

**ProSep Inc.**  
**(Formerly TORR Canada Inc.)**  
**Unaudited Consolidated Interim Financial Statements**  
**For the three and six-month periods ended**  
**June 30, 2008**

ProSep Inc.  
(Formerly TORR Canada Inc.)  
Consolidated statements of loss and comprehensive loss  
For the three-month and six-month periods  
ended June 30, 2008 and 2007  
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenue (Note 16)</b>	<b>15,140,834</b>	9,401,716	<b>24,257,877</b>	25,816,413
<b>Cost of goods sold (Note 11)</b>	<b>10,731,125</b>	10,996,252	<b>17,195,612</b>	27,994,186
<b>Gross margin</b>	<b>4,409,709</b>	(1,594,536)	<b>7,062,265</b>	(2,177,773)
<b>Expenses</b>				
Sales and marketing	428,991	341,632	990,055	738,081
Research and development	264,578	49,467	567,783	169,907
General and administrative	2,339,243	640,592	4,568,591	1,404,213
	<b>3,032,812</b>	1,031,691	<b>6,126,429</b>	2,312,201
	<b>1,376,897</b>	(2,626,227)	<b>935,836</b>	(4,489,974)
Decrease in fair value of investment in ABCP (Note 4)	-	-	450,000	-
Financial charges (Note 12)	566,352	196,827	2,525,222	78,812
Amortization (Note 12)	377,284	105,008	741,141	222,362
<b>Income (loss) before income taxes</b>	<b>433,261</b>	(2,928,062)	<b>(2,780,527)</b>	(4,791,148)
Current tax provision	564,859	-	770,027	-
Future tax provision (recovery)	30,524	-	(50,618)	-
Income taxes	595,383	-	719,409	-
<b>Net loss and comprehensive loss</b>	<b>(162,122)</b>	(2,928,062)	<b>(3,499,936)</b>	(4,791,148)
<b>Weighted average number of shares</b>	<b>62,556,566</b>	46,700,673	<b>62,556,566</b>	46,698,509
<b>Basic and diluted (loss) per share (Note 10)</b>	<b>(0.00)</b>	(0.06)	<b>(0.06)</b>	(0.10)

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

**ProSep Inc.**  
**(Formerly TORR Canada Inc.)**  
**Consolidated balance sheets**  
**As at June 30, 2008 and December 31, 2007**  
**(Unaudited)**

	June 30	Audited December 31
	2008	2007
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 13)	11,249,925	8,662,634
Restricted cash	1,063,142	1,055,846
Receivables (Note 3)	15,848,854	11,299,053
Deferred contract costs	70,034	66,048
Inventories	449,904	615,430
Prepaid expenses	662,278	418,222
Derivative financial instruments	-	12,450
	<b>29,344,137</b>	<b>22,129,683</b>
Long-term investment (Note 4)	6,750,000	7,200,000
Property and equipment	1,986,252	2,093,671
Goodwill	20,407,126	20,407,126
Intangible assets	8,191,400	8,530,759
Future tax assets	69,198	72,596
	<b>66,748,113</b>	<b>60,433,835</b>
<b>Liabilities</b>		
Current liabilities		
Bank credit facilities (Note 6)	11,161,027	10,602,541
Accounts payable and accrued liabilities (Note 5)	20,021,902	15,765,232
Deferred revenue	430,907	349,515
Derivative financial instruments (Note 14)	23,571	-
Current portion of long term debt	2,075,206	1,660,518
	<b>33,712,613</b>	<b>28,377,806</b>
Interest payable (Note 7)	651,493	651,493
Long-term debt (Note 7)	13,777,965	11,178,087
Future tax liabilities	1,108,776	1,162,791
Pension obligation (Note 8)	413,266	391,650
	<b>49,664,113</b>	<b>41,761,827</b>
<b>Shareholders' equity</b>		
Share capital	55,144,398	55,144,398
Contributed surplus	12,299,557	10,132,726
Deficit	(50,359,955)	(46,605,116)
	<b>17,084,000</b>	<b>18,672,008</b>
	<b>66,748,113</b>	<b>60,433,835</b>

**Approved by the Board**

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

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

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ProSep Inc.  
(Formerly TORR Canada Inc.)  
Consolidated statements of deficits  
For the three-month and six-month periods  
ended June 30, 2008 and 2007  
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Deficit, beginning of period	(49,942,930)	(35,733,162)	(46,605,116)	(30,725,679)
Share issue cost	(254,903)	-	(254,903)	-
Net loss	(162,122)	(2,928,062)	(3,499,936)	(4,791,148)
Deficit, end of period	(50,359,955)	(38,661,224)	(50,359,955)	(35,516,827)

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

ProSep Inc.  
(Formerly TORR Canada Inc.)  
Consolidated statements of contributed surplus  
For the three-month and six-month periods  
ended June 30, 2008 and 2007  
(Unaudited)

<b>Three months ended June 30, 2008</b>				
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
<b>Contributed surplus as at March 31, 2008</b>	2,202,470	7,433,980	632,273	10,268,723
Stock-based compensation (Note 9)	118,722			118,722
Value of warrants issued from convertible debenture (Note 7)		566,841		566,841
Debenture convertible feature (Note 7)			1,345,271	1,345,271
<b>Contributed surplus as at June 30, 2008</b>	<b>2,321,192</b>	<b>8,000,821</b>	<b>1,977,544</b>	<b>12,299,557</b>

<b>Three months ended June 30, 2007</b>				
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at March 31, 2007	1,439,917	6,696,777	843,031	8,979,725
Stock-based compensation (Note 9)	155,518			155,518
Accretion of warrants on convertible loan		63,227		63,227
<b>Contributed surplus as at June 30, 2007</b>	<b>1,595,435</b>	<b>6,760,004</b>	<b>843,031</b>	<b>9,198,470</b>

<b>Six months ended June 30, 2008</b>				
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
<b>Contributed surplus as at December 31, 2007</b>	2,066,473	7,433,980	632,273	10,132,726
Stock-based compensation (Note 9)	254,719			254,719
Value of warrants issued from convertible debenture (Note 7)		566,841		566,841
Debenture convertible feature (Note 7)			1,345,271	1,345,271
<b>Contributed surplus as at June 30, 2008</b>	<b>2,321,192</b>	<b>8,000,821</b>	<b>1,977,544</b>	<b>12,299,557</b>

<b>Six months ended June 30, 2007</b>				
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at December 31, 2006	1,264,874	6,633,550	843,031	8,741,455
Stock-based compensation (Note 9)	330,561			330,561
Accretion of warrants on convertible loan		126,454		126,454
<b>Contributed surplus as at June 30, 2007</b>	<b>1,595,435</b>	<b>6,760,004</b>	<b>843,031</b>	<b>9,198,470</b>

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

ProSep Inc.  
(Formerly TORR Canada Inc.)  
Consolidated statements of cash flows  
For the three-month and six-month periods  
ended June 30, 2008 and 2007  
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss and comprehensive loss	(162,122)	(2,928,062)	(3,499,936)	(4,791,148)
Items not affecting cash				
Stock-based compensation	118,722	155,518	254,719	330,561
Amortization of property & equipment	207,606	77,820	401,787	167,987
Amortization of intangible assets	169,678	27,188	339,354	54,375
Amortization of financing related costs	-	70,583	-	141,166
Accreted interest	77,448	123,746	139,179	237,530
Accrued interest on long term investment	-	(163,786)	-	(141,357)
Decrease in fair value of investment in ABCP	-	-	450,000	-
Periodic pension cost	12,400	-	21,616	-
Future income taxes	30,524	-	(50,618)	-
Change in fair value of derivative financial instruments	(203,977)	(161,150)	36,021	(187,000)
Unrealized exchange (gain) loss	(162,608)	-	1,322,106	-
	87,671	(2,798,143)	(585,772)	(4,187,886)
Changes in non-cash operating working capital items	(43,091)	2,683,520	(254,949)	(298,956)
	44,580	(114,623)	(840,721)	(4,486,842)
<b>Investing activities</b>				
Acquisition of property & equipment	(242,283)	(101,034)	(294,748)	(363,465)
Deferred costs	-	(562,609)	-	(562,609)
	(242,283)	(663,643)	(294,748)	(926,074)
<b>Financing activities</b>				
Change in bank indebtedness	-	(5,113,242)	-	(4,002,129)
Increase in long term debt	4,762,473		4,762,473	
Share issue cost	(141,777)		(141,777)	
Reimbursement of long-term debt	(893,609)	(586)	(897,936)	(1,158)
Issuance of share capital	-	-	-	1,667
	3,727,087	(5,113,828)	3,722,760	(4,001,620)
Effect of exchange rate on cash and cash equivalents	28,715	-	137,534	-
Increase (decrease) in cash and cash equivalents	3,500,669	(5,892,094)	2,449,757	(9,414,536)
Cash and cash equivalents, beginning of period	7,720,541	22,399,796	8,662,634	25,922,238
Cash and cash equivalents, end of period	11,249,925	16,507,702	11,249,925	16,507,702

Additional information - see Note 13

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

**ProSep Inc.**

**(Formerly TORR Canada Inc.)**

**Notes to the consolidated financial statements (Unaudited)**

**For the three-month and six-month periods**

**ended June 30, 2008 and 2007**

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### **1. Financial statement presentation and change of business name**

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to the interim financial statements, following the same accounting policies as outlined in Note 2 to the consolidated financial statements for the period ended December 31, 2007

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

At the annual general meeting held on April 29, 2008, the Board of Directors of TORR Canada Inc. adopted a resolution which changed the name of the Company to ProSep Inc.

### **2. Changes 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.

#### **a) 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 presents sensitivity analysis regarding liquidity risk, credit risk, currency risk, foreign exchange risk, interest rate risk and market risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted.

#### **b) 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.

#### **c) 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. This information is included in Note 15, Capital Management.

#### **d) 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.

#### **e) 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.

### **3. Receivables**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Trade accounts receivable	<b>4,900,613</b>	4,645,219
Unbilled receivables	<b>10,806,221</b>	5,788,413
Sales taxes and other	<b>142,020</b>	865,421
	<b>15,848,854</b>	11,299,053

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

ProSep Inc.

(Formerly TORR Canada Inc.)

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods

ended June 30, 2008 and 2007

#### 4. Long-term Investment

Long-term investment 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 ABCPs into long-term rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a Pan-Canadian restructuring 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 tradeable within a 365 day period. As a result, the Company has classified its ABCP as long-term investments.

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 noteholder approval of the restructuring plan. The vote happened on April 25, 2008 and noteholders approved the restructuring plan subject to approval by the Court.

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 at face value 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 management's judgment using available information and assumptions market participants would use in pricing such ABCP as at the balance sheet date. The Company reviewed information provided by the Pan-Canadian restructuring 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 approval of the restructuring plan 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 high likelihood of successful restructuring of the \$9 million Apsley series A, ABCP investment.

The Company estimated the fair value of these investments using the discounted cash flow evaluation technique based on observable market assumptions. The main assumptions concern 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. The Company used the forecasted rates available in the proposed restructuring plan prepared by the Pan-Canadian committee and the following discount factors:

Restructured Securities	Expected Yield	Market related Discount factors
Class A1-A2	265 basis points	Treasury Bond rate plus 200 basis points
Class B	265 basis points	Treasury Bond rate plus 575 basis points
Class C	265 basis points	Treasury Bond rate plus 700 basis points
Ineligible	265 basis points	Treasury Bond rate plus 1200 basis points

ProSep Inc.

(Formerly TORR Canada Inc.)

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods

ended June 30, 2008 and 2007

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**4. Long-term Investment (continued)**

The risk premiums added to the basic Canadian government treasury bond rates reflect the liquidity, credit and other risks. Regarding the 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 for all of its clients holding ABCP, which is conditional upon the implementation of the ABCP restructuring plan prepared by the Pan-Canadian committee of ABCP investors. By accepting this agreement, the Company will incur a maximum loss of 25% on the ineligible securities.

Based on this assessment of fair values, the Company recognized an 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% impairment of original cost. No further impairment charge was required for the three-month period ended June 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 technique is appropriate under the circumstances, changes in significant assumptions, especially those relating to the probability of the scenarios, returns, credit risk and liquidity risk could significantly affect the value ascribed to 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.

**5. Accounts payable and accrued liabilities**

	June 30, 2008	December 31, 2007
	\$	\$
Accounts payable	3,284,351	1,873,812
Warranty provision	2,864,095	2,740,714
Accrued liabilities	13,873,456	11,150,706
	<b>20,021,902</b>	15,765,232

**6. Bank credit facilities**

On March 25, 2008, the Company renewed its agreement with the National Bank of Canada and converted the credit facility payable on demand to a term loan with a new maturity date of April 30, 2009. The amount of this term loan of \$7,200,000 is presented as a bank credit facility as at June 30, 2008 (same as at December 31, 2007) and is secured by the long-term investment in ABCP (Note 4), in addition to third ranking universal hypothecation. The interest rate of 3.25% comprises the Canadian prime rate currently at 4.75% minus 1.5% per annum payable on a monthly basis.

The company has a bank credit facility with DnB NOR which consists of a senior overdraft facility of 30,000,000 NOK (\$6,000,000 at June 30, 2008) and a guarantee facility of 15,000,000 NOK (\$3,000,000 at June 30, 2008) to be used to provide customer guarantees against advances received under sales contracts. The bank credit facility outstanding is \$3,961,026 at June 30, 2008 (\$3,402,541 at December 31, 2007). The interest rate of 8.08% is based on the three month Norwegian Interbank Offered Rate (NIBOR), currently at 6.58% plus 1.5% per annum.

The letters of guarantee outstanding amount to \$ 3,832,863 as at June 30, 2008 (nil as at December 31, 2007). There is no letter of credit outstanding as at June 30, 2008 (nil as at December 31, 2007).

**ProSep Inc.****(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods****ended June 30, 2008 and 2007****7. Long-term debt and interest payable**

	June 30, 2008		December 31, 2007	
	Loan	Interest payable	Loan	Interest payable
Secured convertible loans in the aggregate principal amount of \$3 million, convertible into common shares and warrants to purchase common shares, bearing interest at 12% per annum compounded and maturing on October 29, 2009.	<b>830,936</b>	776,024	737,437	693,682
Unsecured debenture, bearing interest at 13% per annum, payable monthly. The principal amount is payable in 48 equal monthly instalments of \$83,333 starting on April 1, 2009 and expiring on March 1, 2013.	<b>3,824,420</b>	43,333	3,811,317	-
Credit facility with DnB NOR. The interest rate of 8.08% is the three month Norwegian Interbank Offered Rate (NIBOR) + 1.5% and the principal amount is payable in 10 equal instalments of 4 500 000 NOK (\$900,000 as of June 30, 2008) every 6 months. Expiration date is October 25, 2012.	<b>8,100,000</b>	106,048	8,180,926	-
Convertible unsecured subordinated debentures *	<b>2,996,063</b>	123,275	-	-
Obligations under capital leases	<b>101,752</b>	-	108,925	-
	<b>15,853,171</b>	1,048,680	12,838,605	693,682
Current portion of long term debt and interest payable	<b>(2,075,206)</b>	(397,187)	(1,660,518)	(42,189)
<b>Long-term debt and interest payable</b>	<b>13,777,965</b>	651,493	11,178,087	651,493

\* Convertible Debt issued April 24, 2008

On April 24, 2008, the company issued unsecured convertible subordinated debentures for an amount of \$5,090,000. The debentures are due on April 30, 2013 and bear interest at 13% (effective interest rate of 27.77%). The principal amount of the debentures is convertible at any time at the holder's option into common shares at a conversion price of \$0.45. Interest is payable every six months in cash, and the company may elect to pay interest in common shares using a conversion price equal to 90% of the market value of the common shares at the time of payment. Furthermore, the company has the option of early cash redemption of the debentures between April, 2010 and February, 2013. The Company may elect to pay the redemption in common shares using a conversion price equal to 90% of the market value of the common shares at the time of redemption. In addition, 1,018,000 share purchase warrants were issued to the debentures holders at an exercise price of \$0.30 per share and expiring on April 24, 2013.

For accounting purposes, the debentures include both a liability component and an equity component (the holders' conversion option and the warrants). The liability component is classified for financial instrument purposes as other liabilities. The fair value of the liability component of \$3,552,408 has been determined by discounting the future repayments at a discount rate which represent the estimated borrowing rate available to the Company for similar debentures having no warrants and no conversion rights. The fair value of the warrants of \$192,321 was determined using the Black Scholes option pricing model using the following assumptions: risk free interest rate 3.20%; dividend yield 0%; expected volatility 66%; 5 years expected life. The residual of the proceeds over the fair value of the liability component and the warrants was attributed to the conversion option (\$1,345,271).

The issuance costs incurred have been accounted for as a reduction of the liability component(\$588,922) or as share issue expenses (\$254,903) for the portion attributable to the equity component. The issuance cost include 1,018,000 share purchase warrants with an exercise price of \$0.30 per share and expiring on April 24, 2013 (valued at \$192,321) and the reduction of the exercise price of 2,424,242 share purchase warrants issued on October 26, 2007 from \$1.65 to \$0.55 per share (change in fair value of \$182,199). The warrants were evaluated with the Black Scholes model using the following assumptions: risk free interest rate 3.17%; dividend yield 0%; expected volatility 66%; 4.5 years expected life.

At June 30, 2008, ProSep Inc. complied with all of its financial covenants.

**ProSep Inc.****(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods****ended June 30, 2008 and 2007****8. Pension Obligation**

For the three months ended June 30, 2008, an amount of \$12,400 has been recorded in the statement of loss to account for the increase in our pension obligation (\$21,616 for the six months ended June 30, 2008 and nil for the three and six-months ended June 30, 2007).

**9. Stock-based compensation***Stock option plan*

The Company grants incentive stock options to its directors, officers, employees and others providing services to it in accordance with the regulations set by the TSX Group and subject to its approval. The total number of common shares that may be issued pursuant to this plan is limited to 10% of the issued shares. Options may be exercised at a price equal to the quoted market value as at the date of grant. Options expire five years from the date of grant.

Options may be granted to directors, officers, consultants and employees. Options vest over a three-year period; 25% are vested when granted, 25% after 12 months, 25% after 24 months, and 25% after 36 months. The fair value of the options is amortized over the vesting period.

Changes in the number of options are as follows:

	Three-month period ended June 30, 2008		Six-month period ended June 30, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of period	2,762,500	0.84	3,745,250	0.89
Expired	(219,500)	0.93	(1,073,750)	1.02
Forfeited	(134,500)	0.90	(263,000)	0.90
Balance, end of period	2,408,500	0.83	2,408,500	0.83

The table below presents additional information regarding the Company's stock option program as at June 30, 2008:

Range of exercise price	Number of options	Weighted-average remaining life (years)	Number of options exercisable
\$0.31 - \$0.50	794,000	3.65	254,750
\$0.57 - \$ 1.00	1,045,500	2.54	828,000
\$1.16 - \$ 1.45	560,500	1.95	459,000
\$1.85	8,500	2.86	6,750
	2,408,500		1,548,500

During the six-month period ended June 30, 2008, the amount amortized and recorded in contributed surplus for option costs granted to employees and directors is \$223,602 (\$330,561 for the same period ended June 30, 2007) and \$96,072 for the three-month period ended June 30, 2008 ( \$155,518 for the same period ended June 30, 2007).

*Warrants*

As a component of the convertible debt issued on April 24, 2008 (Note 7), the Company issued common share purchase warrants and also broker's warrants. The exercise price is \$0.30.

	Three-month period ended June 30, 2008		Six-month period ended June 30, 2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, beginning of period	25,599,027	0.73	25,599,027	0.73
Issued	2,036,000	0.30	2,036,000	0.30
Exercised	-	-	-	-
Balance, end of period	27,635,027	0.61	27,635,027	0.61

The number of warrants outstanding at June 30, 2007 was 23,174,785. Their weighted average exercise price was \$0.64.

**ProSep Inc.****(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods****ended June 30, 2008 and 2007****9. Stock-based compensation (continued)***Restricted share units*

During the fiscal 2007, the Company granted 455,000 restricted share units (RSUs) at a value of \$0.31 per share for a total of \$141,050. The vested RSUs shall expire 24 months after the grant date. The fair value of the restricted share units is amortized over their vesting period.

The company issued 1,150,000 RSUs on April 29, 2008 at a value of \$0.39 per share for a total of \$448,500. The total number of RSUs outstanding is 1,605,000. Their vesting period is 3 years after the grant date.

	Three-month period ended		Six-month period ended	
	June 30, 2008		June 30, 2008	
	Number of restricted share units	Weighted average exercise price	Number of restricted share units	Weighted average exercise price
		\$		\$
Balance, beginning of period	455,000	0.31	455,000	0.31
Granted	1,150,000	0.39	1,150,000	0.39
Exercised	-	-	-	-
Balance, end of period	1,605,000	0.37	1,605,000	0.37

There were no restricted share units outstanding as at June 30, 2007.

The expense recorded in the consolidated statements of loss and credited to contributed surplus was \$31,117 for the six-month period ended June 30, 2008 (nil for the six-month period ended June 30, 2007) and \$22,650 for the three-month period ended June 30, 2008 (nil for the three-month period ended June 30, 2007).

**10. Basic and diluted loss per share**

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the period: 62,556,566 shares for the three-month and the six-month periods ended June 30, 2008, and 46,698,509 shares for the six-month period ended June 30, 2007 and 46,700,673 shares for the three-month period ended June 30, 2007.

As a result of the loss for the six-month and the three-month periods ended June 30, 2008, potentially 27,635,027 dilutive warrants, 2,408,500 dilutive options and 1,605,000 dilutive restricted units have not been included in the calculation of diluted loss per share because the effect would have been anti-dilutive (for the six-month and the three-month ended June 30, 2007, potentially 23,174,785 dilutive warrants, 3,131,917 dilutive options have not been included in the calculation for the same reason).

**11. Cost of goods sold**

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Products & services sold	10,666,141	10,068,150	17,091,900	25,681,076
Warranty provision	64,984	928,102	103,712	2,313,110
	10,731,125	10,996,252	17,195,612	27,994,186

**12. Other supplemental information**

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
Financial (income) charges, net	\$	\$	\$	\$
Interest on long-term debt & accretion	499,560	131,100	935,145	252,242
Interest charges	144,540	-	283,751	-
Change in fair value of derivative financial instrument	(203,977)	(161,150)	36,021	(187,000)
Foreign exchange*	140,688	352,157	1,354,568	263,653
Interest revenue	(14,459)	(188,507)	(84,263)	(376,537)
Accretion of warrants on convertible loan	-	63,227	-	126,454
	566,352	196,827	2,525,222	78,812

\*Foreign exchange includes a \$806,473 change in value of the foreign currency denominated debt for the six-month ended June 30, 2008.

## Amortization

Property & equipment	207,606	79,330	401,787	167,987
Intangible assets	169,678	25,678	339,354	54,375
	377,284	105,008	741,141	222,362

**ProSep Inc.****(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods****ended June 30, 2008 and 2007****13. Supplemental cash flow information**

	June 30, 2008	December 31, 2007
	\$	\$
Cash and cash equivalents		
Cash	11,249,925	8,603,128
Short-term investments	-	59,506
	<b>11,249,925</b>	<b>8,662,634</b>

Short-term investments at December 31, 2007 consist of money market investments.

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest paid	456,149	-	898,370	-

**14. Financial instruments**

The Company has made the following classifications:

i) Cash and cash equivalents, long-term investments and derivative financial instruments are classified as held for trading. They are measured at fair value and any gains or losses resulting from subsequent measurements, at the end of each period, are recognised in earnings.

ii) Accounts receivable are classified as loans and receivables. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivable is at amortized cost, which corresponds to the amount initially recorded less any allowance for doubtful accounts.

iii) Accounts payable, accrued liabilities, bank credit facilities and long-term debt are classified as other financial liabilities. They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in earnings.

	June 30, 2008	December 31, 2007
	\$	\$
Financial assets:		
Held for trading:		
Cash and cash equivalents	11,249,925	8,662,634
Derivative financial instruments	-	12,450
Long-term investment	6,750,000	7,200,000
Loans and receivables:		
Accounts receivable	15,848,854	11,299,053
	<b>33,848,779</b>	<b>27,174,137</b>

	June 30, 2008	December 31, 2007
	\$	\$
Financial liabilities:		
Other financial liabilities:		
Accounts payable and accrued liabilities	20,021,902	15,765,232
Bank credit facilities	11,161,027	10,602,541
Long-term debt, including current portion	15,853,171	12,838,605
Interest payable	651,493	651,493
Held for trading :		
Derivative financial instrument	23,571	-
	<b>47,711,164</b>	<b>39,857,871</b>

*Fair value*

The carrying values of cash equivalents, restricted cash, receivables, bank credit facilities, accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity.

The fair value of the long-term investment has been estimated by management (Note 4).

The carrying value of long-term debts approximates its fair value, since the terms and conditions are similar to those the Company would have obtained at December 31, 2007 or April 24, 2008 in the case of the new loan (Note 7).

The carrying values of the convertible loans approximate their fair values as interest rates at December 31, 2007 have not changed significantly since they were issued and the carrying values are being accreted to their face values over the term of the convertible loans such that they will be recorded at their full value when they become due and payable.

**ProSep Inc.****(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and six-month periods****ended June 30, 2008 and 2007****14. Financial instruments (continued)***Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities such as the settlement of financial debt and lease obligations and payment to its suppliers as they come due. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows for all of its business units and taking the necessary actions to maintain enough liquidity for operations and for its growth objectives.

*Credit risk*

Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents and trade accounts receivable. The Company has its cash and cash equivalents placed with high quality financial institutions. As part of its cash management process, the Company performs periodic evaluation of the relative credit standing of these institutions.

The Company grants credit to its customers in the normal course of business. Since a significant portion of the Company's sales were to a limited number of customers, the Company is exposed to a concentration of credit risk. Amounts receivable from three customers represent 60% of trade accounts receivable as at June 30, 2008 (three customers represented 75% of trade accounts receivable as at December 31, 2007). In addition, four customers represent 63% of unbilled receivables included in accounts receivable as at June 30, 2008 (four customers represent 99% of unbilled receivables included in accounts receivable as at December 31, 2007). All customers are evaluated regarding their payment history, their credit worthiness and the current economic environment in which customers operate. One customer who represent 39% of accounts receivable is located in the United States and the four customers representing 63% of unbilled receivables are also located in the United States.

*Currency risk*

The Company maintains cash and cash equivalents, accounts receivable, bank credit facilities, accounts payable, accrued liabilities and long-term debt in foreign currencies, and is therefore exposed to currency risk on these funds. The balances in foreign currencies are as follows:

	June 30, 2008			
	NOK	USD	MYR	GBP
Cash and cash equivalents	1,483,856	4,070,507	928,818	-
Restricted cash	5,315,709	-	-	-
Receivables	9,942,644	12,085,402	144,619	138,465
Accounts payable and accrued liabilities	12,054,797	12,533,722	940,322	-
Bank credit facility	19,805,132	-	-	-
Long-term debt	40,500,000	90,276	-	-
	December 31, 2007			
	NOK	USD	MYR	GBP
Cash and cash equivalents	3,615,646	1,686,877	232,764	-
Restricted cash	5,807,846	-	-	-
Receivables	3,391,667	9,591,720	392,531	53,372
Accounts payable and accrued liabilities	17,029,212	7,478,308	372,210	-
Bank credit facility	18,716,018	-	-	-
Long-term debt	45,000,000	99,501	-	-

*Exchange rate risk and derivative financial instruments*

The Company has operations in, and exports its products to several countries. A substantial portion of the Company's revenues are received in, and expenses incurred in foreign currencies, and it is therefore exposed to risks related to foreign exchange fluctuations. The Company periodically enters into financial instruments with major financial institutions to manage foreign exchange risk related to future cash flows. The Company does not enter into derivatives for speculative purposes. The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures. The Company has not designated its derivatives as hedge and accordingly records the derivatives at their value on the consolidated balance sheets with the corresponding gains or losses included in the consolidated statements of loss.

As at June 30, 2008 and December 31, 2007 the Company had the following foreign exchange forward contracts:

The Company holds a foreign exchange forward contract, for a contractual amount of EUR 3,103,000 at a rate of 1,5655 US / EUR (US\$ 4,858,216) whereby the Company is committed to the sale of this currency. During the three-month period ended June 30, 2008, the contract maturity date has been extended to August 28, 2008. The fair value of this foreign exchange forward contract is presented as a liability of \$23,571 as at June 30, 2008. A loss of \$36,021 for the six-month period ended June 30, 2008 has been recorded in the statement of loss and comprehensive loss, while a gain of \$203,977 has been recorded during the three-month period ended June 30, 2008. The fair value has been obtained from the financial institution from whom the foreign exchange forward contract has been purchased.

**ProSep Inc.**

**(Formerly TORR Canada Inc.)**

**Notes to the consolidated financial statements (Unaudited)**

**For the three-month and six-month periods**

**ended June 30, 2008 and 2007**

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**14. Financial instruments (continued)**

On October 11, 2006, for a contractual amount of US\$2,000,000 at a rate of 1.12 CDN / US (CDN\$ 2,240,000) whereby the Company was committed to the sale of this currency. The foreign exchange forward contract was exercisable between August 13, 2007 to September 12, 2007. The fair value of this foreign exchange forward contract was \$103,550 as at June 30, 2007.

*Interest rate risk*

The company is exposed to interest rate fluctuation on a portion of its long-term debt. Management does not believe that the company is subject to significant interest rate risk.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Company's profitability or the value of its financial instruments. We have discussed those items above.

**15. Capital Management**

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

For the six-month period ended June 30, 2008, the company has not been in default under any of its obligations regarding the long-term debt covenants and other financial obligations.

**16. Segmented information**

*Operating segment*

The Company regularly reviews its operations and has determined that it operates in a single reportable operating segment. It designs, develops, manufactures and commercializes process solutions to treat produced water, oil and gas for the upstream Oil and Gas industry. Starting January 1, 2008, for budget and management purposes, the Company analyses results by business units as reported below:

*Geographical information*

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Sales to customers situated in:				
Argentina	4,742,440	-	9,423,369	-
United States	4,671,447	-	6,407,777	-
Kuwait	2,419,574	-	2,512,462	-
South Korea	-	9,244,858	-	25,526,482
Other countries	3,307,372	156,858	5,914,269	289,931
	<b>15,140,834</b>	<b>9,401,716</b>	<b>24,257,877</b>	<b>25,816,413</b>

*Significant customers*

Three clients represent 65% of the Company's sales for the 3 months ended June 30, 2008 and 60% for the 6 months ended June 30, 2008 (one client represented 98% of the Company's revenue for the 3 months ended June 30, 2007 and 99% for the 6 months ended June 30, 2007).

ProSep Inc.

(Formerly TORR Canada Inc.)

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods

ended June 30, 2008 and 2007

16. Segmented information (continued)

Revenue and expenses by business units

For the three-month period ended June 30, 2008

	ProSep Technologies	ProPure & Middle- East	ProSep Asia Pacific	Product Development	Head Office	Consolidation & Intercompany eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	12,994,127	1,748,407	420,967	179,740		(202,407)	15,140,834
Cost of goods sold	10,077,380	608,748	236,382	11,022		(202,407)	10,731,125
Gross margin	2,916,747	1,139,659	184,585	168,718			4,409,709
Operating expenses	873,482	691,667	226,559	291,485	949,619		3,032,812
EBITDA*	2,043,265	447,992	(41,974)	(122,767)	(949,619)		1,376,897
Net income (loss) and comprehensive income (loss)	1,462,898	211,811	(53,581)	(122,764)	(1,660,066)	(420)	(162,122)

For the three-month period ended June 30, 2007

	TORR Canada Inc.
	\$
Revenue	9,401,716
Cost of goods sold	10,996,252
Operating expenses	1,031,691
EBITDA*	(2,626,227)
Net loss and comprehensive loss	(2,928,062)

For the six-month period ended June 30, 2008

	ProSep Technologies	ProPure & Middle- East	Pure Group Asia Pacific	Product Development	Head Office	Consolidation & Intercompany eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	20,761,390	2,889,142	1,240,231	259,932		(892,818)	24,257,877
Cost of goods sold	15,960,198	1,062,749	1,018,581	46,902		(892,818)	17,195,612
Gross margin	4,801,192	1,826,393	221,650	213,030			7,062,265
Operating expenses	1,556,441	1,762,565	407,196	614,060	1,786,167		6,126,429
EBITDA*	3,244,751	63,828	(185,546)	(401,030)	(1,786,167)		935,836
Net income (loss) and comprehensive income (loss)	2,292,723	(255,303)	(201,677)	(401,027)	(3,480,757)	(1,453,895)	(3,499,936)

For the six-month period ended June 30, 2007

	TORR Canada Inc.
	\$
Revenue	25,816,413
Cost of goods sold	27,994,186
Operating expenses	2,312,201
EBITDA*	(4,489,974)
Net loss and comprehensive loss	(4,791,148)

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

ProSep Inc.

(Formerly TORR Canada Inc.)

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods

ended June 30, 2008 and 2007

#### 16. Segmented information (continued)

Revenue originated from:

##### For the three-month period ended June 30, 2008

	ProSep Technologies	ProPure & Middle-East	Pure Group Asia Pacific	Product Development	Head Office	Intercompany transactions	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	12,994,127						12,994,127
Norway		1,070,890		179,740			1,250,630
Canada		677,517					677,517
Malaysia			420,967			(202,407)	218,560
	12,994,127	1,748,407	420,967	179,740	-	(202,407)	15,140,834

For the three-month period ended June 30, 2007, total revenue of \$9,401,716 originated from Canada.

##### For the six-month period ended June 30, 2008

	ProSep Technologies	ProPure & Middle-East	Pure Group Asia Pacific	Product Development	Head Office	Intercompany transactions	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	20,761,390						20,761,390
Norway		2,063,665		259,932			2,323,597
Canada		825,477					825,477
Malaysia			1,240,231			(892,818)	347,413
	20,761,390	2,889,142	1,240,231	259,932	-	(892,818)	24,257,877

For the six-month period ended June 30, 2007, total revenue of \$25,816,413 originated from Canada.

#### Property & equipment

##### As at June 30, 2008

Property & equipment	641,545	1,187,701	33,280	-	123,726	-	1,986,252
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##### As at December 31, 2007

Property & equipment	479,680	1,422,380	42,573	-	149,038	-	2,093,671
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#### Intangible assets

The Company is currently reviewing the allocation of intangible assets by business unit.

#### 17. Comparative figures

Comparative figures for the consolidated financial statements as at December 31, 2007, for the three-month and six-month periods ended June 30, 2007 have been reclassified to conform with the June 30, 2008 presentation.