

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

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue (Note 16)	12,547,837	102,405	36,805,714	25,918,818
Cost of goods sold (Note 11)	8,095,717	142,019	25,291,329	28,136,205
Gross margin	4,452,120	(39,614)	11,514,385	(2,217,387)
Expenses				
Sales and marketing	491,551	238,159	1,481,606	976,240
Research and development	353,922	85,396	921,705	255,303
General and administrative	2,292,863	665,677	6,861,454	2,069,890
	3,138,336	989,232	9,264,765	3,301,433
	1,313,784	(1,028,846)	2,249,620	(5,518,820)
Decrease in fair value of investment in ABCP (Note 4)	-	1,620,000	450,000	1,620,000
Financial charges (Note 12)	(1,311,358)	313,323	1,213,864	392,135
Amortization (Note 12)	359,685	100,756	1,100,826	323,118
Income (loss) before income taxes	2,265,457	(3,062,925)	(515,070)	(7,854,073)
Current tax provision	474,769	-	1,244,796	-
Future tax recovery	(56,856)	-	(107,474)	-
Income taxes	417,913	-	1,137,322	-
Net income (loss) and comprehensive income (loss)	1,847,544	(3,062,925)	(1,652,392)	(7,854,073)
Weighted average number of shares (basic)	62,556,566	46,719,695	62,556,566	46,706,448
Weighted average number of shares (diluted)	73,867,677	N/A	N/A	N/A
Basic and diluted earnings (loss) per share (Note 10)	0.03	(0.07)	(0.03)	(0.17)

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

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

	September 30	December 31
	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	5,943,086	8,662,634
Restricted cash	1,066,334	1,055,846
Receivables (Note 3)	20,087,167	11,299,053
Deferred contract costs	-	66,048
Inventories	722,956	615,430
Prepaid expenses	934,514	418,222
Derivative financial instruments (Note 14)	156,000	12,450
	28,910,057	22,129,683
Long-term investment (Note 4)	6,750,000	7,200,000
Property and equipment	1,991,360	2,093,671
Goodwill	20,407,126	20,407,126
Intangible assets	8,021,721	8,530,759
Future tax assets	77,118	72,596
	66,157,382	60,433,835
Liabilities		
Current liabilities		
Bank credit facilities (Note 5)	10,896,156	10,602,541
Accounts payable and accrued liabilities (Note 6)	18,419,935	15,765,232
Deferred revenue	520,683	349,515
Current portion of long term debt	2,145,326	1,660,518
	31,982,100	28,377,806
Interest payable (Note 7)	651,493	651,493
Long-term debt (Note 7)	13,024,636	11,178,087
Future tax liabilities	1,059,840	1,162,791
Pension obligation (Note 8)	424,050	391,650
	47,142,119	41,761,827
Shareholders' equity		
Share capital	55,144,398	55,144,398
Contributed surplus	12,383,276	10,132,726
Deficit	(48,512,411)	(46,605,116)
	19,015,263	18,672,008
	66,157,382	60,433,835

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 nine-month periods
ended September 30, 2008 and 2007
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Deficit, beginning of period	(50,359,955)	(38,661,224)	(46,605,116)	(33,870,076)
Adjustment related to the adoption of new accounting policies	-	131,419	-	131,419
Balance as restated, beginning of period	(50,359,955)	(38,529,805)	(46,605,116)	(33,738,657)
Share issue cost	-	-	(254,903)	-
Net income (loss)	1,847,544	(3,062,925)	(1,652,392)	(7,854,073)
Balance, end of period	(48,512,411)	(41,592,730)	(48,512,411)	(41,592,730)

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

Three months ended September 30, 2008

	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at June 30, 2008	2,321,192	8,000,821	1,977,544	12,299,557
Stock-based compensation (Note 9)	83,719	-	-	83,719
Contributed surplus as at September 30, 2008	2,404,911	8,000,821	1,977,544	12,383,276

Three months ended September 30, 2007

	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at June 30, 2007	1,595,435	6,760,004	843,031	9,198,470
Adjustment related to the adoption of new accounting policies	-	590,111	-	590,111
Balance as restated, beginning of period	1,595,435	7,350,115	843,031	9,788,581
Stock-based compensation (Note 9)	149,818	-	-	149,818
Options exercised	(9,298)	-	-	(9,298)
Reversal of a portion of conversion feature of loans	-	-	(210,758)	(210,758)
Contributed surplus as at September 30, 2007	1,735,955	7,350,115	632,273	9,718,343

Nine months ended September 30, 2008

	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at December 31, 2007	2,066,473	7,433,980	632,273	10,132,726
Stock-based compensation (Note 9)	338,438	-	-	338,438
Value of warrants issued or repriced following issue of convertible debenture (Note 7)	-	566,841	-	566,841
Debenture conversion feature (Note 7)	-	-	1,345,271	1,345,271
Contributed surplus as at September 30, 2008	2,404,911	8,000,821	1,977,544	12,383,276

Nine months ended September 30, 2007

	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
Adjustment related to the adoption of new accounting policies	-	590,111	-	590,111
Balance as restated, beginning of period	1,264,874	7,223,661	843,031	9,331,566
Stock-based compensation (Note 9)	480,379	-	-	480,379
Options exercised	(9,298)	-	-	(9,298)
Accretion of warrants on convertible loan	-	126,454	-	126,454
Reversal of a portion of conversion feature of loans	-	-	(210,758)	(210,758)
Contributed surplus as at September 30, 2007	1,735,955	7,350,115	632,273	9,718,343

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 nine-month periods
ended September 30, 2008 and 2007
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating activities				
Net income (loss) and comprehensive income (loss)	1,847,544	(3,062,925)	(1,652,392)	(7,854,073)
Items not affecting cash				
Stock-based compensation	83,719	149,818	338,438	480,379
Amortization of property & equipment	190,009	73,569	591,796	241,556
Amortization of intangible assets	169,676	27,187	509,030	81,562
Amortization of financing related costs	-	70,583	-	211,749
Accreted interest	133,208	133,291	272,387	370,821
Accrued interest on long term investment	-	753	-	(140,604)
Decrease in fair value of investment in ABCP	-	1,620,000	450,000	1,620,000
Periodic pension cost	10,783	-	32,399	-
Future income taxes	56,856	-	(107,474)	-
Change in fair value of derivative financial instruments	(179,571)	103,550	(143,550)	(83,450)
Unrealized exchange gain	(1,498,444)	-	(176,338)	-
	813,780	(884,174)	114,296	(5,072,060)
Changes in non-cash operating working capital items	(5,805,382)	569,198	(6,060,331)	270,242
	(4,991,602)	(314,976)	(5,946,035)	(4,801,818)
Investing activities				
Acquisition of property and equipment	(195,116)	(11,027)	(489,864)	(374,492)
Investment	-	(6,667,035)	-	(6,667,035)
Deferred costs	-	(526,698)	-	(1,089,307)
	(195,116)	(7,204,760)	(489,864)	(8,130,834)
Financing activities				
Change in bank indebtedness	-	-	-	(4,002,129)
Increase in long term debt	-	-	4,762,473	-
Share issue cost	-	-	(141,777)	-
Reimbursement of long-term debt	(6,409)	(547)	(904,345)	(1,705)
Issuance of share capital	-	16,250	-	17,917
	(6,409)	15,703	3,716,351	(3,985,917)
Effect of exchange rate on cash and cash equivalents	(43,790)	-	93,744	-
Decrease in cash and cash equivalents	(5,263,049)	(7,504,033)	(2,813,292)	(16,918,569)
Cash and cash equivalents, beginning of period	11,249,925	16,507,702	8,662,634	25,922,238
Cash and cash equivalents, end of period	5,943,086	9,003,669	5,943,086	9,003,669

Additional information - see Note 13

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

Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods

ended September 30, 2008 and 2007

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 interim financial statements, following the same accounting policies as those 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 present sensitivity analyses 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 concerning the components 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 the 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

	September 30, 2008	December 31, 2007
	\$	\$
Trade accounts receivable	12,847,218	4,645,219
Unbilled receivables	7,060,156	5,788,413
Sales taxes and other	179,793	865,421
	<u>20,087,167</u>	<u>11,299,053</u>

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

ProSep Inc.

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Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods

ended September 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 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.

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, management estimated the fair value by discounting the expected future cash flows, considering the probability or 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 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.

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 owes mostly 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 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.

ProSep Inc.

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Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods

ended September 30, 2008 and 2007

4. Long-term Investment (continued)

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 (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 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 PanCanadian committee of ABCP investors. 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.

National Bank has also offered, for the eligible assets, a revolving credit facility totalling \$4,668,750 or 83% of the total face value of the restructured 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 National Bank in payment of the capital of the credit facility on or after the contractual maturity date.

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 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 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.

The Company has provided a first ranking hypothecation of the ABCP to secure a term loan with recourse (Note 5). This recourse is in third ranking hypothecation.

5. 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 September 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 (\$5,397,042 at September 30, 2008) and a guarantee facility of 15,000,000 NOK (\$2,698,521 at September 30, 2008) to be used to provide customer guarantees against advances received under sales contracts. The bank credit facility outstanding is \$3,696,156 at September 30, 2008 (\$3,402,541 at December 31, 2007). The interest rate of 8.00% is Norwegian Interbank Offered Rate (NIBOR) 3 month, equal to 6.50% plus 1.5% per annum.

The letters of guarantee outstanding amount to \$ 6,042,167 as at September 30, 2008 (nil as at December 31, 2007). There is no letter of credit outstanding as at September 30, 2008 (nil as at December 31, 2007).

ProSep Inc.

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Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods

ended September 30, 2008 and 2007

6. Accounts payable and accrued liabilities

	September 30, 2008	December 31, 2007
	\$	\$
Accounts payable	1,073,446	1,873,812
Warranty provision	1,632,699	2,740,714
Accrued liabilities	15,713,790	11,150,706
	18,419,935	15,765,232

7. Long-term debt and interest payable

	September 30, 2008		December 31, 2007	
	Loan \$	Interest payable \$	Loan \$	Interest payable \$
Secured convertible loans in the aggregate principal amount of \$1.5 million, convertible into common shares and warrants to purchase common shares, bearing interest at 12% per annum compounded and maturing on October 29, 2009.	901,026	882,539	737,437	693,682
Unsecured debenture in the principal amount of \$4 millions, 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.	3,831,297	-	3,811,317	-
Credit facility with DnB NOR. The interest rate of 8% 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 (\$809,556 as of September 30, 2008) every 6 months. Expiration date is October 25, 2012. (a)	7,286,008	96,028	8,180,926	-
Convertible unsecured subordinated debenture (b)	3,052,302	289,299	-	-
Obligations under capital leases	99,329	-	108,925	-
	15,169,962	1,267,866	12,838,605	693,682
Current portion of long term debt and interest payable	(2,145,326)	(616,373)	(1,660,518)	(42,189)
Long-term debt and interest payable	13,024,636	651,493	11,178,087	651,493

a) At September 30, 2008, ProSep Inc. was in breach of one of its financial covenants under the credit facility with DnB NOR. The Company has since obtained a long-term waiver for such breach.

b) 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) and as share issue expenses (\$254,903) for the portion attributable to the equity component. The issuance costs 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.

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8. Pension Obligation

For the three months ended September 30, 2008, an amount of \$10,783 has been recorded in the statement of income (loss) to account for the increase in the pension obligation (\$32,399 for the nine months ended September 30, 2008 and nil for the three and nine-months ended September 30, 2007).

9. Stock-based compensation

Stock option plan

The Company grants incentive stock options to its directors, officers, employees and consultants 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, employees and consultants. 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		Nine-month period ended	
	September 30, 2008		September 30, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of period	2,408,500	0.83	3,745,250	0.89
Expired	(235,500)	0.89	(1,309,250)	1.00
Forfeited	(64,000)	0.51	(327,000)	0.82
Balance, end of period	2,109,000	0.83	2,109,000	0.83

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

Range of exercise price	Number of options	Weighted-average remaining life (years)	Number of options exercisable
\$0.31 - \$0.50	708,500	4.08	210,875
\$0.57 - \$ 1.00	871,000	2.48	656,625
\$1.16 - \$ 1.45	524,250	1.88	503,000
\$1.85	5,250	2.86	5,250
	2,109,000		1,375,750

During the nine-month period ended September 30, 2008, the amount amortized and recorded in contributed surplus for option costs granted to employees and directors is \$277,548 (\$480,379 for the same period ended September 30, 2007) and \$53,946 for the three-month period ended September 30, 2008 (\$149,818 for the same period ended September 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		Nine-month period ended	
	September 30, 2008		September 30, 2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, beginning of period	27,635,027	0.61	25,599,027	0.73
Granted	-	-	2,036,000	0.30
Balance, end of period	27,635,027	0.61	27,635,027	0.61

The number of warrants outstanding as at September 30, 2007 was 23, 174,785. Their weighted average exercise price was \$0.65.

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

During 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 vest 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. During the three-month period ended September 30, 2008, the Company issued another 75,000 restricted share units. The total number of restricted share units outstanding is 1,680,000.

	<u>Three-month ended</u> <u>September 30, 2008</u>	<u>Nine-month ended</u> <u>September 30, 2008</u>
	<u>Number of restricted</u> <u>share units</u>	<u>Number of</u> <u>restricted share</u> <u>units</u>
Balance, beginning of period	1,605,000	455,000
Granted	75,000	1,225,000
Balance, end of period	<u>1,680,000</u>	<u>1,680,000</u>

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

The expense recorded in the consolidated statements of income (loss) and credited to contributed surplus was \$60,890 for the nine-month period ended September 30, 2008 (nil for the nine-month period ended September 30, 2007) and \$29,773 for the three-month period ended September 30, 2008 (nil for the three-month period ended September 30, 2007).

10. Basic and diluted earnings (loss) per share

Basic earnings (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 nine-month periods ended September 30, 2008 and 46,706,448 shares for the nine-month period ended September 30, 2007 and 46,719,695 shares for the three-month period ended September 30, 2007.

For the three-month period ended September 30, 2008, 27,635,027 dilutive warrants and 2,109,000 dilutive options have not been included in the calculation of diluted earnings per share because the average market price of the common shares during the period was lower than their exercise prices. 1,680,000 restricted share units have not been included because they are not vested yet. For the nine-month period, they have not been included in the calculation of loss per share as the effect would have been anti-dilutive (for the nine-month and the three-month ended September 30, 2007, potentially 23,174,785 dilutive warrants, 3,044,500 dilutive options have not been included in the calculation for the same reason). The 2004 secured convertible loans are anti-dilutive as their conversion price is higher than the common share market price. The convertible unsecured subordinated debenture dilutive effect is presented below.

	<u>Three months ended</u> <u>September 30</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net earnings (loss) attributable to common shareholders (\$)	1,847,544	(3,062,925)	(1,652,392)	7,854,073
Weighted average number of shares outstanding	62,556,566	46,719,695	62,556,566	46,706,448
Effect of dilutive conversion feature of unsecured debenture	11,311,111	-	-	-
Weighted average number of dilutive shares outstanding	73,867,677	46,719,695	62,556,566	46,706,448
Basic and diluted earnings (loss) per share (\$)	0.03	(0.07)	(0.03)	(0.17)

11. Cost of goods sold

	<u>Three months ended</u> <u>September 30</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Products & services sold	9,324,188	142,019	26,416,088	25,823,095
Warranty provision	(1,228,471)	-	(1,124,759)	2,313,110
	<u>8,095,717</u>	<u>142,019</u>	<u>25,291,329</u>	<u>28,136,205</u>

The Company reversed a provision of \$1,280,920 previously recorded covering a guarantee bond in a contract with one of the ProPure & Middle East clients. Such reversal is related to a contractual obligation that ended during the third quarter.

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12. Other supplemental information

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Financial (income) charges, net	\$	\$	\$	\$
Interest on long-term debt & accretion	649,054	140,647	1,584,199	392,889
Interest charges	157,979	16,744	441,730	16,744
Change in fair value of derivative financial instrument	(179,571)	(71,250)	(143,550)	(258,250)
Foreign exchange	(1,886,988)	322,962	(532,420)	586,615
Interest revenue	(51,832)	(159,007)	(136,095)	(535,544)
Accretion of warrants on convertible loan	-	63,227	-	189,681
	(1,311,358)	313,323	1,213,864	392,135
Amortization				
Property & equipment	190,009	73,569	591,796	241,556
Intangible assets	169,676	27,187	509,030	81,562
	359,685	100,756	1,100,826	323,118

13. Supplemental cash flow information

	September 30,	December 31,
	2008	2007
	\$	\$
Cash and cash equivalents		
Cash	5,943,086	8,603,128
Short-term investments	-	59,506
	5,943,086	8,662,634

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest paid	442,610	16,744	1,340,980	16,744

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 recognized 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 the end of each period, are recognized in earnings.

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14. Financial instruments (continued)

The table below summarizes the Company's financial assets and financial liabilities:

	September 30, 2008	December 31, 2007
	\$	\$
Financial assets:		
Held for trading:		
Cash and cash equivalents	5,943,086	8,662,634
Restricted cash	1,066,334	1,055,846
Derivative financial instrument	156,000	12,450
Long-term investment	6,750,000	7,200,000
Loans and receivables:		
Accounts receivable	20,087,167	11,299,053
	34,002,587	28,229,983

	September 30, 2008	December 31, 2007
	\$	\$
Financial liabilities:		
Other financial liabilities:		
Accounts payable and accrued liabilities	18,453,676	15,765,232
Bank credit facilities	10,896,156	10,602,541
Long-term debt, including current portion	15,169,962	12,838,605
Interest payable	651,493	651,493
	45,171,287	39,857,871

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 long-term investment has been estimated by management (Note 4).

The carrying value of long-term debt approximates its fair value, since the terms and conditions are similar to those the Company would have obtained as 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 benchmark rates as at September 30, 2008 did not change materially since the last reporting period 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.

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 become 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 67% of trade accounts receivable as at September 30, 2008 (three customers represented 75% of trade accounts receivable as at December 31, 2007). In addition, four customers represent 89% of unbilled receivables included in accounts receivable as at September 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.

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

	September 30, 2008			
	NOK	USD	MYR	GBP
Cash and cash equivalents	1,528,031	1,063,521	511,298	-
Receivables	10,296,753	15,748,021	818,186	-
Accounts payable and accrued liabilities	13,332,294	12,226,780	439,218	-
Bank credit facility	20,545,454	-	-	-
Long-term debt	40,500,000	84,742	-	-
Sub-total	86,202,532	29,123,064	1,768,702	-

	December 31, 2007			
	NOK	USD	MYR	GBP
Cash and cash equivalents	3,615,646	1,686,877	232,764	-
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	-	-
Sub-total	87,752,543	18,856,406	997,505	53,372

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 September 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 3,103,300 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 has been extended to November 28, 2008. The fair value of this foreign exchange forward contract is \$156,000 as at September 30, 2008. A gain of \$143,550 for the nine-month period ended September 30, 2008 has been recorded in the statement of income (loss) and comprehensive income (loss), while a gain of \$179,571 has been recorded during the three-month period ended September 30, 2008. The fair value has been obtained from the financial institution from whom the foreign exchange forward contract has been purchased.

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 impact of interest rate fluctuations will be significant due to the fact that 52% of its long-term debt is with non-variable interest rate. The long-term debt with variable interest rate is with DnBNOR in Norway and the company believes that the interest rate will remain comparable to what we pay in Canada. Management has not provided a sensitivity analysis of the impact of fluctuations on net income (loss) and comprehensive income (loss).

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 a large deficit. The objective of the Company is to achieve and maintain positive earnings and cash flow from operating activities as soon as possible and to have sufficient credit facilities to support growth.

ProSep Inc.**(Formerly TORR Canada Inc.)****Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods****ended September 30, 2008 and 2007****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 process solutions to treat produced water, oil and gas for the upstream Oil and Gas industry. Starting January 1, 2008, with new budget for the group and for management purposes, the company analyses results by business units as reported below:

Geographical information

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Sales to customers situated in:				
Argentina	1,677,601	-	11,100,970	-
United States	5,956,021	-	12,363,798	-
Kuwait	2,773,556	-	5,286,018	-
South Korea	-	12,963	-	25,539,445
Other countries	2,140,659	89,442	8,054,928	379,373
	12,547,837	102,405	36,805,714	25,918,818

Significant customers

Four clients represented 73% of the Company's sales for the three months ended September 30, 2008 and 68% for the nine months ended September 30, 2008 (Three clients represented 87% of the Company's revenue for the three months ended September 30, 2007 and one client represented 99% for the nine months ended September 30, 2007).

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16. Segmented information (continued)

Revenue and expenses by business units

For the three-month period ended September 30, 2008

	ProSep Technologies	ProPure & Middle- East	ProSep Asia Pacific	Product Development	Head Office	Consolidation & Intercompany eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	10,960,215	1,178,563	400,923	176,308	-	(168,172)	12,547,837
Cost of goods sold	8,383,693	(529,057)	379,433	29,820	-	(168,172)	8,095,717
Gross margin	2,576,522	1,707,620	21,490	146,488	-	-	4,452,120
Operating expenses	994,197	826,302	158,167	374,937	784,733	-	3,138,336
EBITDA*	1,582,325	881,318	(136,677)	(228,449)	(784,733)	-	1,313,784

The Company reversed a provision of \$1,280,920 previously recorded covering a guarantee bond in a contract with one of the ProPure & Middle East clients. Such reversal is related to a contractual obligation that ended during the third quarter.

For the three-month period ended September 30, 2007

	ProSep Inc.
	\$
Revenue	102,405
Cost of goods sold	142,019
Operating expenses	989,232
EBITDA*	(1,028,846)

For the nine-month period ended September 30, 2008

	ProSep Technologies	ProPure & Middle- East	Pure Group Asia Pacific	Product Development	Head Office	Consolidation & Intercompany eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	31,721,605	4,067,705	1,641,154	436,240	-	(1,060,990)	36,805,714
Cost of goods sold	24,343,891	533,692	1,398,014	76,722	-	(1,060,990)	25,291,329
Gross margin	7,377,714	3,534,013	243,140	359,518	-	-	11,514,385
Operating expenses	2,550,638	2,588,867	565,363	988,997	2,570,900	-	9,264,765
EBITDA*	4,827,076	945,146	(322,223)	(629,479)	(2,570,900)	-	2,249,620

For the nine-month period ended September 30, 2007

	ProSep Inc.
	\$
Revenue	25,918,818
Cost of goods sold	28,136,205
Operating expenses	3,301,433
EBITDA*	(5,518,820)

* 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.

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Notes to the consolidated financial statements (Unaudited)

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16. Segmented information (continued)

Revenue originated from:

For the three-month period ended September 30, 2008

	ProSep Technologies	ProPure & Middle-East	Pure Group Asia Pacific	Product Development	Head Office	Intercompany transactions	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	10,960,215	-	-	-	-	-	10,960,215
Norway	-	1,100,719	-	176,308	-	-	1,277,027
Canada	-	77,844	-	-	-	-	77,844
Malaysia	-	-	400,923	-	-	(168,172)	232,751
	10,960,215	1,178,563	400,923	176,308	-	(168,172)	12,547,837

For the three-month period ended September 30, 2007, total revenue of \$102,405 originated from Canada.

For the nine-month period ended September 30, 2008

	ProSep Technologies	ProPure & Middle-East	Pure Group Asia Pacific	Product Development	Head Office	Intercompany transactions	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	31,721,605	-	-	-	-	-	31,721,605
Norway	-	3,164,384	-	436,240	-	-	3,600,624
Canada	-	903,321	-	-	-	-	903,321
Malaysia	-	-	1,641,154	-	-	(1,060,990)	580,164
	31,721,605	4,067,705	1,641,154	436,240	-	(1,060,990)	36,805,714

For the nine-month period ended September 30, 2007, total revenue of \$25,918,818 originated from Canada.

Property & equipment

As at September 30, 2008

Property & equipment	737,454	1,104,752	42,516	-	106,638	-	1,991,360
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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 units.

17. Comparative figures

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

18. Subsequent events

In October 2008, the Company agreed with Fondaction (le Fonds de développement de la CSN pour la coopération et l'emploi) to convert the existing unsecured debenture (note 7), currently in Canadian dollars, to \$4,000,000 US dollars (\$4,752,000 Cdn). Doing so, Fondaction agreed to fund an additional \$752,000 Cdn. The interest rate on this debenture will be increased by 0.25% per annum, from 13% to 13.25%.

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 (Note 7(b)). The Company paid the interest, due October 31, 2008, by issuing 1,866,885 common shares at an average price of \$0.1845 per share for a total amount of \$344,440.