it is probable that the Company will not be able to collect all amounts due according to the original contractual terms. As there was no market data available, except for the downgrading of the paper from R1-high to R-4, the management estimated the fair value by discounting the expected future cash flows, considering the probability of recoverability of the principal and interest. It is possible that the amount ultimately recovered may differ materially from this estimate.

On December 23, 2007 the Pan Canadian restructuring committee announced an agreement in principle to restructure the ABCP issued by 20 trusts. Under the proposal, holders of ABCP will exchange their holdings for floating rate notes that have maturities based on the maturities of the underlying ABCP. The notes are to be designed so that all available cash flow in the trusts will be paid to note holders.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee under the Companies' Creditors Arrangement Act (CCAA) establishing a procedure for note holder approval of the restructuring plan. The vote happened on April 25, 2008 and note holders approved the restructuring plan subject to approval by the Court.

On October 20, 2008, the Pan Canadian Investors Committee announced that it continues to lead the restructuring efforts on behalf of investors but has postponed by one month the closing date that was originally targeted to occur by the end of October 2008. This delay was largely attributable to the complexity of the transaction documents, large number of parties involved and recent market volatility. Replacement loan offerings can only be finalized after the ABCP restructuring implementation agreements have been put into final form and approved by the Ontario Superior Court, one of the key steps which will precede the closing of the ABCP restructuring.

The implementation of the planned restructuring is subject to a number of conditions, including execution of definite legal documentation, completion of due diligence, receipt of internal approvals by dealer banks, asset providers and participating banks, receipt of the requisite approvals of holders of ABCP and final sanction by the court. A variety of consents and other approvals will be necessary or desirable in connection with the restructuring, including certain governmental and regulatory approvals.

According to the restructuring plan, the Company expects to receive various long-term floating rate notes, with maturities matching the maturities of the underlying assets and bearing market interest rates commensurate with the nature of the underlying assets and their associated cash flows and the credit rating and risk associated with the long-term floating rate notes. The Company expects to receive replacement notes with par values as follows:

Class A-1 Notes:	\$ 378,000
Class A-2 Notes:	\$4,332,375
Class B Notes:	\$745,875
Class C Notes:	\$168,750

In addition, the Company holds securities with significant exposure to the U.S. residential mortgage market. At the restructuring stage, the Company will presumably receive variable rate, long-term notes related to assets maturing in approximately five years and three months, and eight years and nine months. These notes, held by the Company, have a face value of \$3,375,000.

The fair value of the ABCP was determined based on the management's judgment using available information and the assumptions market participants would use in pricing such ABCP as at the balance sheet date. The Company reviewed information provided by the Pan Canadian Investor Committee and DBRS, including current investment ratings, composition and valuation estimates of the underlying assets, the estimate of the extent of leverage in the trusts, the progress of the restructuring efforts and general economic conditions in considering the fair value of the investment. The Company has estimated the fair value using a valuation approach based on the high likelihood of successful restructuring of the \$9 million Apsley series A, ABCP investment.

The Company estimated the fair value of these investments using a discounted cash flow valuation model based on observable market assumptions. The main assumptions are the anticipated coupons, the anticipated maturity for the variable rate notes to be obtained in exchange for the ABCP and an appropriate discount rate based on the prevailing value of the notes, whenever applicable, considering risks of future losses. The estimated discount rate was determined based on observable market assumptions for similar securities. For the ABCP backed by ineligible assets, each class of assets held by the trusts was estimated using observable information available on the market for securities from independent sources.

In order to determine the fair value of the ABCP investments, the Company used the forecasted rates available in the proposed restructuring plan prepared by the Pan-Canadian Investors Committee and the following discount factors:

Restructured Securities	Expected Yield (Bankers Acceptance Forward Rate – 50 basis points)	Market related Discount factors
Class A1-A2	320 basis points*	Treasury Bond rate plus 200 basis points
Class B	320 basis points*	Treasury Bond rate plus 575 basis points
Class C	320 basis points*	Treasury Bond rate plus 700 basis points
Ineligible	320 basis points*	Treasury Bond rate plus 1200 basis points

* September 30, 2008 BA rate of 3.70% minus 50 basis points

The risk premiums added to the basic Canadian government Treasury bond rates reflect the liquidity, credit and other risks. Regarding ineligible securities, 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 of Canada ("NBC") for all of its clients holding ABCP, which is conditional upon the implementation of the ABCP restructuring plan prepared by the Pan Canadian Investors Committee. For these ineligible assets, a \$2,531,250 revolving credit facility agreement was proposed representing an amount equal to 75% of the face value of the restructured notes received in lieu of the ineligible assets. This credit facility is valid for 2 years and maturity is extendable for additional one-year periods, up to a maximum of five one-year renewals. By accepting this agreement, the Company will incur a maximum loss of 25% on the ineligible securities.

NBC has also offered, for the eligible assets, a revolving credit facility totalling \$4,668,750 or 83% of the total face value of the Restructure Notes with a face value of \$5,625,000. This credit facility is valid for 3 years and extendable for additional one-year periods, up to a maximum of four one-year renewals.

These credit agreements will provide ProSep Inc. with \$7,200,000 in long term financing facility in replacement of the current term loan secured with the ABCP and maturing on April 30, 2009. The Bank's recourse with respect to this new credit facility will be limited to the restructuring notes. Additionally, the Credit Agreement provides a put option allowing ProSep to assign the restructuring notes to NBC in payment of the capital of the Credit Facility on or after the contractual maturity date.

Based on the assessment of fair values, the Company has recognized an additional impairment charge of \$450,000 during the three-month period ended March 31, 2008 while \$1,800,000 was recorded during the six-month period ended December 31, 2007 for a total impairment charge of \$2,250,000 since the acquisition, representing 25% of original cost. No further impairment charges were required for the three-month period ending September 30, 2008.

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 and will result in a provision in the 15% and 35 % range of the amortized cost of this investment. While management believes that its valuation methodology 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 ABCP in the next quarters. Following the analysis, the Company identified that the discount rate related to Classes A1 and A2 of MAV2, and the risk premiums related to the ineligible securities generate the essentials of the volatility for the assessment model of ABCP's fair value. For example, a 50 basis point variance in the discount rate for A1 and A2 class results in a 100 basis point variance on the investments' value, while a 50 basis point variance in the ineligible securities' risk premiums affects the value by 25 basis points.

11.2. Change in Accounting Policies

In the first quarter of fiscal 2008 the Company adopted four new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA). The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

11.2.1. Financial Instruments - Disclosures

Section 3862, Financial Instruments - Disclosures. This Section describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature

and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

The adoption of this Section requires that the Corporation will present sensitivity analysis regarding liquidity risk, credit risk, currency risk, foreign exchange risk, interest rate risk and market risk. Comparative information about the nature and extend of risks arising from financial instruments is not required in the year Section 3862 is adopted.

11.2.2. Financial Instruments – Presentation

Section 3863 Financial Instruments - Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this Section did not have a significant impact on the consolidated financial statements.

11.2.3. Capital Disclosures

Section 1535 Capital Disclosures. This Section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. This Section requires that summary quantitative data about what it manages as capital, whether during the period it complied with any externally imposed capital requirements to which it is subject and when the entity has not complied with such requirements, the consequences of such non-compliance.

The adoption of this Section requires that information on capital management is now included in the notes to the consolidated financial statements.

11.2.4. Inventories

On January 1, 2008 the Company adopted Section 3031 Inventories. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs or reversal of write-downs. The section requires inventories to be measured at lower of cost and net realizable value. With the adoption of this section, the Company now measures its raw materials at the lower of cost and net realizable value.

This change did not have a significant impact on the consolidated financial statements.

11.2.5. International Financial Reporting Standards

The CICA has decided to converge Canadian GAAP with International Financial Reporting Standards (IFRS). Starting on January 1, 2011 accounting and financial statements will have to comply with IFRS. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

12. FINANCIAL DISCLOSURE

Our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to

ensure that information is accumulated and communicated to the management committee members, including the President & CEO and the CFO, to allow timely decisions regarding required disclosure.

As of September 30, 2008, an evaluation was carried out, under the supervision of and with the participation of management, including the President & CEO, the CFO, and the Chief Accountant, of the effectiveness of the disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the President & CEO and the CFO concluded that the design and operation of our disclosure controls and procedures were effective as at September 30, 2008.

12.1. 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 to 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 our 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.

As of September 30, 2008, management evaluated the design of internal control over financial reporting as defined under Multilateral Instrument 52-109, and based on that evaluation determined that certain aspects of internal control over financial reporting were not designed effectively but were mitigated by additional procedures to compensate them. The control deficiencies identified by the Company did not result in adjustments to our interim consolidated financial statements for 2008. Management's assessment identified the following material weaknesses along with related remediation:

12.1.1. Entity level controls

The Company did not maintain a completely effective control environment as defined in accordance with COSO control framework. The Company went through significant growth in the last years, changing considerably the environment, increasing substantially its assets and number of employees, and consequently creating a need for clear policies and procedures. We do have several written policies and procedures that are communicated and always available to employees; but the completed manual is still under production as the business continuously evolves.

- To mitigate that risk, management has been very active in:
- Communication to employees and management of their roles & responsibilities with regards to internal control over financial reporting;
- Production of bi-weekly management reports;
- Bi- weekly management committee meeting;

- Bi-weekly disclosure committee meeting (included in management committee meeting);
- Full-time availability of all policies and procedures to employees, managers, and directors;
- Annual re-signing of the code of conduct of the Company by all employees, managers, and directors;
- Weekly review by the CFO team (the Chief Accountant and the senior accounting clerk) of controls, problems, implementation of new procedures, compliance with policies and procedures, performance of the implementation of the new accounting software, etc.
- On a monthly basis, the business leaders and their respective accountants review all transactions;
- Monthly financial statements are established by the Chief Accountant, in collaboration with the senior accounting clerk, and reviewed and analyzed by all vice-presidents and the President and CEO. With the financial statements, an analytic review is provided in order to explain variances between actual and budget.
- Quarterly financial statements are reviewed and yearly financial statements and audited by external auditors. These statements, along with all related documents, are reviewed by members of the audit committee and approved by the board of directors.

As a conclusion, the Company will continue producing a better and more complete manual of policies and procedures and will also continue the implementation of procedures to ensure compliance.

12.1.2. Segregation of duties

The Company had deficient controls within its accounting and finance department over segregation of duties inherent to its size. Specifically, 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 that risk, we continue to implement improved monitoring systems, other procedures to prevent occurrence of frauds, 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 the previous section (see 12.1.1 "Entity level controls").

13. SELECTED RISKS AND PROPOSED REMEDIES

This section presents the most important risks associated with ProSep Inc.'s business operations and is periodically reviewed by Management and overseen by the Board of Directors. During the three-month period ended September 30, 2008 risks and proposed remedies and risk management practices have not materially changed. Refer to the previous interim and 2007 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"