

Management Discussion and Analysis
May 14th 2008
For the 3-month period ended March 31st 2008

Important Disclaimer

This Management Discussion and Analysis may contain forward-looking statements, including statements regarding the business and anticipated financial performance of ProSep Inc. (formerly TORR Canada Inc). These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include but are not limited to legislative or regulatory developments, competition, technological change, changes in government and economic policy, inflation and general economic conditions in geographic areas where ProSep Inc. operates. These and other factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. ProSep Inc. does not undertake to update any forward-looking statements.

Use of estimates

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

All amounts are in Canadian Dollars.

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1.0 OVERALL PERFORMANCE

1.1 Highlights

- Signed over \$25 million in new sales.
- Completed thorough restructuring and cut annual operating expenses by more than \$5 million.
- Continued implementation of new strategic plan and completed structural and operational reorganisation:
 - Created 3 profit centers with a restructured and more streamlined head office with one global strategy. ProPure AS, a new business unit combining all European and Middle-Eastern activities and appointed Mr. Petter Hovland as its President and General Manager.
 - Established new management committee with world class senior managers;
 - Opened a new sales and representation office in Bahrain;
 - Completed reallocation of key employees and activities;
 - Centralized all product development activities in Norway;
- Obtained successful performance confirmations for the TORR system, for the ProSalt as well as the C-Tour;
- Approval by the shareholders to amend the Company's name to ProSep Inc.
- Closed a \$5.09 million financing as a private placement
- Appointment of a new Board Member

1.2 Material Events, Commitments and Subsequent Events

In this section, all material events and commitments for the period between January 1st 2008 and May 14th 2008 are presented.

On January 23rd, 2008 ProSep Inc (formerly TORR Canada Inc) announced the appointment of Mr. Petter Hovland, P. Eng. as President of ProPure AS and General Manager of this new business unit that now combines European and Middle-Eastern markets, formerly ProPure AS Norway and TORR Middle-East operations. Mr. Hovland will assume his duties starting at the end of April 2008. The Company also announced that as part of its cost reduction plan, it has closed its office in Stavanger (Norway), concentrating all European activities as well as all global research and development operations in its Bergen (Norway) office.

On January 28th 2008, ProSep Inc announced that its American business unit, ProSep Technologies, Inc, was awarded a contract by Worley Parsons to provide services to BP Exploration (Alaska). The initial portion of the contract is for engineering and design services representing approximately US\$850,000 and could be worth \$4.95 million should the contract include the supply of gas separation equipment. Under the terms of the agreement, ProSep Inc. immediately commenced servicing BP Exploration's WRDx Gas Partial Processing, located in Prudhoe Bay. The potential second portion of the contract, for the delivery in the spring of 2009 of gas separation equipment for produced reservoir fluids, will be determined within the next few months.

On April 21st, 2008 ProSep Inc announced that its American business unit, ProSep Technologies, Inc., has been awarded a contract by Al-Rashed Company, a leading contractor in Kuwait, to supply a complete crude oil processing train for separation, dehydration, and desalting to Kuwait Oil Company's (KOC) Ratqa and Abdali Early Production Facility (EPF) in northern Kuwait, for a total value of approximately US \$11 million.

ProSep will work directly with Al-Rashed Company and its engineering partner, Processes Unlimited based in Bakersfield, CA. The equipment provided in this contract is expected to be delivered in May 2009 and will treat 120,000 BOPD.

On April 24, 2008 ProSep Inc announced it has completed a private placement to raise \$5,090,000. Industrial Alliance Securities Inc. and Versant Partners Inc. acted as agents for the transaction. The private placement consisted of units each comprised of a \$1,000 principal amount 13% convertible unsecured subordinated debentures due April 30, 2013 (the "Debentures") and 200 common share purchase warrants at an exercise price of \$0.30 per share (the "Warrants").

As part of the private placement, ProSep Inc. has agreed to reduce the exercise price of 2,424,242 share purchase warrants issued on October 26, 2007 to FONDACTION, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi ("FONDACTION") at an exercise price from \$1.65 per common share to \$0.55 per common share. The subscription by FONDACTION is conditional upon the approval of the reduction of the exercise price of its warrant by the TSX.

On April 28, 2008 ProSep Inc. announced that its American business unit, ProSep Technologies, Inc., has been awarded two contracts to supply CO₂ gas membrane separation units for a total value of approximately US \$13 million.

A single stage CO₂ gas membrane separation unit valued at US \$11,861,645 will be designed and installed at the Occidental of Elk Hills' Gas Quality Project to reduce the CO₂ content in natural gas from 3.0% to below 1.5% to meet sales gas pipeline specifications. The equipment is scheduled for delivery in February 2009. Occidental of Elk Hills, Inc. is a subsidiary of Occidental Petroleum Corporation, the largest natural gas producer in California.

A second contract, for a single skid, 2-stage CO₂ gas membrane separation unit valued at US \$1,025,375, was also concluded. The equipment will be installed at Hudson's Hope Gas's Peace River Project in British Columbia to reduce the CO₂ content in coal bed methane ("CBM") gas from 16% to below 2.0% to meet sales gas pipeline specifications. Project is scheduled to be delivered within the fourth quarter of 2008. Hudson Hope Gas Ltd. is a joint venture project operated by GeoMet, Inc., a developer and operator of CBM properties responsible for the development of five successful large scale CBM projects in the United States.

On April 29, 2008 ProSep Inc. announced the approval by its shareholders at Annual and Special Meeting held April 29, 2008, the amendment of the Company's name to ProSep Inc. The Company also announced the appointment of Bruno Ducharme to ProSep Inc.'s Board of Directors.

1.3 Trends, Industry and Economic Factors

1.3.1 O&G Upstream Market Overview

The global upstream O&G market has grown dramatically in the last few years mainly driven by fast growing economies like China, Brazil, and India, but also by a long positive economic cycle in Europe and the United States. The current oil production is approximately 83 MBPD and is expected to increase to more than 130 MBPD in the next two decades. The current level of oil production generates approximately 250 MBPD of produced water and it is believed that this number could be as high as 400 MBPD in 20 years. This tremendous growth in the demand will trigger significant challenges to the O&G producers as most of the “easy-to-extract” oil wells have been exploited and that the largest oil field have reached their peak lately, or are about to peak.

This means that the industry is facing an ever growing demand associated with limited resource availability. We believe that this situation is likely to continue driving the price of oil in the foreseeable future.

One of the major trends has been the exploration of more complex potential production wells such as deep sea and super deep sea wells (Gulf of Mexico and North Sea), oil sands, heavy oil wells in South America, Arctic sea, etc. These potential wells will be associated with higher production costs and sometimes lower quality oil. We believe that this will lead the industry to seek better production process equipment and new more efficient technology in order to lower operational costs.

1.3.2 O&G Upstream Offshore Market Overview

Operational expenditure is expected to become an increasing proportion of total expenditure, representing 65% of total spend in 2010, as annual expenditure is forecast to increase to US \$113.4 billion. Significant growth is also expected in expenditure relating to exploration and development activities, particularly for the acquisition of seismic data and procurement, fabrication and installation of sub sea hardware and fixed platforms¹.

The projected surge in offshore production from 2006 is expected to drive a substantial growth in expenditure relating to the maintenance of producing assets. Associated annual expenditure is expected to increase from US \$10.1 billion in 2003 to approximately US \$13.8 billion in 2006. Such growth is forecast to increase through to 2010 as annual spend is projected to reach US \$26.2 billion, driving a forecast increase in total period expenditure from US \$46.9 billion between 2003 and 2006 to US \$90.1 billion to 2010.²

¹ INTSOK Annual Offshore Market Report 2006. July 2006

² INTSOK Annual Offshore Market Report 2006. July 2006

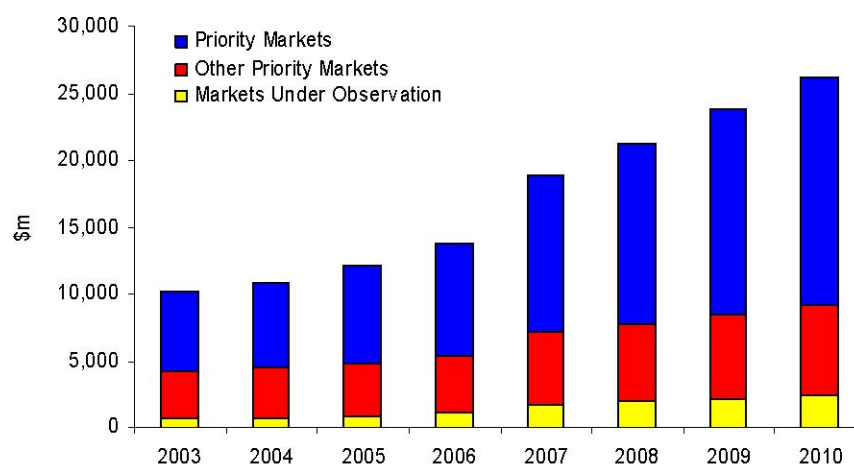


Figure 9-10: Maintenance 2003-2010 – All Markets (\$m)

Table 9-37: Maintenance 2003-2010 – All Markets (\$m)

\$m ³	2003	2004	2005	2006	2007	2008	2009	2010	03-06	07-10
Priority Markets	5,885	6,440	7,300	8,413	11,619	13,443	15,407	17,003	28,038	57,472
Other Priority Markets	3,508	3,750	3,929	4,283	5,585	5,878	6,245	6,800	15,469	24,508
Markets Under Observation	698	721	860	1,137	1,658	1,933	2,159	2,362	3,416	8,111
Total	10,091	10,911	12,089	13,833	18,861	21,254	23,812	26,165	46,924	90,092

The modification of producing assets is also expected to continue to represent the primary element of operational expenditure through to 2010. As total operational expenditure is forecast to increase from US \$54.5 billion in 2003 to approximately US \$113.4 billion in 2010, expenditure relating to modifications is expected to increase from US \$25.3 billion to US \$47.2 billion. Total modifications period expenditure is expected to increase from US \$116.1 billion between 2003 and 2006 to US \$164 billion through to 2010. Modification market is the primary market for ProSep Inc. as it includes the following items: upgrades and reconfiguration of plant, equipment and facilities (including topsides and superstructures).⁴

Table 9-41: Modifications 2003-2010 – All Markets (\$m)⁵

\$m	2003	2004	2005	2006	2007	2008	2009	2010	03-06	07-10
Priority Markets	15,593	16,760	18,714	21,302	22,176	25,328	28,639	31,393	72,369	107,536
Other Priority Markets	8,129	8,691	9,111	9,932	9,637	10,145	10,777	11,721	35,863	42,280
Markets Under Observation	1,590	1,647	1,975	2,619	2,908	3,372	3,759	4,107	7,831	14,146
Total	25,312	27,098	29,800	33,854	34,721	38,845	43,175	47,221	116,064	163,962

1.3.3 O&G Upstream Gas Treatment Market Overview

Many oil and gas fields are contaminated with sulphur compounds of which H₂S is the most common. H₂S is an unwanted compound in gas for several reasons, including:

³ INTSOK Annual Offshore Market Report 2006. July 2006

⁴ INTSOK Annual Offshore Market Report 2006. July 2006

⁵ INTSOK Annual Offshore Market Report 2006. July 2006

- H₂S reduces the commercial value of the gas;
- It is a hazardous and toxic compound;
- It is corrosive and can damage pipes and other installations. This problem is particularly important offshore, where maintenance costs are higher;
- Sales and export requirements set levels of acceptable H₂S concentration of in gas, and can be as low as 2.5 ppm.

The concentration of H₂S varies from well to well and from field to field. Some areas in the world have fields with large concentrations of H₂S while others contain lesser concentrations. Operating hydrocarbon reservoirs boosted with water tend to develop concentrations of H₂S, albeit low ones. The average for the Norwegian sector of the North Sea is in the range of 5 to 50 ppm.

There are several methods of removing H₂S in gas. The selection of a particular method depends on the concentration of H₂S, the size of the stream and the available space and installation configuration.

The most cost-effective solution for small streams or for streams only requiring H₂S polishing is usually H₂S scavenging with direct injection of chemicals (scavenger solvents). This technology is dominant in the Norwegian sector of the North Sea.

The scavenger technology is a non-regenerative process, by which injected solvents react irreversibly and selectively with the H₂S in the gas, thus reducing the concentration of H₂S in the gas to the levels approve by different specifications. The specifications can be set by national or regional environmental regulations, by industrial organizations and/or by individual companies.

Natural gas is projected to be the fastest growing energy source over the next two decades worldwide. The International Energy Agency (IEA) projects global gas demand will increase at a rate of 2.5% per year and overtake coal before 2010 as the world's second primary energy source behind oil. Natural gas' share of total energy consumption is forecast to grow from 23% in 2000 to 28% in 2030 (HPI, 2004). It is expected that gas surpasses oil as the world's most important energy source by 2025 (The Economist, 2004).

1.3.4 O&G Upstream Water Treatment Market Overview

Produced water is a by-product of the production of oil and gas. Water is naturally present in the reservoirs and, despite all efforts to produce the hydrocarbons selectively, some water is produced, admixed as a liquid with the oil or as vapor in compounds, including light aromatic hydrocarbons such as BTEX, PAH, heavy aromatic NPD, organic acids, phenols, inorganic compounds, as well as traces of NORM. The chemical composition varies over a wide range and depends mainly on the attributes of the reservoir's geology. The composition of produced water may also change slightly through the production life of a reservoir. After a couple of years, wells start producing increased quantities of water of almost stable composition. However, if water is injected for pressure maintenance, or for any other reason, the composition of produced water changes, due to dilution of the reservoir water. This would displace the water composition

from equilibrium and create the potential for additional dissolution of aromatics from the oil phase. Produced water is also called formation water or oil field brine in the literature.

Produced water from oil production fields differs from gas production fields. Water from gas production fields generally has a higher content of low molecular weight aromatic hydrocarbons than water from oil production platforms. However, the total amount of water produced from gas fields is considerably smaller than from oil production fields.

Produced water volumes tend to increase dramatically as older oilfields pass their peak production.

Current experience provides two main options for produced water management (PWM), with produced water re-injection (PWRI) and treatment (PWT), re-injection being the most promising solution, though the most expensive. Applied in many areas, PWRI is considered to be the best option for the protection of the environment, especially in shallow waters or near ecological sensitive sites.

If environmental quality standards are not exceeded, the remainder may be discharged to surface waters. The objective of environmental management of produced water is to reduce the quantity and to improve the quality of discharged produced water.

Worldwide regulation of produced water discharges is highly variable, ranging from unregulated in some nations where offshore oil and gas resources have only recently been discovered or where the internal socio-political situation has precluded development of such regulations, to zero-discharge where site specific environmental conditions are felt to justify such regulations. The basis for produced water regulation also vary widely, however two organizations appear to carry significant influence as starting points, the Oslo-Paris Commission (OSPAR) and the US Environmental Protection Agency (EPA).

Today, it seems that offshore platform discharge management has been targeted within different frameworks:

- Legalization
- Best available technology
- Environmental effect consideration

Some of these frameworks have gained more popularity than others, especially the technological aspect together with regulatory systems of imposing standards. New conventions, agreements and other mechanisms of international law may be foreseen in a not too distant future, but the question of addressing environmental issues with the best approach to a more detailed and strict environmental legislation regarding offshore platform discharges still remains.

Discharge criteria are not straight forward and easy to get hold of. There are country specific legislation, onshore, coastal and offshore rules, OSPAR guidelines, EPA, company specific targets, and even “permits to discharge”. Some areas’ produced water is heavily regulated, while in others it is unregulated.

Country	Legal basis	Licensing/ monitoring authorities	Discharge limit oil in water	Comment
Canada	Act RSC 1987	Newfoundland Offshore Petroleum Board	40 ppm	Production activities have not yet commenced
United States	40 CFR 435	EPA; Minerals Management Service	29 mg/l monthly average	No visual sheen, max. discharge levels of 42 mg/l. Discharge is prohibited in near-shore areas
Netherlands	Regulation 687/1224, 1987	Min Economic Affairs; State Supervision of Mines	40 mg/l	For gas platforms, exemptions from 40 mg/l limit where best available technology already installed
Norway	PARCOM 10/10/1 of 1988	SFT	40 mg/l	Monthly average
United Kingdom	PARCOM 10/10/1 of 1988	Dept of Trade and Industry;	40 mg/l	Monthly average. Max. discharge 100 ppm
Egypt	Decree No 338/95	EGPC/EEAA	15 ppm	Special dispensations may be awarded by the EGPC
Italy	Dm of 28.7 1994	Ministry of Environment	40 ppm	More stringent standards may be applied
Tunisia	Order of 1989	ANPE	10 ppm	Zero discharge conditions have been imposed
Nigeria	Act No 34/68; Regs 1992	Min Petroleum Resources; (DPR) Environmental Protection Agency (FEPA)	48 mg/l monthly average offshore	Coastal estuary 10–20 mg/l
China	GB 4914-85	National Offshore Oil Corp; Environmental Protection Bureau	30–50 ppm	Standard dependent on location of drilling operations
Indonesia	MD KEP3/91	Min of Mining and Energy	25 ppm	To be changed to 75 ppm during 1997
Thailand	NEQA 1992; Gov. Reg. 20/90	Dept of Mineral Resources; Pollution Control Dept	100 ppm	The discharge limit has no legislative basis and is defined on a case-by-case basis
Vietnam	Decision No 333/QB 1990	Petrovietnam, MOSTE	40 ppm	Revised regulations in preparation
Oman	Decree No 10/82	Min of Petroleum Resources; Min of Environment	40 mg/l	No offshore activity at present 5 mg/l limit on discharges from coastal facilities
Argentina	Resolution No 105/92	SRNAII	Case-by-case	No regulations for offshore legislation, onshore regulations applied in principle
Venezuela	Decree No 833/1995	MARNR	20 ppm	Special exemptions granted if environmental impact is not significant

Table A-3: Offshore discharge limits for oil in produced water—prescribed by national legislation (based on Petroconsultants⁵⁵)

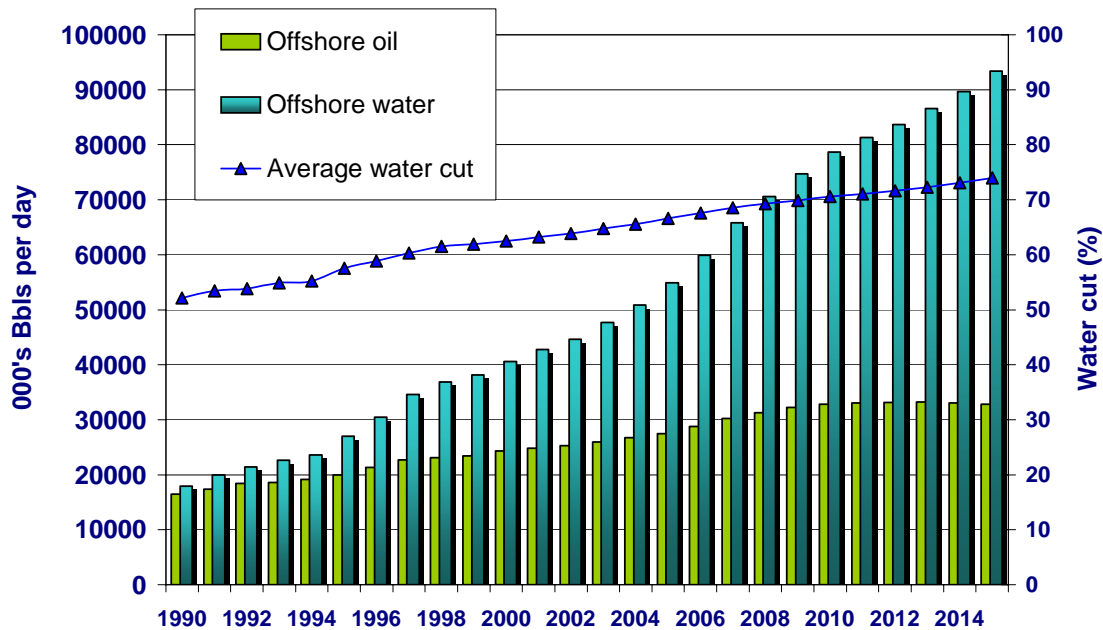


Figure -1: Global Offshore Oil and Water Production

Source: EnergyFiles Ltd

Dramatic increase in water production are forecast as the world’s portfolio of producing oilfields continues to age and become mature. From current levels of 250 million barrels per day, water volumes are projected to increase to 312 million bpd in 2015. It should be remembered that this is a conservative forecast; actual levels could well exceed this, with some industry observers suggesting that water production could reach five times the level of oil production (i.e. around 430 million bpd) by this date, indicating significant upside potential to the above forecast. Obviously, water extracted from the well is contaminated by oil and other materials. Therefore, there is a need to clean it before discharge in order to comply with relevant legislation, provide backup for injection systems, provide cleaning for injection purposes (to avoid clogging or reservoir damage) and finally to increase the oil recovery ratio.

1.4 Business Overview

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

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

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



1.5 Vision and Mission

ProSep Inc. vision is: “Together creating pure oil, gas, and water”.

The mission is to:

- Provide a complete solution of process equipment to O&G upstream producers;
- Offer a complete range of conventional and proprietary process equipments to treat oil, gas, and water.

1.6 Global short and medium term objectives

Since January 2008, ProSep Inc. has a new revised strategic plan, management and directors have set new global objectives for the Company of which the most important are:

1. Achieve profitability as soon as possible;

During the last two quarters we reorganized and restructured the Company and reduced operating expenses by more than \$5 million. These actions should place the Company in a very good position to start generating “EBITDA” in the short horizon.

2. Complete the cost reduction program;

As mentioned above, we completed the cost reduction program at the beginning of the year. These quarterly results include restructuring-related one-time costs. They do not show the

full effects of all reductions. We believe that the second quarter and the third quarter will more adequately represent the effect of the cost reduction program.

3. Develop a complete conventional line of produced water equipments;

We are currently planning for the development of several new traditional produced water treatment process equipment. We believe that our clients require a mix of proprietary and conventional technologies. In this context, it becomes critical to have a more complete portfolio of products to better serve our clients.

4. Increase firm bids success rates;

Bidding on projects can be an expensive process that may require the involvement of several employees for several days, even weeks. We are expecting to increase the current bid rate and are looking at optimizing related costs..

5. Establish and implement a cross-selling action plan;

6. Competently represent the group's portfolio of offerings throughout the organization;

Objectives 5 and 6 are correlated. Our objective is to ensure that all sales engineers and process engineers are fully knowledgeable on all of our Company's products. Over the course of the next 12 months, we will look to create a comprehensive database and appropriately train selected employees. The plan also provides for the optimization of the collaboration between the three profit centers and product development activities.

7. Complete, establish, and implement corporate procedures, policies, and internal controls;

Operating around the World necessarily creates a need to optimize internal controls, but without creating too much operating hurdles. During the next 18 months, we plan to improve internal controls by implementing new accounting systems in Houston, followed by Norway and continue to harmonize all corporate policies and control processes.

8. Complete new organizational structure by the beginning of the year;

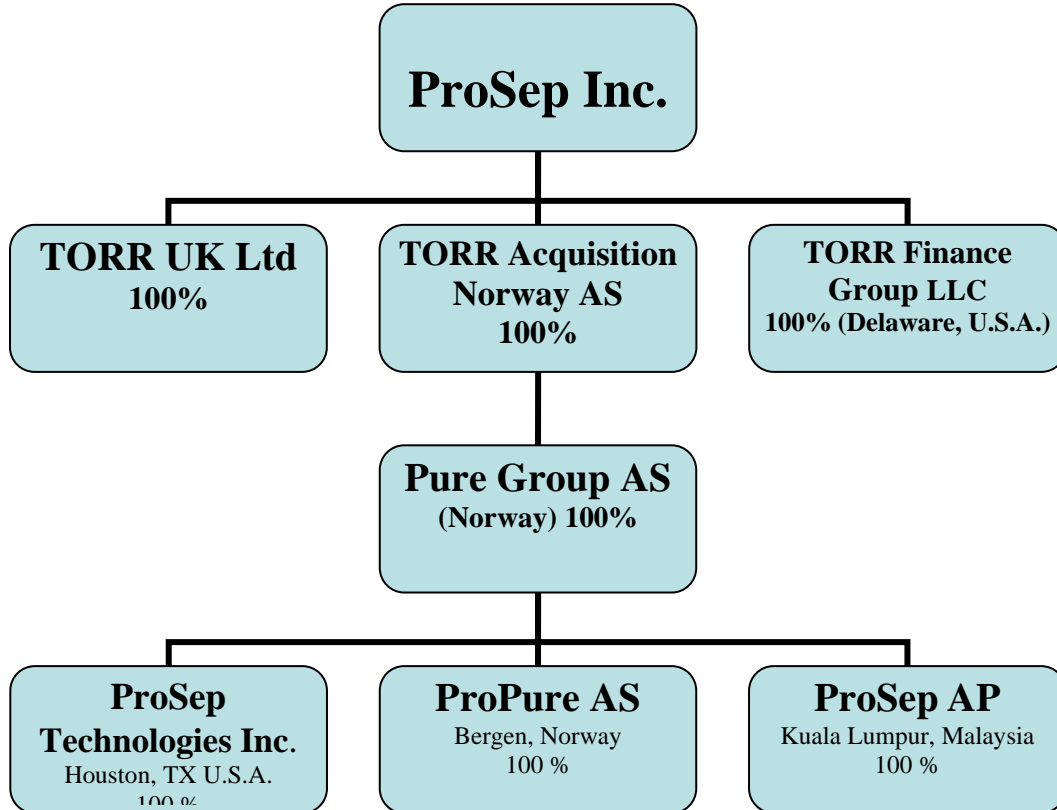
As mentioned above, we completed that objective at the beginning of the year. We now have three profit centers with one small head office and a centralized product development function. We also have a new management committee and new board members.

9. Establish and implement a common branding strategy.

The first step was to change the Company's name to better reflect our mission and vision. We wanted our clients, suppliers, partners, shareholders and employees to recognize who we are and what we do. We are targeting the launch of our new web site during the second quarter. We are officially launching our new image at the "Offshore Technology Conference" in Houston at the beginning of May 2008.

1.7 Corporate Structure, History, and Business Units

In order to maximize net profit after tax, protect the different assets and operations around the World, ProSep Inc. has established the following corporate structure in 2007.



TORR Acquisition Norway AS

TORR Acquisition Norway AS was created in October 2007 under the Companies Act (Norway). Its head office is located in Oslo, Norway. TORR Acquisition Norway AS is holding company owning common shares of Pure Group AS.

TORR UK Limited

TORR UK Limited was created in January 2006 under the British Companies Act 1985 (amended 1989). Its head office is located in London, England. TORR UK Limited as limited operations only related to represent the Group's products in the UK market.

TORR Finance Group LLC

TORR Finance Group LLC, is a limited liability company, was created in September 2007 under the Delaware Limited Liability Company Act. TORR Finance Group LLC is a subsidiary of ProSep Inc. used to finance the operations of subsidiaries. The Company is registered in Delaware, U.S.A with a present business office in St. Michael, Barbados, W.I.

Pure Group AS

Pure Group was incorporated on March 31, 2004 under the Companies Act (Norway). Its head office is located in Stavanger, Norway. Pure Group has three subsidiaries: ProPure AS ("ProPure"), ProSep Technologies, Inc. ("ProSep") and ProSep AP (previously Pure Group Asia-Pacific Sdn Bhd). Pure Group is a holding company.

ProPure AS

ProPure was founded on February 18, 1999 by Framo Engineering AS ("FE") and Statoil, each of which held 50% of the shares of the company. The company, then called Framo Purification, worked very closely with FE, a company forming part of the Frank Mohn Group of companies with a long tradition of supplying technological solutions to the international offshore oil and marine industries.

In 2002, Statoil ASA took over FE's shares and the company became a 100% Statoil-owned company, operating under Statoil's Industrial Development Group I&K.

In 2004, all of ProPure's shares were transferred to Pure Group, then called "Pure Process Solutions AS". Pure Process Solutions AS changed its name to Pure Group in 2006.

Between March 31, 2004 and December 22, 2004, Pure Group acquired 50% of CTour® Process Systems AS ("CTour") from a Statoil-controlled entity and 2.6% from Cybernetics AS. In 2005, ProPure acquired the remaining shares of CTour. In 2006, CTour was merged into ProPure and named ProPure AS. The two companies had been working closely together since 2002 in the commercialization of the CTour® technology and the goal of the merger was to shift the focus of both CTour and ProPure from research and development activities to a more sales-oriented business.

Located in Bergen, ProPure has established a sound reputation for providing technical services and equipment to Statoil and other leading companies in the Oil & Gas business. ProPure's innovative thinking and ability to transform these ideas into practical solutions provide its customers with direct results in reducing their asset capital and/or operating expenditures.

ProSep Technologies Inc.

Houston-based ProSep was incorporated on May 2, 2005 and is specialized in the supply of gas sweetening membranes, primary separation and heavy crude oil treatment systems. Its head office is in Houston, Texas. ProSep is currently comprised of industry-recognized experts in their field, including executive management, process technology, engineering, design, fabrication and project management. ProSep's employees have earned their reputation through extensive experience in providing internals, process vessels, skid-mounted packages and complete process systems.

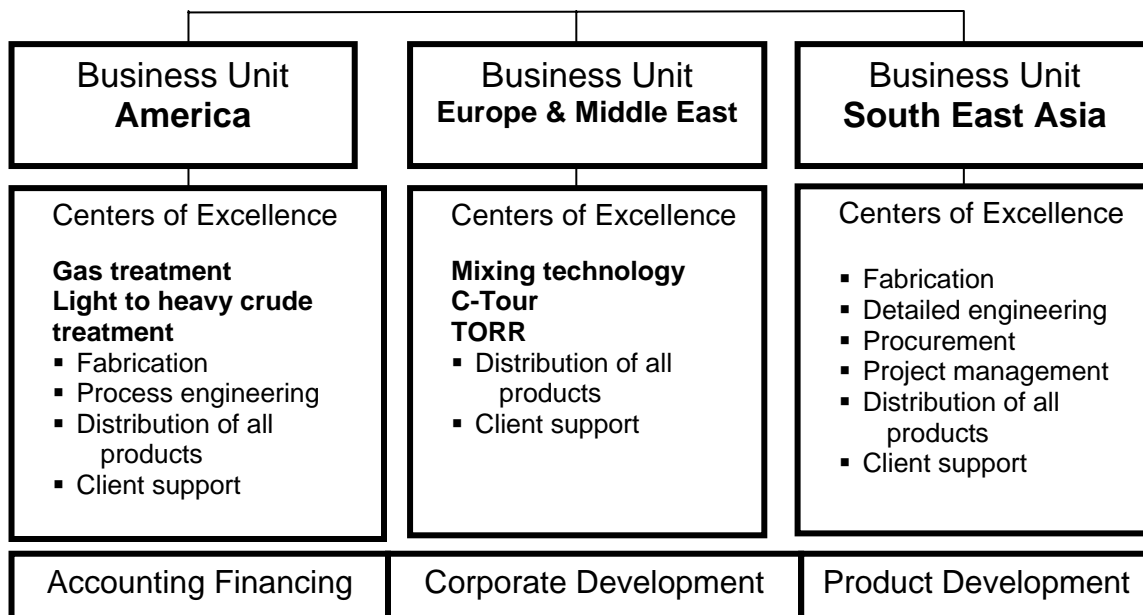
Key ProSep personnel have been involved in the supply of separation solutions and equipment for gas sweetening, oil processing, produced water treatment and seawater treatment since 1975.

ProSep AP (formerly Pure Group Asia-Pacific Sdn Bhd)

Kuala Lumpur-based ProSep AP was founded by Pure Group on December 22, 2006 and its head office is in Kuala Lumpur, Malaysia. ProSep AP is specialized in the supply of TEG (gas dehydration) packages, separators, fuel gas, chemical injection and nitrogen packages, produced water treatment and water injection package.

1.8 Business Units Corporate Model

In January 2008, ProSep Inc. changed its business model to operate three business units located in Houston for the North and South American markets, Bergen for the European and Middle-Eastern markets, and Kuala Lumpur for the South-East Asian market. The head office remains in



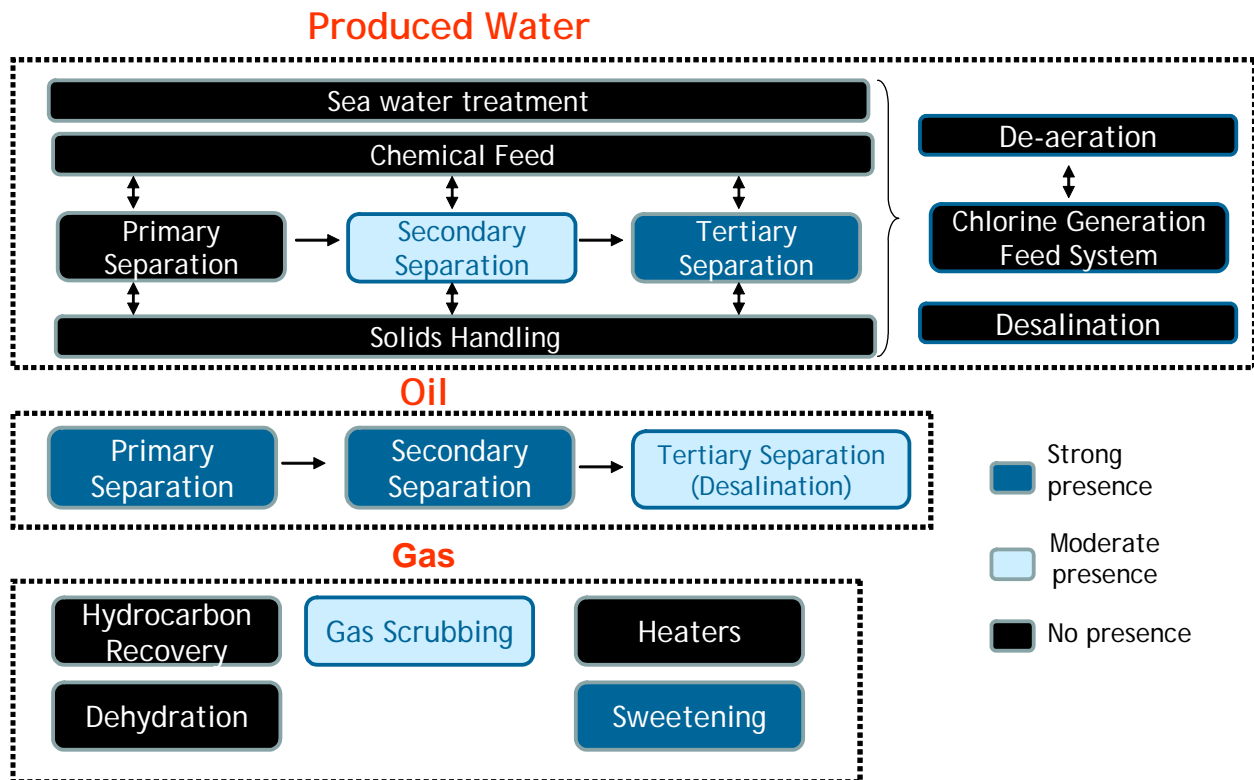
Montreal and provides corporate services to the business units.

The business unit is responsible for managing the following items within their units: revenues; expenses (including capital expenditures); business development activities and project management; customer relationships; and health, safety and environmental issues.

Each business unit has or will develop a range of key technical and commercial competencies designated as a "Center of Excellence" related to these identified competencies. Each Center of Excellence is responsible for promoting, supporting and making available its range of products and services. Over time, it is envisioned that certain key competencies will be shared and transferred across the Business Units, enabling the most efficient use of resources.

2.0 PRODUCTS

Products Flow Chart



ProSep Inc. offers proprietary and conventional products for treating oil, gas, and water from the upstream O&G production. Here is a description of the main products.

2.1 Proprietary Products

TORR System and RPA Coalescing Cartridge

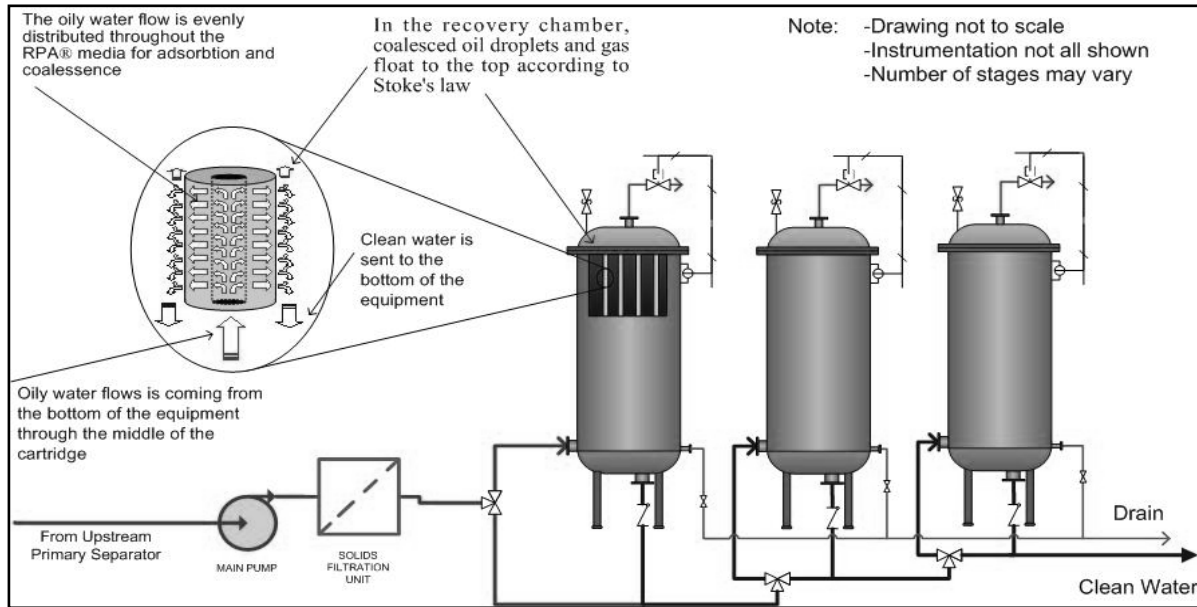
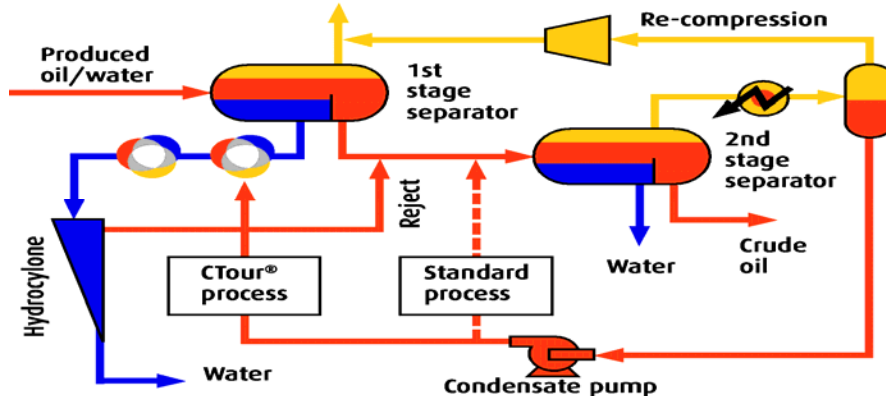


Figure 1 Process Flow Diagram of Technology

The technology is a multi-stage adsorption and separation system having the capability of multi-phase separation of large and small oil droplets (free-floating and dispersed) present in produced water (See Fig. 1). This is done by means of a coalescing media called RPA® (the media) with a thermoset polymeric material backbone. The technology incorporates adsorption, coalescence and gravity separation principles into one engineered envelope.

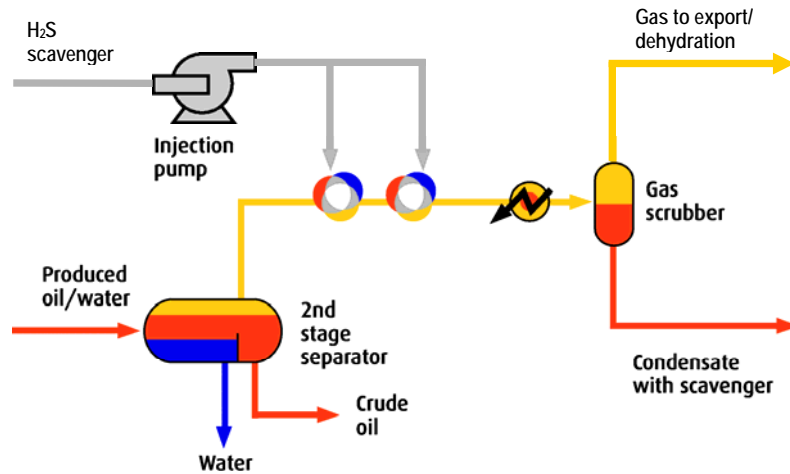
The technology's separation process consists of routing the oily water to its inlet. The oily water passes through multiple vessels containing the continuous coalescing elements and a recovery chamber. The media inside the coalescing elements continuously adsorbs the oil emulsions, coalesces and desorbs them into larger oil droplets. In the recovery chamber, oil droplets desorbed by the media float to the top of the chamber in accordance with Stoke's Law. Inside the top of the vessel, the final separation occurs between the oil, gas and the water. The oil and gas are retrieved for re-use. The effluent water from the technology is treated to the customer's requirements. The third vessel is an optional standby unit. The TORR technology's greatest advantage lies in its ability to generate low OIW concentrations (often less than 10 ppm of oil) in a small footprint. In contrast to most separation technologies, the TORR is not sensitive to turndown ratios and oil concentrations variations.

C-Tour System



CTour® process is a cost-effective technology that removes both dispersed oil and dissolved aromatic components from large volumes of produced water. The CTour® technology was originally developed at RF Rogaland Research, a Norwegian client-oriented research institute, in collaboration with the majority of the operating companies on the Norwegian continental shelf. The proprietary technology and underlying process model have been validated through a series of field tests, and are now operating in full-scale at offshore production facilities in the North Sea. CTour® currently qualifies as one of the best technologies available according to the Ospar Commission for the Protection of the Marine Environment of the North East Atlantic for the treatment of large volumes of produced water. The process removes dispersed oil and dissolved hydrocarbon contaminants by means of condensate, which is injected and mixed with the produced water. During in-line mixing, the hydrocarbon contaminants are extracted from the water into the condensate phase, where the oil and condensate droplets coalesce. The condensate, which contains the contaminants, emerges through the hydrocyclone reject and is recycled to the original production. De-oiling of produced water in a hydrocyclone/degasser configuration yields an average discharge concentration of approximately 25 parts per million ("**ppm**") in the Norwegian sector of the North Sea. The CTour® Process will yield residual oil discharge of less than 4–5 ppm. In principle, the CTour® process can be implemented on all production facilities – upgrades as well as retrofits – where the appropriate type of condensate is available. We offer various optional solutions for implementation of the CTour® Process. The solutions can be adapted to suit specific process conditions at the production facility. CTour® benefits include: reduction of oil in water to below 4–5 ppm; reduction of dissolved hydrocarbon components by 80-95%; removal of some production chemicals; no waste products; and no added chemicals.

ProScav



This scavenging technology brings on-site H₂S removal that both reduces costs and is more environmentally friendly compared to conventional systems. Scavenger chemicals represent a significant cost and constitute one of the most significant environmental impacts of gas production. The ProScav technique, however, yields a 30–40% reduction in scavenger chemical consumption. Our highly compact H₂S removal system is used for the removal of small amounts of H₂S (typically less than 100 ppm) from gas or liquids in the pipeline to a pipe specification (typically 2–4 ppm). The H₂S scavenging process is delivered to over 40 applications internationally. The system needs a minimum of maintenance, and our experienced engineers carry out an in-depth analysis on-site, ensuring optimal positioning and integration of the scavenging system. We also offers commissioning, start-up and thorough training of operators, together with detailed operational manuals. ProScav benefits include: 30-40% reduced scavenger consumption compared to conventional technology; reduced chemical costs; reduced environmental impact; reduction on size of storage tanks; high turn-down ratio; resists clogging; maintenance free; and easy installation at any pipe angle.

ProCap

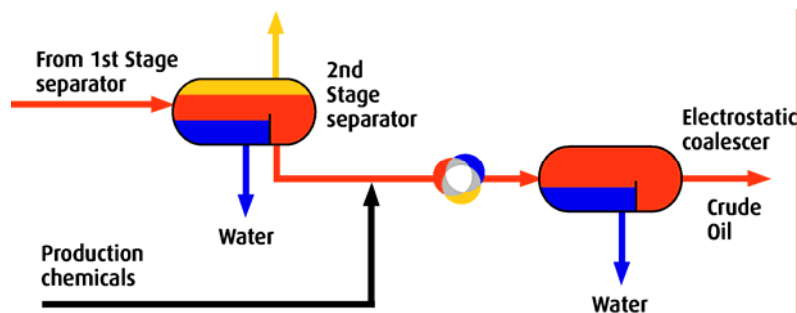
This novel co-current contacting technology improves H₂S selectivity in comparison to conventional technologies. With the high selectivity towards H₂S obtained in a contactor, the loading capacity for H₂S will increase and the solvent circulation rate in the process plant can be reduced. With a single stage installation, ProCap Compact Alkanolamine plant technology can be used for typically 80-90% removal of H₂S. The higher the CO₂ concentration, the more competitive becomes the ProCap technology. ProCap multi-stage configuration extends the range of H₂S-removal applications to H₂S-removal efficiencies above 90%. The key technology in ProCap is our co-current contactor, which is a gas flow driven "one-shot" contactor. In the contactor, formation of very small liquid droplets promotes gas-liquid mass transfer, at a low pressure drop. The co-current contactor replaces the counter-current tower in a conventional amine plant. As the equipment operates at high gas velocities the contactor size is much smaller compared to conventional equipment. The selective nature of the contactor results in significantly lower solvent circulation rates, which reduces the overall size of the amine regeneration system. The selectivity of ProCap is achieved by the short retention time that favors

minimum co-absorption of CO₂. For conventional counter-current equipment the co-absorption of CO₂ effectively reduces the H₂S loading capacity. This effect is accounted for by increasing the amine flow rate. The tertiary amine MDEA is used for ProCap due to its selective absorption of H₂S from natural gas, which enhances the selectivity of the process. A typical reduction in installed weight of 60% can be gained compared to conventional technology. This is mainly achieved by a reduction in the amine circulation rate of up to 70 % and the reduction of vessel size. The limited footprint requirement makes ProCap feasible for retrofit installation on existing offshore fields. ProCap benefits include: reduction in amine circulation rate; reduced environmental impact; compact process with in-line absorption; high turn-down ratio; easy installation of contactors at any pipe inclination; and maintenance free.

ProSalt

Our desalting system – ProSalt – reduces chemical consumption, removes more salt per unit of water and requires less wash water and pressure drop than conventional de-salting equipment. Crude oil contains salt dissolved in the entrained water droplets. As a first step in the refining process, to reduce corrosion, plugging, and fouling of equipment and to prevent poisoning the catalysts in processing units, these contaminants must be removed by desalting. The desalting process works by washing the crude with fresh water and then removing the water to leave dry, low salt crude oil. The homogeneous and low shear force field exposed by the ProSalt mixer generates a narrow distribution of separable water droplets which improves the performance of the downstream separator. We can increase the desalting efficiency considerably by introducing its mixing technology, which can be easily implemented in single and multi-stage processes. This reduces pressure drop and increases crude-water separability at reduced wash water flow rates. The application can be custom designed for new installations or for enhanced performance of existing systems. ProSalt benefits include: the increase of salt removal; less wash water required; high turndown ratio in wash water; low pressure drop; compact in-line design; low installation cost; reduce oil in water, reduce chemical consumption, and maintenance free.

ProMix



Various production chemicals may be injected into the well production stream to achieve flow assurance. Optimal performance of these chemicals depends on efficient mixing. Our mixer system – ProMix – requires minimum maintenance, has a high turndown ratio and provides optimized flow conditions. Flocculants, emulsion breakers and inhibitors are crucial to improve separation and prevent corrosion, scale formation and the formation of hydrates. These chemicals are injected in small concentrations and need to be thoroughly mixed into the production stream. The challenge is often complicated by the chemicals' high viscosity and low injection rate.

Conventional technology for injection of demulsifying chemicals typically uses nozzles and injection quills. As it is very difficult to ensure that the demulsifying agent arrives at the droplet surfaces that are dispersed in the continuous oil stream, overdosing with chemicals can become a problem. Instead of destabilizing an emulsion, a new emulsion can be formed resulting in malfunction of the oil-water separator. ProMix generates a homogeneous phase flow in combination with a significantly lower pressure drop than conventional mixing methods. Shear forces are far better controlled and more evenly distributed, thereby giving an ideal distribution of the production chemicals and improving their reactive efficiency such that consumption can be reduced. The benefits are therefore economic as well as environmental. Our mixing systems are designed and tailor-made for the customer's particular application, thus ensuring optimum efficiency. ProMix benefits include: an improved performance; lower chemical consumption; reduction of environmental impact; high turn-down ratio for injected fluids; reduced pressure drop; and maintenance free.

ProDry

Based on the same mixing technology as its sister process ProCAP, the ProDry is dedicated to the dehydration of gas. Like the ProCAP, dehydration is achieved through a re-circulated solvent, typically TEG, which is uniformly mixed at small pressure drop to maximise the mass transfer of the water vapour in the gas to the TEG solvent. The enriched solvent is then re-circulated into a closed loop system equipped with a boiler to evaporate the water before it is re-injected in to the gas. The key benefit of the ProDry – is the compactness, light weight, high turn down, and low maintenance.

Sorbwater

The oil and gas industry is facing stricter regulations not only to reduce the oil content of discharged water but also to reduce all types of chemical contaminants. Sorbwater is a biopolymer based flocculent that is used to separate oil and solids from water. In contrast to the typical chemicals on the market, Sorbwater is a biodegradable product. It is manufactured from natural components and generates no substances harmful to the environment. This efficient flocculent enhances the separation of very stable emulsions from produced water. The performance of the flocculent is affected by the salt in the produced water, and the instantaneous shear exposure and uniform distribution into the water. For the appropriate flow and process conditions imposed small amount of flocculent is required to separate the flocculent entrapped oil from the water at a high purity of the water. Accordingly, the ProMix is a key process component in order to achieve the required process conditions for efficient flocculent operation and performance. The combination of the Sorbwater product with the ProMix sums up to a very efficient biodegradable flocculent process that can be used to enhance the separation process involving any gravity separation, gas flotation or cyclonic separation unit in the oil and gas market.

Stage of Commercialization of Each Innovative Product

Below is a table indicating the stage to commercialization for each innovative product described above:

Technology	Stage of development
TORR and RPA	Commercialization
C-Tour®	Commercialization
ProScav	Commercialization
ProMix	Commercialization
ProSalt	Commercialization
ProCap	Pre-commercialization (recently started)
ProDry	Phase II Development stage
Sorbwater	Final development stage

2.2 Conventional Products

Membranes

Membranes are used for the onshore and offshore removal of carbon dioxide, hydrogen sulphide and water from natural gas. Membrane technology provides the upstream oil and gas industry with an easy-to-install, easy-to-operate, flexible, environmentally-friendly and cost-effective solution.

Separators

A separator is a vessel used to separate a multiphase mixture of fluids into its separate phases, i.e., vapour, oil, water and solids. ProSep Inc. can provide two-phase (gas/liquid) or three-phase (gas/oil/water) separators, depending on the customer's particular needs. A typical oil train (or series of equipment) may consist of several stages of separators to reduce the pressure, to stabilize the liquid, and to cope with the amount of gas associated with the inlet production to the treating facility. ProSep Inc. has access to proprietary technologies with regards to the design of components known as "internals" which provide value added to the customers and a competitive edge.

Free Water Knock Out

A Free Water Knock Out is a separator designed to meet an oil quality requirement. Only free water is removed from the production oil stream, leaving the emulsified water in the outlet oil stream. Two-phase (oil/water) or three-phase (gas/oil/water) designs are offered by ProSep Inc..

Thermal or Heater Treaters

Thermal treaters combine both heating and coalescing capabilities in one process unit. ProSep Inc. designs the heating section to meet the oil viscosity requirements of the coalescing section. Two-phase (oil/water) or three-phase (gas/oil/water) designs are available with either mechanical or electrostatic coalescing elements to remove water droplets.

Dehydrators

A dehydrator is a type of natural gas processing equipment that removes water vapour. Typically, glycol dehydration units are used to dry gas before it is sent to a gas transmission line. If the gas is to be sent to a cryogenic expander plant or liquefied natural gas plant, then the gas is typically dehydrated using molecular sieves.

Desalters

The purpose of a crude desalting process is to extract from crude oil very corrosive metallic salts that would otherwise reduce the life of downstream equipment, such as refineries. Depending on the salt content at the beginning of production and the outlet oil specification, crude desalting can be accomplished by various processes, from simple dehydration up to multiple stages of dehydration combined with dilution water injections to reduce the overall salt concentration.

Industrial Packages

We also offer to our customers the option of purchasing "packages" of equipment such as vessels, pumps, valves, specialized equipment, etc, known as packages instead of individual components.

Services

We also offer to our customers services such as:

- *Process Evaluation.* This includes front end engineering design studies (FEED), process simulation and optimization, process design and engineering, process performance, testing and evaluation, process troubleshooting, revamping and upgrading and computer flow dynamic (CFD) modeling.
- *Field Testing.* This includes pilot testing, prototype testing, data collection and performance evaluation.
- *Project Execution.* This includes project management, procurement and logistics, cost and schedule tracking and expediting, equipment design, fabrication,

assembly, quality assurance and quality control (QA/QC), logistics and delivery and documentation and data books.

- *Operations.* This includes installation, start-up, commissioning, providing field service representatives and engineers, preventative maintenance, condition monitoring and evaluation, facilities operation and maintenance.

ProSep Inc. also participates in joint industry projects (JIP) to enable the field testing of its new technologies to demonstrate their benefits. Under these programs, ProSep Inc. works with a group of customers to identify precisely the nature and the extent of an industry problem, to determine the possible solutions, to gather data and to finally implement the said solution. The Company receives fees for each step of these projects.

3.0 SALES & MARKETING

Through its most recent corporate acquisitions worldwide, ProSep Inc. now has diversified sales and marketing business units which promote both proprietary and conventional products globally, as more amply described below.

3.1 Europe and Middle-East Business Unit

To cover Europe and Middle-East, ProSep Inc. has sales teams in Bergen (Norway), and is currently opening an office in Manama (Bahrain). Although the focus of the last few years has been towards offering proprietary products, ProSep Inc. will start offering all products, including conventional products, to customers. The Company has a team of approximately 5 employees dedicated to sales and marketing.

3.2 American Business Unit

ProSep Inc.'s Houston-based operations offer the Company's full line of conventional products as well as proprietary products. ProSep Inc. operates its own manufacturing facility to assemble solutions for its customers. The sales team counts approximately 4 employees with a strong background in sales and is heavily involved in the sales process.

3.3 South-East Asia Business Unit

ProSep Inc.'s Kuala Lumpur-based operation offer the Company's full line of conventional products to the East Asian market and intends to offer the proprietary products as opportunities arise. It has developed strategic partnerships with local partners to build and assemble solutions for customers and has developed non-exclusive partnerships with an engineering firm for detailed engineering work.

3.4 Agents

ProSep Inc. adopted a direct sales strategy but has also built a network of agents to access markets where the Company does not have an office and/or employees. Typically, the agents are

persons or companies with a good knowledge of potential customers, business practices and market needs in a specific region. Typically, they are compensated on a success fee basis. ProSep Inc. has agents in the following areas: North America, Mexico, Brazil, Venezuela, Indonesia, Thailand, Kuwait, Saudi Arabia, Bahrain, Qatar and Vietnam.

4.0 SELECTED ANNUAL INFORMATION

	June 30th 2004	June 30th 2005	June 30th 2006	June 30th 2007	December 31st 2007
Revenue	\$283,552	\$402,111	\$3,232,270	\$26,055,117	\$5,785,229
Net loss	\$2,660,964	\$3,263,216	\$5,326,543	\$7,935,545	\$8,075,311
Net loss per share (basic & diluted) ⁶	\$0.04	\$0.23	\$0.16	\$0.17	\$0.15
Total assets	\$2,389,277	\$11,118,982	\$31,921,261	\$26,256,394	\$57,031,294
Total long term financial liabilities	Nil	\$2,141,905	\$1,866,761	\$2,329,589	\$13,384,021
Cash dividend per share	Nil	Nil	Nil	Nil	Nil

Until 2005, ProSep Inc. had not generated significant revenues. Important factors included:

- Development of the TORR™ and RPA® technologies were completed in 2004-2005. ProSep Inc. has just begun its commercialization towards different markets and applications.
- In 2003-2004, ProSep Inc. revised its commercialization strategy to focus on the market for produced water in the upstream Oil & Gas market. Although this is a potentially lucrative market, ProSep Inc. had limited human and capital resources. This new strategy required at least 3 years of deployment before it could generate relevant revenues.
- Net losses increased to reflect (i) the increase of expenses incurred to develop and implement the commercialization strategy, and (ii) the completion of several financings, incurring significant related costs.
- The larger portion of the variance in total assets (between 2004 and 2005) is cash and temporary investments. ProSep Inc. financings include:

⁶ 2004 statistics are calculated on pre-consolidation of shares data. 2005 and 2006 is on post-consolidation.

- \$4.5 million equity financing in April 2003;
 - \$1.28 million financing coming from the exercise of warrants from QLF Solidarity in October 2003;
 - \$3 million convertible loan attached with warrants to four venture capital and institutional firms in October 2004; and
 - \$8.5 million equity financing attached with warrants through a private placement in June 2005.
- The long-term financial liabilities as of June 2005 are related to the \$3 million convertible loan issued in October 2004. Please see Note 11 of the year-end financial statements for more information.

The following items explain variations between the 2005 and 2006 data presented in the above-table:

- Sold a 160,000BPD system to Wood Group for the Triton platform located in the North Sea. The contract value is \$2.4M for the TORR™ system and \$2 million for 5 years of RPA® cartridges supply.
- Sold a 2,500BPD TORR™ demonstration unit to Weatherford.
- Sold several field trials to potential clients.
- Completed a \$20 million equity financing in June 2006
- Increased net loss (explanations are provided in the annual MD&A dated September 14th 2006).

During the year ended June 30, 2007, ProSep Inc. delivered seven water treatment systems to SK Engineering & Construction. For the same period, net loss was \$7.9 million. There are many reasons explaining the loss:

- ProSep Inc. has provisioned \$2.5 million for warranty on the SKEC contract;
- ProSep Inc. has significantly invested in engineering to optimize the systems as it was its very first contract integrating other systems with TORR systems;
- ProSep Inc. has significantly invested in project engineering to supervise the overall management of the SKEC project to ensure the respect of delivery and quality of the systems; and
- Finally, rather than establishing a large sales force in Kuwait and South Korea, ProSep Inc. dealt with agents who opened these markets and worked a long time before getting the contract with SKEC.

During the last six months of 2007 i.e. for the year ended December 31 2007, ProSep Inc.:

- Purchased Pure Group AS. This explains the significant increase in assets;

- Concluded a \$4M subordinated debt financing and \$8M senior debt financing. This explains the significant increase in long-term liabilities.
- Generated a significant loss mainly because of the followings:
 - Operating expenses were too high for generated revenues; and
 - A \$1.8M write-off on \$9M of asset-backed commercial paper.
- Only two months of revenues and expenses of Pure Group AS have been consolidated with ProSep Inc.
-

5.0 RESULTS OF OPERATIONS

The following review of results includes ProSep Inc. financial results as at the end of March 31, 2008 for a three-month period.

5.1 Revenues

Revenues were \$9,117,043 for the period ended March 31, 2008. \$7,767,263 was generated from conventional products and \$1,349,780 from proprietary products.

5.2 Cost of Goods Sold and Gross Margin

Gross profit was \$2,652,556 for the three-month period ended March 31, 2008. Most of the cost of goods sold relate to ProSep subsidiary which amounted to \$5,882,818.

5.3 Sales and Marketing Expenses

Sales and marketing expenses were \$561,064 for the three-month period ended March 31, 2008. The majority of those expenses are related to salaries, travel expenses and professional fees paid to sales and marketing experts in Houston, Montreal and Norway.

5.4 Research and Development

Research and development (“R&D”) expenses, were \$303,205 for the 3-month period ended March 31, 2008. This amount is mostly comprised of salaries.

5.5 General and Administrative Expenses

General and administrative (“G&A”) expenses reached \$2,229,348 for the 3-month period ended March 31, 2008. Of the total G&A expenses for the three month period ended March 31, 2008, the most significant expenses related to salaries (including benefits and option costs) and professional fees (which include regulatory fees, legal fees, accounting and audit fees, investors and public relations fees as well as consulting fees) and offices infrastructures.

5.6 Legal Proceedings

ProSep Inc. has a policy to defend its intellectual property firmly and with conviction. In October 2005, the Company initiated legal proceedings before the Québec Superior Court against a former employee and related parties seeking injunctive relief for misappropriation and illegal use of proprietary information belonging to the Company. The legal proceedings continued during the last 3 months.

ProSep Inc. is the defendant in a claim made by Westend Enviro Consultants (“Westend”). Westend commenced action in the Supreme Court of British Columbia on March 31, 2006, claiming damages for breach of contract and fraudulent misrepresentation. Westend claims that ProSep Inc entered into an agreement with it to provide equipment and a chemical for remediation work on a site in B.C. Westend alleges that it paid a total of \$280,000 to ProSep Inc. and that it did not ever receive the specified chemical, thereby making the machine worthless. The amount of the claim as stated in the pleading is CDN \$280,000. ProSep Inc. filed a Statement of Defence on June 9, 2006, denying any liability. Documents have been exchanged. There have been no examinations for discovery. No trial date has been scheduled. It is premature to assess the likelihood of successfully defending this claim. No amount has been accrued.

5.7 Other Costs

Financing charges reached \$1,958,870 for the 3-month period ended March 31, 2008, including a foreign exchange loss of \$1,151,334 due to the change in value of the foreign currency denominated debt, as well as a loss of \$239,998 in relation to a derivative financial instrument. A total of \$69,804 was recognized as interest revenue on short term investments. Other charges are mainly interest expenses, amortization of the conversion feature attached to the convertible loan issued in 2004.

The Company holds a long-term investment which 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 paper was August 14, 2007, and the amount due was not repaid.

On August 16, 2007 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 restricted 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, including the trusts. Under the proposal, holders of ABCP will exchange their papers 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 restructuring plan. The vote happened on April 25, 2008 and noteholders approved the restructuring plan subject to rectification of 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 bank 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.

The fair value of the ABCP was determined based on the management's judgment using available information and expectation of the assumption of 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 progress of the restructuring efforts and general economic conditions in considering the fair value of the investment. The Company has estimated the fair value using a valuation approach based on high likelihood of successful restructuring of the \$9 million Apsley series A, ABCP investment.

Based on this assessment of fair values, the Company has recognized an additional impairment charge of \$450,000 during the three-month period ended March 31, 2008 while \$1,800,000 was recorded during the six-month period ended December 31, 2007 for a total impairment charge of \$2,250,000 since the investment, representing 25% of original cost.

The above estimated fair values may not be indicative of the ultimate net realizable value or the future fair value. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the probability of realization of the scenarios, returns, credit risk and liquidity risk could significantly affect the value ascribed to ABCP in the next quarters.

The Company has provided a first ranking hypothecation of the ABCP to secure a term loan.

ProSep Inc. acts towards the following basic principles: (i) protect the value of the instrument and (ii) transform the instrument into cash as soon as possible.

Based on these principles, ProSep Inc. has decided the following: (i) execute the “Protocole de Montréal” enabling participants to restructure the instruments in order to protect the value and create liquidity, and (ii) has negotiated with National Bank of Canada a loan for 80% of the value of the ABCP creating short term synthetic liquidity.

During March 2008, ProSep Inc. has signed a term loan expiring April 2009 with National Bank for 80% of the value.

In the future, ProSep Inc.’s strategy will be continue supporting the “Protocole de Montréal” and therefore the restructuring plan that has been approved on April 25 2008 by note holders and ProSep Inc. hopes to receive new long-term notes that are likely to be marketable on a secondary market. When that happens, ProSep Inc. will carefully monitor the secondary market in order to potentially sell in part or in whole the notes, with a view to maximizing the value.

5.8 Previous Financings and Use of Proceeds

In April 2003, ProSep Inc. completed a \$4.5 million equity financing. In October 2003, QLF Solidarity Fund exercised its warrants for a total consideration of \$1.28 million. Funds have been used (i) to repay cumulated debt as at the end of April 2003, (ii) to fund operating expenses between April 2003 and October 2004, and (iii) to finance the construction of TORR™ demonstration units.

In fiscal Q2-2005, ProSep Inc. closed a \$3M convertible loan financing with QLF Solidarity Fund, Innovatech Montreal, Business Development Bank of Canada, and Fonds d’investissement en développement durable. The main purpose of that financing was to secure the necessary cash to execute the three-year strategic plan presented at the AGM in October 2003. A complete description of the financing is available in ProSep Inc.’s Notice of Annual and Special Meeting October 2004. This document is available on www.sedar.com.

In addition to this convertible loan financing, in December 2004, ProSep Inc. secured a \$2 million commercialization credit facility with National Bank of Canada and the assistance of Export Development Canada. To date, ProSep Inc. has not used this facility.

On June 23rd 2005, ProSep Inc. completed \$8.5 million private placement of equity with Quest Securities Corporation and Paradigm Capital Inc. The net proceeds of the private placement was to be used for the ongoing commercialization of the Company’s proprietary RPA® and TORR™ products and general working capital purposes.

On June 1st 2006, ProSep Inc. closed a \$20 million equity financing. The net proceeds of this public financing was to be used (i) to expand the Company’s activities in existing (North Sea and Western Canada) and new (Gulf of Mexico and the Middle-East) markets; (ii) to invest in capital expenditures to upgrade the RPA® manufacturing plant, build new TORR™ demonstration units

and update information systems; (iii) to continue development program by expanding the operational conditions under which the TORR™ and RPA® technologies can be used and by expanding the geographic coverage of intellectual property protection; and (iv) for general working capital purposes.

On April 24, 2008 ProSep Inc. completed a private placement to raise \$5,090,000. The net proceeds will be used for general working capital in order to finance growth, issue performance and warranty bonds and increase lines of credit of operational subsidiaries. The management of all subsidiaries is part of global enterprise objectives and new contracts have been signed during the first of quarter of 2008, total backlog is now at \$48 millions. The ability of The Company to continue as a going concern depends on the profitability of these new contracts.

The following table summarizes use of proceeds of the four financings and the actual results:

Category of Usage	Amount ⁷	For the year ended June 30 th 2005	For the year ended June 30 th 2006	For the year ended June 30 th 2007	For the six-month period ended December 31 st 2007	For the quarter ending March 31 st 2008	Total
Capital expenditures	\$700,000	\$38,124	\$377,399	\$753,204	\$58,471	\$52,465	\$1,279,663
Research & Development	\$700,000	\$342,364	\$543,375	\$474,198	\$279,315	\$303,205	\$1,942,457
Working Capital & Commercialization	\$36,590,000	\$1,813,615	\$1,877,106	\$5,396,271	\$2,474,666	\$582,096	\$12,143,754

- ProSep Inc. invested in small demonstration units for markets around the world and equipment for the RPA® cartridges plant;
- The \$700,000 reserved for R&D in the use of proceeds was for two years. To date, ProSep Inc. consumed that portion of the use of proceeds. It has been used more rapidly than originally expected, because the start up of the RPA® cartridges plant revealed several unexpected problems, forcing ProSep Inc. to proceed with R&D related work. Problems have been resolved.
- Of the \$36,590,000 available for working capital and commercialization, \$12,143,754 has been used or 33.19% of the provision.

As at the end of March 31, 2008 ProSep Inc.'s cash position was \$7,720,541.

⁷ This amount equals \$20 million equity financing in June 2006, plus \$8.5 million of financing in June 2005, plus \$3 million of financing in November 2004. \$1.4 of the \$ 2 million facility was for working capital and commercialization.

5.9 Discussion of Balance Sheet Items

The Company's net equity as at March 31, 2008, was \$15,470,191, representing a decrease of \$3,201,817 from its December 31, 2007 amount of \$18,672,008.

Total assets as at March 31, 2008 were \$61,412,036 representing an increase of \$978,201 from its December 31, 2007 amount of \$60,433,835. There has been a change in the presentation of the cash and cash equivalents. As at December 31, 2007, the bank credit facility had been presented in cash and cash equivalents which represented an amount of \$3,402,541. Therefore, comparative figures have been reclassified to conform with the March 31, 2008 presentation. As at March 31, 2008, such bank credit facility amounts to \$5,316,129. There has been a decrease in cash and cash equivalents by \$942,093. ProSep Technologies have increased its unbilled receivables by \$2,852,186. An additional impairment charge of \$450,000 has been recognized on the long-term investment in ABCP during the quarter. No major changes occur in other accounts since the beginning of the year.

Total liabilities as at March 31, 2008 were \$45,941,845 representing an increase of \$4,180,018 from its December 31, 2007 amount of \$41,761,827. The change in the amount of total liabilities is also due to the presentation of the bank credit facility, shown separately from cash and cash equivalents. The unfavourable foreign exchange rate for the loan with DnBNor evaluated at \$8,180,926 on December 31, 2007 is now at \$9,094,584. The working capital of the Company has been affected positively by the reclassification of the \$7,200,000 bank credit facility from short term to long term.

Shareholders' equity decreased by \$3,201,817 for the following reasons:

- An increase in contributed surplus of \$135,997;
- An increase in the deficit of \$3,337,814 primarily as a result of the loss for the period

SUMMARY OF QUARTERLY RESULTS

Quarters	Revenue	Net loss	Net loss per share
Q1-2006	\$100,161	\$1,245,516	\$0.04
Q2-2006	\$176,774	\$1,304,012	\$0.04
Q3-2006	\$2,855,757	\$932,159	\$0.03
Q4-2006	\$99,578	\$1,884,856	\$0.05
Q1-2007	\$68,385	\$1,367,702	\$0.03
Q2-2007	\$170,319	\$1,776,695	\$0.04
Q3-2007	\$16,414,696	\$1,863,086 ⁸	\$0.04
Q4-2007	\$9,401,716	\$2,928,062 ⁹	\$0.06
Q1-2008 (fiscal year ending December 31, 2007)	\$102,405	\$3,062,925	\$0.07
Q2-2008 (fiscal year ending December 31, 2007)	\$5,682,824	\$5,012,386	\$0.09

⁸ The net loss includes a \$1,385,008 warranty provision.

⁹ The net loss includes a \$1,176,833 warranty provision.

Q1-2008 (new fiscal year ending December 31, 2008)	\$9,117,043	\$3,337,814	\$0.05
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This table should be analyzed in light of the reasons described in the above section 3.

6.0 EARNINGS GUIDANCE

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

7.0 LIQUIDITY

7.1 Operating Cash Flow

During the last three-month period, ProSep Inc. generated a negative cash flow from operations of \$885,301 corresponding to an average monthly burn rate of \$295,100. The operating cash flow before working capital changes was negative by \$673,438 or the equivalent of an average monthly burn rate of \$224,479. At the end of March 2008, ProSep Inc. had \$7,720,541 in cash and cash equivalents.

7.2 Financing Activities

On June 1st 2006, ProSep Inc. successfully completed its offering of 12,200,000 common shares to a syndicate of underwriters led by Blackmont Capital Inc., including Paradigm Capital Inc. and Versant Partners Inc., issued at a price of \$1.65 per common share, for gross proceeds of \$20,130,000. The proceeds of the offering, of an aggregate gross amount of \$20,130,000, will be used by ProSep Inc.: (i) to expand its activities in existing (North Sea and Western Canada) and new (Gulf of Mexico and the Middle-East) markets; (ii) to invest in capital expenditures to upgrade its RPA® manufacturing plant, build new TORR™ demonstration units and update its information systems; (iii) to continue its development program by expanding the operational conditions under which the TORR™ and RPA® technologies can be used and by expanding the geographic coverage of its intellectual property protection; and (iv) for general working capital purposes.

On June 15th 2006, ProSep Inc. secured a new US\$5,000,000 demand loan facility with the National Bank of Canada ("NBC"), which is to be used to finance up to 90% of ProSep Inc.'s pre-shipment direct costs associated with its export contract with SKEC with certain guarantees being granted by EDC. This new credit facility will complement ProSep Inc.'s existing commercialization facilities granted by NBC, which consist of: (i) a \$1,000,000 demand loan under the pre-shipment program from EDC to finance export; (ii) a \$500,000 export operating line of credit under the MARG program from EDC; (iii) a \$1,650,000 currency conversion risk facility, and; (iv) a \$10,000,000 letters of guarantee or letters of credit facility. This facility was renewed during July 2007, with the exception of the US\$5M demand loan.

On August 7th 2007, ProSep Inc. announced that Fonds de solidarité des travailleurs du Québec (F.S.T.Q.), which held a convertible term loan granted to the Company in the context of the \$3 million private placement completed on November 2, 2004, had exercised its right to convert the aggregate principal amount of such loan, \$500,000, and the accrued and unpaid interest on such loan, of an aggregate amount of \$180,194.10, into common shares of the Company.

On October 25th 2007, ProSep Inc (formerly TORR Canada Inc) announced the closing of the acquisition of all the shares of Norwegian-based Pure Group AS, a provider of leading technologies for oil, gas and water purification. This acquisition announced on July 30th, 2007 will enable ProSep Inc. to offer a broader product offering and to access a larger distribution network. Payment for the transaction consisted of \$10.5 million in cash, the issuance of 14,743,971 common shares of ProSep Inc (formerly TORR Canada Inc), as well as a repayment of preferred shares in the acquired company which was financed through a new credit facility amounting to \$8,127,136 (45,000,000 NOK). The new credit facility consists of (i) a five-year senior acquisition facility in an amount of 45,000,000NOK (\$8,127,136) to finance the purchase of the shares and/or the repurchase of the preferred shares of Pure Group, (ii) a senior overdraft facility of 30,000,000NOK (\$5,418,000) and (iii) a guarantee facility of 15,000,000NOK (representing \$2,709,000)

Further to the recent disruption in the market for asset-backed security investments in Canada, ProSep Inc. has approximately \$9 million of its liquidities invested in non-extensible asset-backed commercial paper which has not been repaid at maturity and currently remains outstanding. In order to prevent any liquidity concerns, ProSep Inc. entered into a new \$7.2 million credit facility with National Bank of Canada, with the asset-backed commercial paper being provided as security.

On October 29th 2007, ProSep Inc. announced that it obtained a \$4 million unsecured, subordinated debenture from *FondAction*, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi ("*FondAction* "). The proceeds will be used for working capital and general corporate purposes. The debenture will bear an interest of 13% per annum, payable monthly. The principal amount is repayable in 48 equal monthly instalments commencing on the 19th month following disbursement of funds. ProSep Inc. may repay the amounts owing to *FondAction* as of the 25th month following disbursement of funds, up to a maximum of \$1,000,000 per 12-month period and with a premium of 5% of the repaid amount. ProSep Inc. has also issued along with the debenture 2,424,242 warrants to purchase Shares of ProSep Inc. at a price of \$1.65 per Share for a period of five years.

On April 24, 2008, ProSep Inc. has completed a private placement of \$5,090,000. Industrial Alliance Securities Inc. and Versant Partners Inc. acted as agents for the transaction. The private placement consisted of units each comprised of a \$1,000 principal amount 13% convertible unsecured subordinated debentures due April 30, 2013 and 200 common share purchase warrants at an exercise price of \$0.30 per share. The net proceeds will be used for general working capital to finance growth, issue performance and warranty bonds and increase lines of credit of operational subsidiaries. The proceeds will be used for working capital needs, to finance growth and increase lines of credit.

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

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

The agents will receive a cash fee equal to 6% of the gross proceeds raised from the placement, as well as broker's warrant, determined by dividing 6% of the total amount of the offering by the agreed exercise price of the broker warrants, exercisable for a period of 60 months, at \$0.30 per share.

7.3 Acquisition of Capital Assets

During the 3 last months, ProSep Inc. invested \$52,465 as capital assets. These investments consisted of video conference equipment for ProSep Inc., computer, furniture and fixture for ProSep subsidiary.

7.4 Liquidity – Other Topics

On November 29, 2007 for a contractual amount of EUR 3,240,000 at a rate of 1.4762 US / EUR (US\$ 4,782,888) whereby the Company was committed to sale currency. The foreign exchange forward contract maturity date has been extended from February 28, 2008 to May 28, 2008 with a rate of 1.5079 US/ EUR. The fair value of this foreign exchange forward contract is negative at \$227,548 as at March 31, 2008.

The Company does not hold or use any derivatives for trading purposes.

ProSep Inc. is not in default of any debt, lease or any other similar creditor payments.

8.0 CAPITAL RESOURCES

ProSep Inc. does not have any capital commitment.

9.0 OFF-BALANCE SHEET ARRANGEMENTS

ProSep Inc. did not make any off-balance sheet transactions during the three-month period ended March 31, 2008 other than a foreign exchange contract.

10.0 TRANSACTIONS WITH RELATED PARTIES

During the three-month period ended March 31, 2008, ProSep Inc. did not make any transactions with related parties.

11.0 CRITICAL ACCOUNTING ESTIMATES

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

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

11.1 Long-term Investment

The Company holds a long-term investment which 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 paper was August 14, 2007, and the amount due was not repaid.

On August 16, 2007 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 restricted 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, including the trusts. Under the proposal, holders of ABCP will exchange their papers 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 restructuring plan. The vote happened on April 25, 2008 and noteholders approved the restructuring plan subject to rectification of 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 bank 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.

The fair value of the ABCP was determined based on the management's judgment using available information and expectation of the assumption of 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 progress of the restructuring efforts and general economic conditions in considering the fair value of the investment. The Company has estimated the fair value using a valuation approach based on high likelihood of successful restructuring of the \$9 million Apsley series A, ABCP investment.

Based on this assessment of fair values, the Company has recognized an additional impairment charge of \$450,000 during the three-month period ended March 31, 2008 while \$1,800,000 was recorded during the six-month period ended December 31, 2007 for a total impairment charge of \$2,250,000 since the acquisition, representing 25% of original cost.

The above estimated fair values may not be indicative of the ultimate net realizable value or the future fair value. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the determination of the probability of realization of the scenarios, returns, credit risk and liquidity risk could significantly affect the value ascribed to ABCP in the next quarters.

The Company has provided a first ranking hypothecation of the ABCP to secure a term loan.

11.2 Changes in Accounting Policies

In the first quarter of fiscal 2008 the Company adopted three 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 will present sensitivity analysis regarding liquidity risk, credit risk, currency risk, foreign exchange risk, interest rate risk and market risk. Comparative information about the nature and 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.

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-down to the net realizable value as well as on the cost formulas that are used to assign costs to inventories.

The adoption of this Section did not have a significant impact on the consolidated financial statements.

e) International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

12.0 FINANCIAL DISCLOSURE

Our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to the management committee members, including the President & CEO and the Vice-President Finance, to allow timely decisions regarding required disclosure.

As of March 31, 2008, an evaluation was carried out, under the supervision of and with the participation of management, including the President & CEO, the Vice-President Finance, and the Chief Accountant, of the effectiveness of the disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the President & CEO and the Vice-President Finance concluded that the design and operation of our disclosure controls and procedures were effective as at March 31, 2008.

12.1 Internal Control over Financial Reporting

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

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

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

As of March 31, 2008, management evaluated the design of internal control over financial reporting as defined under Multilateral Instrument 52-109, and based on that evaluation determined that certain aspects of internal control over financial reporting were not designed

effectively but were mitigated by additional procedures to compensate them. The control deficiencies identified by the Company did not result in adjustments to our interim consolidated financial statements for 2008. Management's assessment identified the following material weaknesses along with related remediation:

A. Entity level controls

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

To mitigate that risk, the management has been very active in:

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

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

B. Segregation of duties

The Company had deficient controls within its accounting and finance department over segregation of duties inherent to its size. Specifically, as a result of the limited number of personnel in the accounting and finance department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization.

To mitigate that risk, we continue to implement improved monitoring systems, other procedures to prevent occurrence of frauds, properly assign roles and responsibilities to employees to maximize segregation of duties within the limited environment, and rely on procedures and controls as described in the previous section (see 12.1a).

13.0 SELECTED RISKS AND PROPOSED REMEDIES

In this section, a list of the most important risks associated with ProSep Inc.'s business operations is presented. This list is periodically reviewed by Management and overseen by ProSep Inc.'s board of directors.

13.1 New Products and Technological Change

The markets for our products, technologies and services are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Our products embody complex technology and are designed to be compatible with current and evolving industry standards, and we invest significant resources in the development of products for the markets we serve. Our success continues to depend upon market acceptance of our existing products, technologies and services, our ability to enhance those products, technologies and services and our ability to introduce new products, technologies and services to meet changing customer requirements. Any delays in developing new products or enhancements or any failure by such products, technologies or services or enhancements to gain market acceptance could adversely affect our business, financial condition and results of operations.

13.2 Competition

There are several other companies involved in providing water, oil, and gas treatment solutions. There can be no assurance that our competitors will not be able to provide services and products similar to our own more efficiently. Many of the potential competitors are also organizations with access to significant resources that may be applied to research and development of water, oil and gas treatment technologies. Other treatment technologies for the oil and gas industry are also progressing and their arrival may change the relative economics of the technology solutions offered to customers. Any improvement in the ability of our competitors to provide their

products and services more effectively or to develop successful technologies could adversely affect our business, financial condition and results of operations.

13.3 Changes in Environmental Laws, Regulations and Policies

The demand for our products and services is, to a significant degree, created by the enactment and enforcement of environmental regulations and standards which affect our customers. Delays in the introduction of new regulations or decreased government enforcement action relating to existing regulations may result in a decreased demand for these products and services. Less demanding standards introduced in amendments to existing environmental laws, regulations and policies, or in the application of existing and future environmental laws, regulations and policies, could result in decreased interest and demand for our products and services. In addition, more demanding environmental standards introduced in amendments to existing environmental laws, regulations and policies, or in the application of existing and future environmental laws, regulations and policies, could require that we incur significant additional expenditures to further develop our technology. There can be no assurance that these risks associated with the enactment and enforcement of environmental regulations and standards will not adversely affect our business, financial condition and results of operations.

13.4 Growth Management

The size of our sales pipeline and portfolio of quotations has grown rapidly over the last few years. The growth of our business places a strain on managerial, financial and human resources. In order to effectively deploy our products and services around the world, we will need to hire additional personnel and improve existing systems and controls. Our ability to manage future growth will depend in large part upon a number of factors, including the ability to rapidly:

- build and train sales and marketing staff;
- attract and retain qualified technical personnel;
- develop customer support capacity as sales increase;
- expand our internal management and financial controls commensurate with internal growth and growth by acquisition; and
- expand our marketing and distribution channels.

Our inability to achieve any of these objectives could adversely affect our business, financial condition and operating results.

13.5 Penetration of Markets and Continued Growth

If we fail to further penetrate our core markets and existing geographic markets or to successfully expand our business into new markets, the growth in sales of our products, technologies and services, along with our operating results, could be negatively impacted. Our ability to further penetrate our core markets and existing geographic markets in which we compete or to successfully expand our business into additional countries, to the extent we believe that we have identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are beyond our control. We cannot assure that our efforts to

increase market penetration in our core markets and existing geographic markets will be successful. Our failure to do so could adversely affect our business, financial condition and results of operations.

13.6 Additional Financing Requirements and Access to Capital

We may require additional capital to pursue further research and development and sales and marketing efforts for our products. We may from time to time raise additional funds through public or private financing or obtain financing from other sources. Additional funding may not be available on terms which are acceptable to us, or at all. If adequate funding is not available on reasonable terms, we may need to delay, reduce or eliminate our research and development and sales and marketing efforts or obtain funds on terms less favourable than we would otherwise accept. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of those securities will result in dilution to our shareholders. Moreover, the incurrence of debt financing could result in a substantial portion of our operating cash flow being dedicated to the payment of principal and interest on such indebtedness and could impose restrictions on our operations. This could render us more vulnerable to competitive pressures and economic downturns. Any debt financing we enter into may involve covenants that restrict our operations. These restrictive covenants, which may include limitations on borrowing, specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends, redeem capital stock or make investments, could adversely affect our business, financial condition and results of operations.

13.7 Operating Results

Since our incorporation, our operating results have fluctuated. There can be no assurance that we will operate profitably in the future.

Our operating results may vary from quarter to quarter, depending on a number of factors, including:

- the introduction and market acceptance of new products and new variations of existing products;
- the activities of our competitors;
- our ability to control our expenses;
- variations in the timing of orders and subsequent shipments;
- the length of our customers' approval processes or market tests;
- changes in our mix of products;
- lack of liquidity;
- changes in capital spending;
- unforeseeable or unavoidable delays in large-scale customer projects;
- higher interest rates;

- changes in currency rates; and
- general economic conditions.

Because our quarterly revenues could be dependent upon a relatively small number of large transactions, even minor variations in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays, reductions in amounts or cancellations of customers' purchases could adversely affect our business, financial condition and results of operations. In light of the foregoing, quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. Reductions in revenue or net income between quarters or our failure to achieve expected quarterly earnings per share could cause the market price of our common shares to decline or adversely affect our business, financial condition and results of operations.

13.8 Key Personnel

Our ability to successfully implement our strategy and to operate profitably is dependent on the abilities, experience and efforts of members of our senior management and key production, sales and marketing, engineering and research and development personnel. While we have entered into employment agreements and/or confidentiality and non-competition agreements with some of our key employees and while our human resources and corporate governance committee of the board of directors has developed a succession plan, we could be significantly adversely impacted if any of our key employees become unable or unwilling to continue their employment with us. The loss of key employees to a competitor and an inability to attract and retain experienced key employees could adversely affect our business, financial condition and results of operations.

13.9 Long Sales and Implementation Cycles for our Products

Our customers typically invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to purchase our products, technologies or services. Typically, the larger the potential sale, the more time, money and other resources will be invested. As a result, it may take many months after our first contact with a customer before a sale can actually be completed. We may invest significant sales and other resources in a potential customer that may not generate revenue for a substantial period of time, if at all. The time required for implementation of our products, technologies or services varies among our customers and may last several months, depending on our customers' needs and the products, technologies or services deployed.

During these long sales and implementation cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled. For example,

- Purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty;
- We or our competitors may announce or introduce new products; or
- The customer's own budget and purchasing priorities may change.

If these events were to occur, sales of our products or services may be cancelled or delayed, which could adversely affect our business, financial condition and results of operations.

13.10 Manufacturing Risk

Revenues are dependent on the continued operations of Pure Group's manufacturing facility. Despite investments, Pure Group still faces typical manufacturing risks. The operation of a manufacturing facility involves some risks, including the failure or substandard performance of equipment, natural disasters, delays in obtaining raw production materials and components, plant shutdowns and labour disruptions. Pure Group intends to expand its manufacturing capabilities in Texas in order to meet the expected growth in demand. This expansion could result in disruptions to manufacturing operations. Manufacturing operations use certain custom-designed equipment which, if damaged or otherwise rendered inoperable or unavailable, could result in the disruption of manufacturing operations. To the extent that facilities or equipment require longer than forecasted down times for maintenance and repair, or suffer disruptions for other reasons, this could adversely affect Pure Group's business, financial condition and results of operations. Pure Group does not generally carry a large inventory of intermediate or finished products, and therefore any significant interruption in production could adversely affect Pure Group's business, financial condition and results of operations.

13.11 Currency Exchange Risk

Consolidated operating results are reported in Canadian dollars, but a significant portion of revenues and expenses are generated or incurred in U.S. dollars or in Euros. Significant long-term fluctuations in relative currency values may adversely affect our consolidated results of operations. The exchange rate between the Canadian dollar and foreign currencies has varied significantly over the past five years. Where the value of a given foreign currency increases when compared to the Canadian dollar, to the extent that revenues are greater than expenses in such foreign currency, there will be a positive impact on income from operations. Conversely, to the extent that the foreign currency revenues are lower than expenses in such foreign currency. Where the value of a given foreign currency decreases when compared to the Canadian dollar, to the extent that revenues are greater than expenses in such foreign currency, there will be a negative impact on our income from operations; conversely, to the extent that revenues are lower than expenses in such a foreign currency, there will be a positive impact on our income from operations, there will be a negative impact on our income from operations. In addition, the cost of acquiring businesses or other assets in foreign currencies is fixed at the time of acquisition, which may expose us to fluctuations in exchange rates over time. The potential impact of exchange rate fluctuations on Canadian dollars could adversely affect business, financial condition and results of operations.

Norwegian operating results are reported in NOK (Norwegian Krone), but a significant portion of the revenues and expenses are generated or incurred in US dollars or in other currencies. Significant long-term fluctuations in relative currency values may adversely affect consolidated results of operations. The exchange rate between the NOK and foreign currencies has varied significantly over the past five years. Where the value of a given foreign currency increases when compared to the NOK, to the extent that revenues are greater than expenses in such foreign

currency, there will be a positive impact on the Norwegian business unit's income from operations. Conversely, to the extent that the foreign currency revenues are lower than expenses in such foreign currency, there will be a negative impact on the Norwegian business unit's income from operations. Where the value of a given foreign currency decreases when compared to the NOK, to the extent that revenues are greater than expenses in such foreign currency, there will be a negative impact on the Norwegian business unit's income from operations. Conversely, to the extent that revenues are lower than expenses in such a foreign currency, there will be a positive impact on the Norwegian business unit's income from operations. In addition, the cost of acquiring businesses or other assets in foreign currencies is fixed at the time of acquisition, which may expose the Norwegian business unit to fluctuations in exchange rates over time. The potential impact of exchange rate fluctuations on NOK could adversely affect the business, financial condition and results of operations.

13.12 Litigation

Although we do not believe that our products infringe the proprietary rights of any third parties, third parties might assert infringement claims against us or against our customers in the future. Furthermore, we may initiate additional claims or litigation against third parties for infringement of our proprietary rights. Litigation, either as plaintiff or defendant, could cause us to incur substantial costs and divert management resources from productive tasks. Any litigation, regardless of the outcome, could adversely affect our business, financial condition and results of operations.

13.13 Intellectual Property

We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, nondisclosure and confidentiality agreements and other contractual restrictions to protect our proprietary technology. Litigation may be necessary to enforce these rights, which could result in substantial costs to us and a substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors or other parties could use the intellectual property that we have developed to enhance our products or make products similar to ours and compete more efficiently with us, which could result in a decrease in our market share.

We cannot be certain that we are the first creator of inventions covered by pending patent applications or that we were the first to file patent applications for any such inventions and, if we are not, we may be subject to priority disputes. We may be required to disclaim part of the term of certain patents or all of the term of certain patent applications. There may be prior art of which we are not aware that may affect the validity or enforceability of a patent claim. There also may be prior art of which we are aware, but which we do not believe affects the validity or enforceability of a claim, which may, nonetheless, ultimately be found to affect the validity or enforceability of a claim. Although a patent has a statutory presumption of validity, the issuance of a patent is not conclusive as to its validity or as to the enforceability of its claims. Moreover, the laws of certain countries may not protect proprietary rights to the same extent as the laws of Canada. No assurance can be given that our patents would be declared by a court to be valid or enforceable or that a competitor's technology or product would be found by a court to infringe our patents. Pending patent applications may not result in the issuance of patents, and we may

not develop additional proprietary products which are patentable. Furthermore, it is possible for others to develop products which have the same effect as our products on an independent basis or to design around products that we patented. Accordingly, there can be no assurance that our patents will afford legal protection against competitors, nor can there be any assurance that others will not infringe our patents or that others will not obtain patents that we would need to license. Furthermore, the inherent limitations associated with our patents and successful challenges to certain of our patents could adversely affect our business, financial condition and results of operations.

While we have attempted to ensure that our products and the operations of our business do not infringe other parties' patents and proprietary rights, our competitors or other parties may assert that our products and operations may be covered by patents held by them. In addition, because patent applications can take many years to issue, there may be applications now pending of which we are unaware, which may result later in issued patents which our products may infringe. If any of our products infringe a valid patent, we could be prevented from selling them unless we can obtain a license or redesign the products to avoid infringement. A license may not always be available or may require us to pay substantial royalties. We may not be successful in any attempt to redesign any of our products to avoid any infringement. Infringement or other intellectual property claims, regardless of merit or ultimate outcome, could adversely affect our business, financial condition and results of operations.

Unpatented trade secrets, improvements, confidential know-how and continuing technological innovation are important to our scientific and commercial success. Although we attempt to and will continue to protect our proprietary information through reliance on trade secret laws and the use of confidentiality agreements with corporate partners, collaborators, employees and consultants and other appropriate means, there can be no assurance that these measures will prevent disclosure of our proprietary information or that others will not develop independently or obtain access to the same or similar information and this could adversely affect our business, financial condition and results of operations.

13.14 Product Defects

If any of our products prove defective, we may be required to redesign or recall such products. A redesign or recall may cause us to incur significant expenses, disrupt sales and adversely affect our reputation and products, any one or a combination of which could adversely affect our business, financial condition and results of operations.

13.15 Product Liability

Difficulties in product design, performance and reliability could result in lost sales, delays in customer acceptance of our products and lawsuits which would be detrimental to our market reputation. Our products are not error free. Undetected errors or performance problems may be discovered in the future. We may not be able to successfully complete the development of planned or future products in a timely manner or to adequately address product defects, which could harm our business and prospects. In addition, product defects may expose us to product liability claims, for which it may not have sufficient product liability insurance. Difficulties in

product design, performance and reliability or product liability claims could adversely affect our business, financial condition and results of operations.

13.16 Third Party Suppliers

We rely on third-party suppliers, in some cases sole suppliers or limited groups of suppliers, to provide us with materials and components necessary for the manufacture of our products. As a result of worldwide demand for and shortage of components, some suppliers have from time to time limited the number of components we may purchase. If we are unable to obtain sufficient allocations of these components, our production and shipment of products will be delayed, we may lose customers and our profitability will be affected. Reliance on suppliers also reduces our control over production costs, delivery schedules, reliability and quality of materials. Any inability to obtain timely deliveries of quality materials, or any other circumstances that would require us to seek alternative suppliers, could adversely affect our ability to deliver products to our customers. In addition, we regularly outsource limited aspects of the manufacturing of our products to contract manufacturers and a significant increase in the price of the services provided by these manufacturers, or delays in their deliveries, could adversely affect our business, financial condition and results of operations.

13.17 International Transactions

We derive the majority of our revenues from international sales. We also plan to continue to expand our international sales and marketing efforts. There are a number of risks inherent in our international business activities, including government policies concerning the import and export of goods, services and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products and subcontractors in foreign countries, costs and risks associated with the use of foreign agents, higher credit risks, potentially adverse tax consequences, limits on repatriation of earnings, the burdens of complying with a wide variety of foreign laws, slower payment of invoices, nationalization and possible social, labour, political and economic instability. The lack of well-developed legal systems in certain jurisdictions in which we operate creates additional risks in conducting business. Although we evaluate the creditworthiness of all new customers, maintain an ongoing review of their financial condition and subscribe accounts receivable insurance, credit risks associated with international sales remain higher than for domestic clients. These practices may create potential problems and liabilities for which we may have to incur additional costs. There can be no assurance that such risks will not adversely affect our business, financial condition and results of operations.

13.18 Integration

If ProSep Inc. and Pure Group do not successfully integrate their operations, the Transaction may not fully benefit ProSep Inc. or the Shareholders. The Transaction involves the integration of separate companies that have previously operated independently. If the integration is not completed successfully or takes longer than planned, some of the anticipated benefits of the Transaction may be lost or delayed. ProSep Inc. cannot assure that they will be able to integrate Pure Group with its operations, without encountering difficulties or experiencing the loss of key employees, customers or suppliers. In addition, ProSep Inc. may not realize the anticipated

benefits of the Transaction because of one or several of the following reasons : technology acquired does not create the expected benefits or market penetration, unexpected delays may be caused by the lack of precedent from new technologies acquired when introduced in the markets, the synergies do not materialize for unseen reasons, additional capital expenditure may be required during the integration process of both companies, the perception or response from the financial community or the Shareholders with regards to the Transaction may not be favourable, the cash asset becomes insufficient, the integration process faces unexpected challenges due to distance, cultural differences, mobility of employees, employee conduct, business environment and unduly mobilize management time and attention.

13.19 Increased Indebtedness

Following the completion of the acquisition, ProSep Inc.'s ability to meet its cash requirements, including its debt service obligations, is dependent upon its ability to substantially improve its operating performance, which is subject to general economic and competitive conditions and to financial, business and other factors affecting its operations, many of which are or may be beyond its control. In addition, some of these debt service obligations have interest payments that are subject to variable interest rates and are therefore dependent upon future interest rates which are beyond its control. ProSep Inc. cannot provide assurance that its business will generate sufficient cash flows from operations to fund these cash requirements and debt service obligations. If its operating results, cash flow or capital resources prove inadequate, or if interest rates increase significantly, ProSep Inc. could face substantial liquidity problems and might be required to dispose of material assets or operations to meet its debt and other obligations. If ProSep Inc. is unable to service its debt, it could be forced to reduce or delay planned expansions and capital expenditures, sell assets, restructure or refinance its debt or seek additional equity capital, and ProSep Inc. may be unable to take any of these actions on satisfactory terms or in a timely manner. Further, any of these actions may not be sufficient to allow ProSep Inc. to service its debt obligations or may have an adverse impact on its business. ProSep Inc. existing debt agreements limit its ability to take certain of these actions. ProSep Inc.'s failure to generate sufficient operating cash flow to pay its debts or to successfully undertake any of these actions could have a material adverse effect on ProSep Inc..