

ProSep Inc.
Unaudited Consolidated Interim Financial Statements
For the three and six-month periods ended
June 30, 2009

ProSep Inc.
Consolidated statements of loss and comprehensive loss
For the three-month and six-month periods ended June 30, 2009 and 2008

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue (Note 3)	9,315,971	15,140,834	22,502,751	24,257,877
Cost of goods sold	5,599,523	10,910,908	15,569,631	17,495,372
Gross margin	3,716,448	4,229,926	6,933,120	6,762,505
Expenses				
Sales and marketing	631,672	428,991	1,105,651	990,055
Research and development	139,137	213,930	300,633	517,135
General and administrative	2,472,232	2,210,108	5,201,079	4,319,479
	3,243,041	2,853,029	6,607,363	5,826,669
	473,407	1,376,897	325,757	935,836
Impairment of goodwill (Note 4)	6,500,000	-	6,500,000	-
Decrease in fair value of investment in ABCP	-	-	-	450,000
Financial charges (Note 5)	692,745	566,352	2,031,233	2,525,222
Amortization	394,707	377,284	770,179	741,141
Loss before income taxes	(7,114,045)	433,261	(8,975,655)	(2,780,527)
Current tax provision	145,752	564,859	185,085	770,027
Future tax recovery	(111,945)	30,524	(28,372)	(50,618)
Income taxes	33,807	595,383	156,713	719,409
Net loss and comprehensive loss	(7,147,852)	(162,122)	(9,132,368)	(3,499,936)
Weighted average number of shares (basic and diluted)	64,443,451	62,556,566	64,443,451	62,556,566
Basic and diluted loss per share (Note 6)	(0.11)	(0.00)	(0.14)	(0.06)

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

ProSep Inc.
Consolidated balance sheets
As at June 30, 2009 and December 31, 2008
(Unaudited)

	June 30, 2009	Audited December 31, 2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	5,435,714	7,615,119
Restricted cash (Note 7)	-	1,037,846
Receivables (Note 8)	17,359,200	20,004,848
Inventories	532,203	669,881
Prepaid expenses	1,146,114	886,085
Income tax receivable	296,504	-
Future tax assets	230,501	-
	25,000,236	30,213,779
Restricted cash	-	3,158,986
Long-term investment (Note 9)	5,438,663	5,815,000
Property and equipment	1,767,333	1,856,279
Goodwill (Note 4)	13,907,126	20,407,126
Intangible assets	7,512,690	7,852,042
Future tax assets	-	192,398
	53,626,048	69,495,610
Liabilities		
Current liabilities		
Bank credit facilities (Note 10)	2,920,167	11,596,044
Accounts payable and accrued liabilities	14,571,313	20,953,507
Income tax payable	-	114,043
Deferred revenue	1,964,997	484,078
Current portion of long term debt (Note 11)	3,849,342	3,322,106
	23,305,819	36,469,778
Long-term debt (Note 11)	18,277,761	12,087,493
Future tax liabilities	1,100,758	1,117,599
Pension obligation (Note 12)	380,462	289,838
	43,064,800	49,964,708
Shareholders' equity		
Share capital	55,488,839	55,488,839
Contributed surplus	12,689,853	12,527,139
Deficit	(57,617,444)	(48,485,076)
	10,561,248	19,530,902
	53,626,048	69,495,610

Going concern (Note 1)

Approved by the Board

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

" **David Laidley** "..... David Laidley, Director

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

ProSep Inc.
Consolidated statements of deficits
For the six-month periods ended June 30, 2009 and 2008
(Unaudited)

	Six months ended	
	June 30,	
	2009	2008
	\$	\$
Deficit, beginning of the period	(48,485,076)	(46,605,116)
Share issue cost	-	(254,903)
Net loss and comprehensive loss	(9,132,368)	(3,499,936)
Deficit, end of the period	(57,617,444)	(50,359,955)

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

ProSep Inc.
Consolidated statements of contributed surplus
For the six-month periods ended June 30, 2009 and 2008
(Unaudited)

	Six months ended June 30, 2009			
	Stock-based compensation	Warrants	Conversion feature of loans	Total contributed surplus
	\$	\$	\$	\$
Contributed surplus as at December 31, 2008	2,548,774	8,000,821	1,977,544	12,527,139
Stock-based compensation	162,714	-	-	162,714
Contributed surplus as at June 30, 2009	2,711,488	8,000,821	1,977,544	12,689,853

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

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

ProSep Inc.
Consolidated statements of cash flows
For the three-month and six-month periods ended June 30, 2009 and 2008

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating activities				
Net loss and comprehensive loss	(7,147,852)	(162,122)	(9,132,368)	(3,499,936)
Interests received on investment in ABCP	93,811	-	376,337	-
Items not affecting cash				
Stock-based compensation	99,812	118,722	162,714	254,719
Amortization of property and equipment	225,032	207,606	430,827	401,787
Amortization of intangible assets	169,678	169,678	339,352	339,354
Accrued interest	208,908	77,448	373,902	139,179
Impairment of goodwill	6,500,000	-	6,500,000	-
Decrease in fair value of investment in ABCP	-	-	-	450,000
Periodic pension cost in excess of contribution	36,243	12,400	90,624	21,616
Future income taxes	(111,945)	30,524	(28,372)	(50,618)
Change in fair value of derivative financial instruments	-	(203,977)	-	36,021
Unrealized exchange loss (gain)	(492,435)	(162,608)	(113,103)	1,322,106
	(418,748)	87,671	(1,000,087)	(585,772)
Changes in operating working capital items	(3,288,394)	1,283,296	(2,960,275)	(950,969)
	(3,707,142)	1,370,967	(3,960,362)	(1,536,741)
Investing activities				
Acquisition of property and equipment	(287,118)	(242,283)	(342,028)	(294,748)
	(287,118)	(242,283)	(342,028)	(294,748)
Financing activities				
Restricted cash released	4,196,832	-	4,196,832	-
Bank credit facilities	(3,040,419)	(1,355,102)	(1,598,936)	558,486
Increase in long term debt	67,906	4,762,473	67,906	4,762,473
Share issue cost	-	(141,777)	-	(141,777)
Reimbursement of long-term debt	(843,559)	(893,609)	(851,839)	(897,936)
	380,760	2,371,985	1,813,963	4,281,246
Effect of exchange rate on cash and cash equivalents	126,069	28,715	309,022	137,534
Increase (Decrease) in cash and cash equivalents	(3,487,431)	3,529,384	(2,179,405)	2,587,291
Cash and cash equivalents, beginning of period	8,923,145	7,720,541	7,615,119	8,662,634
Cash and cash equivalents, end of period	5,435,714	11,249,925	5,435,714	11,249,925

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

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

1. Financial statement presentation and going concern

The unaudited interim consolidated financial statements of ProSep Inc. ("The Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial statements, following the same accounting policies as those outlined in Note 2 to the consolidated financial statements for the year ended December 31, 2008 with the exceptions disclosed in Note 2 below.

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

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

The Company has incurred losses of \$9,132,368 for the six-month period ended June 30, 2009, had an accumulated deficit of \$57,617,444 and has not, so far, generated positive cash flows from operations. In addition the Company is subject to several restrictive financial covenants. Such conditions require that the Company continuously seeks non operational sources of financing to fund its operations as well as work on achieving profitability in a near future. The Company has concluded in April a new covenant structure with DNB Nor allowing for the release of the \$3,362,393 (18 000 000 NOK) that was held in a separate escrowed bank account (Note 10). The Company also accepted an offer from National Bank regarding revolving term loans totaling \$7,180,564 in replacement of the \$7,200,000 term loan due on April 30, 2009 (Notes 9 and 11).

As a result of these arrangements, the subsidiaries of ProSep Inc. are restricted from transferring funds in the form of dividends, loans or otherwise to ProSep Inc. in excess of \$3,7 million for fiscal year 2009. Therefore, at June 30, 2009, due to the short-term maturities of certain credit facilities, committed cash obligations and expected level of expenses for the upcoming 6 months exceed committed sources of funds and cash and cash equivalents on hand.

Moreover, in light of the new covenant structure with DnB Nor, the Company has initiated restructuring discussions with holders of its debentures. The outcome of such discussions has resulted in swapping (all or part) of the debentures into equity and recapitalizing the Company (Note 16). It is estimated on conclusion of these transactions, comprised of indebtedness conversion in the principal amount of \$7,845,620 (closed on July 16, 2009) and the exercise of the minimum commitment for the share rights issue of \$4,840,000 (expected to close on August 20), that the Company would have sufficient liquidity to meet its obligations for the next twelve months.

While management believes the use of going concern assumptions is appropriate, the financial statements do not include any adjustments or disclosures that may be necessary should the Company not be able to continue as a going concern. If this were the case, these adjustments could be material.

2. Changes in accounting policies

New accounting standards

On January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which superseded Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this new standard did not have a significant impact on the financial statements.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

3. Segmented information

Operating segment

The Company designs, develops and manufactures process solutions to treat produced water, oil and gas for the upstream Oil and Gas industry. At the beginning of 2008, the Company has determined five reportable segments. Segments were based on geographic locations except for Product Development and Corporate Office which were separated based on their distinct operations. US operations, European & Middle-East operations and Asia Pacific operations relate to manufacturing and commercialization of process solutions. Product Development relates to research and development activities. Corporate Office relates to head office activities to support segments.

Revenue and expenses by business units

For the three-month period ended June 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	5,211,215	1,086,847	2,784,090	233,819	-	-	9,315,971
Revenue inter segment *	-	166,223	6,933	-	-	(173,156)	-
Total revenue	5,211,215	1,253,070	2,791,023	233,819	-	(173,156)	9,315,971
Cost of goods sold	3,040,813	249,399	2,197,233	285,234	-	(173,156)	5,599,523
Gross margin	2,170,402	1,003,671	593,790	(51,415)	-	-	3,716,448
Operating expenses	1,307,528	810,128	238,040	134,234	753,111	-	3,243,041
EBITDA**	862,874	193,543	355,750	(185,649)	(753,111)	-	473,407

For the three-month period ended June 30, 2008

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	12,994,127	1,748,407	218,560	179,740	-	-	15,140,834
Revenue inter segment *	-	-	202,407	-	-	(202,407)	-
Total revenue	12,994,127	1,748,407	420,967	179,740	-	(202,407)	15,140,834
Cost of goods sold	9,819,221	981,984	236,382	75,728	-	(202,407)	10,910,908
Gross margin	3,174,906	766,423	184,585	104,012	-	-	4,229,926
Operating expenses	1,131,641	318,431	226,559	226,779	949,619	-	2,853,029
EBITDA**	2,043,265	447,992	(41,974)	(122,767)	(949,619)	-	1,376,897

For the six-month period ended June 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	15,155,842	2,086,314	4,853,065	407,530	-	-	22,502,751
Revenue inter segment *	74,683	166,223	174,010	-	-	(414,916)	-
Total revenue	15,230,525	2,252,537	5,027,075	407,530	-	(414,916)	22,502,751
Cost of goods sold	10,785,126	972,936	3,824,782	401,703	-	(414,916)	15,569,631
Gross margin	4,445,399	1,279,601	1,202,293	5,827	-	-	6,933,120
Operating expenses	2,688,588	1,522,219	445,689	300,633	1,650,234	-	6,607,363
EBITDA**	1,756,811	(242,618)	756,604	(294,806)	(1,650,234)	-	325,757

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

3. Segmented information (continued)

Revenue and expenses by business units

For the six-month period ended June 30, 2008

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Revenue	20,761,390	2,889,142	347,413	259,932	-	-	24,257,877
Revenue inter segment *	-	-	892,818	-	-	(892,818)	-
Total revenue	20,761,390	2,889,142	1,240,231	259,932	-	(892,818)	24,257,877
Cost of goods sold	15,392,435	1,833,347	1,018,581	143,827	-	(892,818)	17,495,372
Gross margin	5,368,955	1,055,795	221,650	116,105	-	-	6,762,505
Operating expenses	2,124,204	991,967	407,196	517,135	1,786,167	-	5,826,669
EBITDA**	3,244,751	63,828	(185,546)	(401,030)	(1,786,167)	-	935,836

* These transactions were carried out at exchange amount which is the value established and accepted by the parties.

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

Revenue originated from:

For the three-month period ended June 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	5,211,215	-	-	-	-	-	5,211,215
Norway	-	1,150,027	-	233,819	-	(166,223)	1,217,623
Canada	-	103,043	-	-	-	-	103,043
Malaysia	-	-	2,791,023	-	-	(6,933)	2,784,090
	5,211,215	1,253,070	2,791,023	233,819	-	(173,156)	9,315,971

One client from Asia Pacific operations represented 21% of the Company's revenue and three clients of US operations represented 10%, 12% and 13% of the Company's revenue for the three-month ended June 30, 2009.

For the three-month period ended June 30, 2008

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	12,994,127	-	-	-	-	-	12,994,127
Norway	-	1,070,890	-	179,740	-	-	1,250,630
Canada	-	677,517	-	-	-	-	677,517
Malaysia	-	-	420,967	-	-	(202,407)	218,560
	12,994,127	1,748,407	420,967	179,740	-	(202,407)	15,140,834

Three clients of US operations represented 31%, 19% and 15% of the Company's revenue for the three-month ended June 30, 2008.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

3. Segmented information (continued)

Revenue originated from:

For the six-month period ended June 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	15,230,525	-	-	-	-	(74,683)	15,155,842
Norway	-	2,001,534	-	407,530	-	(166,223)	2,242,841
Canada	-	251,003	-	-	-	-	251,003
Malaysia	-	-	5,027,075	-	-	(174,010)	4,853,065
	15,230,525	2,252,537	5,027,075	407,530	-	(414,916)	22,502,751

Three clients of US operations represented 12%, 16% and 16% of the Company's revenue and one client from Asia Pacific operations represented 13% of the Company's revenue for the six-month ended June 30, 2009.

For the six-month period ended June 30, 2008

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
United States	20,761,390	-	-	-	-	-	20,761,390
Norway	-	2,063,665	-	259,932	-	-	2,323,597
Canada	-	825,477	-	-	-	-	825,477
Malaysia	-	-	1,240,231	-	-	(892,818)	347,413
	20,761,390	2,889,142	1,240,231	259,932	-	(892,818)	24,257,877

Two clients of US Operations represented 39% and 12% of the Company's revenue for the six-month ended June 30, 2008.

Assets

As at June 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Product Development activities	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$	\$
Total assets	29,485,465	8,387,637	8,015,809	-	7,737,137	-	53,626,048

As at December 31, 2008

Total assets	36,767,783	12,025,983	6,995,633	-	13,706,211	-	69,495,610
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Geographic information

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales to customers situated in:				
United States	2,655,136	4,671,447	8,797,075	6,407,777
Argentina	-	4,742,440	-	9,423,369
Kuwait	987,661	2,419,574	3,776,841	2,512,462
Malaysia	1,892,001	-	3,087,558	-
Venezuela	1,047,010	-	2,050,991	-
Other countries	2,734,163	3,307,373	5,756,245	5,914,269
	9,315,971	15,140,834	22,502,751	24,257,877

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

4. Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Management tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit has been reduced below its carrying amount.

Factors considered important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the overall business, a downturn in the Canadian and international economies, significant negative industry or economic trends, a significant decline in the stock price for a sustained period and the Company's market capitalization relative to net book value.

The goodwill impairment test is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit may be based on one or more fair value measures including present value techniques of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. If the carrying amount of a reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. Should the carrying amount of the goodwill of the reporting unit exceed the implied fair value of that goodwill, an impairment loss equal to the excess will be recorded in net earnings (loss).

In light of the Company's current market capitalization and the recently announced balance sheet restructuring initiative (refer to note 16), the Company has performed an interim testing of the goodwill valuation. Such test considered the estimated impact of the balance sheet restructuring initiative, comprised of \$7,845,620 principal amount of indebtedness conversion into shares and committed amount under the share rights offering of \$4,840,000, and has estimated the anticipated fair value of the Company using a price of \$0.13 per share which represents the conversion price of the debenture (announced in June 2009 and closed on July 16, 2009).

Based on the preliminary estimates of step one of the process, the Company determined that the anticipated value of ProSep Inc. is below its expected carrying value and that impairment of goodwill was probable. Accordingly, an impairment charge of \$6.5 million was estimated and recorded in the quarter. This charge was allocated to the business units using their respective estimated value. Management has not yet performed step two due to time constraints, but will proceed in the future. This could result in potential further write down of goodwill.

5. Financial charges

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial charges				
Other financial liabilities				
Interest on long-term debt	378,053	422,112	849,368	795,966
Accretion on long-term debt	208,908	77,448	373,902	139,179
Interest charges	123,266	144,540	300,819	283,751
Sub-total	710,227	644,100	1,524,089	1,218,896
Held for trading				
Change in fair value of derivative financial instrument	-	(203,977)	-	36,021
Interest revenue on held for trading financial assets	(48,744)	(14,459)	(65,744)	(84,263)
Sub-total	(48,744)	(218,436)	(65,744)	(48,242)
Loss on foreign exchange	31,262	140,688	572,888	1,354,568
	692,745	566,352	2,031,233	2,525,222

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

6. Basic and diluted loss per share

Basic and diluted loss per share has been calculated using the weighted-average number of common shares outstanding during the period: 64,443,451 shares for the three-month and six-month periods ended June 30, 2009 (62,556,566 shares for the three-month and six-month periods ended June 30, 2008).

As a result of the loss for the three-month and the six-month periods ended June 30, 2009, 27,635,027 potentially dilutive warrants, 420,000 potentially dilutive options and 3,986,778 potentially dilutive restricted units have not been included in the calculation of diluted loss per share because the effect would have been anti-dilutive. For the three-month and the six-month periods ended June 30, 2008, 27,635,027 potentially dilutive warrants, 2,408,500 potentially dilutive options and 1,605,000 potentially dilutive restricted share units have not been included in the calculation for the same reason. The debenture and secured loans convertible feature have not been taken into consideration because they would have had the same effect (Note 11).

7. Restricted cash

	June 30, 2009	December 31, 2008
	\$	\$
Restricted cash short term	-	1,037,846
Restricted cash long term	-	3,158,986
	-	4,196,832

On October 25, 2007, \$1,037,846 was deposited following the acquisition of Pure Group AS. This amount has been released and most of it was remitted to the former owners of Pure Group AS. In November 2008, 18,000,000 NOK (\$3,362,393) was required under the credit facility with DnB NOR. During the three-month period ended June 30, 2009, the Company agreed to a new covenant structure for its credit facility with DnB NOR. Pursuant to this new structure, this amount has been released.

8. Receivables

	June 30, 2009	December 31, 2008
	\$	\$
Trade accounts receivable	5,188,059	4,889,791
Unbilled receivables *	11,795,971	14,528,661
Sales taxes and other	375,170	586,396
	17,359,200	20,004,848

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

9. Long-term Investment in Master Asset Vehicle II Notes and related credit facilities

At December 31, 2008, the Company held commercial paper ("ABCP") acquired on July 12, 2007, with a nominal value of \$9,000,000. During the month of August 2007, the ABCP market experienced liquidity problems. The maturity date of the ABCP held by the Company was August 14, 2007, and the amount due was not repaid.

The restructuring efforts of the Pan Canadian restructuring committee under the Companies' Creditors Arrangement Act led to a final restructuring, the closing of which occurred on January 21, 2009. As expected, the restructuring plan led to the replacement of the ABCP held by the Company by new floating rate notes that have maturities based on the maturities of the underlying assets. The key elements of the plan relevant to the Company are as follows:

- Creation of a new trust named "Master Asset Vehicle II" ("MAV 2"):
 - MAV 2 regroups the so-called 100% synthetic transactions, that is a combination of assets provided as collateral, credit default swaps and hybrid transactions, comprised of a combination of synthetic and traditional assets.
 - MAV 2 also includes the ineligible (subprime) assets originally associated with these transactions.
- Creation of five categories of notes for MAV 2 (A-1, A-2, B, C and IA).
- The IA notes are subdivided in multiple series of tracking notes that pass through to the holders the cash flows generated by the underlying assets.

According to the restructuring plan, the Company has received in January 2009 long-term floating rate MAV 2 notes (the "Notes") with the following nominal amounts:

	\$
Class A-1 Notes:	371,936
Class A-2 Notes:	4,291,318
Class B Notes:	778,993
Class C Notes:	168,316
Class IA, series 1 and 2 Notes:	3,365,062

The MAV 2 A-1, A-2, B and C Notes legally mature in 2056. However, the expected maturity date is in 2016. The Class A-1 and A-2 Notes have been originally rated A by DBRS. The Class B and C Notes have not been rated. The Class A-2 Notes have however been placed under review with negative implications by DBRS on April 24, 2009.

The Notes are considered as new financial instruments and have been designated as held for trading and are classified as long-term investments.

In addition to the Notes, the Company has received in January 2009 upon the restructuring an initial cash payment amounting to \$298,526 representing accrued interest on the ABCP for the period from August 2007 to August 2008, net of the estimated restructuring costs incurred by the Pan-Canadian restructuring committee. A cash payment of \$86,832 representing the accrued interest on the ABCP for the September 2008 to January 2009 has been received in May 2009.

The Notes held by the Company have not traded in an active market since the restructuring and as of June 30, 2009, there were no quotations from an active market available.

The fair value of the Notes as of June 30, 2009, was determined based on management's judgment using available information and assumptions market participants would use in pricing such Notes as at the balance sheet date. The Company reviewed information provided by the Pan-Canadian restructuring committee, DBRS and BlackRock, the administrator of MAV 2, including current and anticipated credit ratings, composition and valuation estimates of the underlying assets, the estimate of the extent of leverage in the transactions underlying the MAV 2 Notes and general economic conditions in considering the fair value of the investment.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

9. Long-term Investment in Master Asset Vehicle II Notes and related credit facilities (continued)

The Company estimated the fair value of the Notes using the discounted cash flow evaluation technique based on observable market assumptions to the extent possible. The main assumptions are comprised of the anticipated interest coupons, anticipated maturity of the Notes and an appropriate discount rate considering the underlying risks. The estimated discount rate was determined based on observable market assumptions for similar securities. For the Notes backed by ineligible assets, the fair value was established taking into consideration the terms of the final agreement with National Bank of Canada ("National Bank") as further described below. The Company used the following discount factors to evaluate the Notes:

Notes	Expected Yield	Market related Discount factors
Class A-1 and A-2	251 basis points*	Canada Bond rate plus 700 basis points
Class B	251 basis points*	Canada Bond rate plus 926 basis points
Class C	251 basis points*	Canada Bond rate plus 1426 basis points
Class IA	0 basis points	Canada Bond rate plus 154 basis points

* June 30, 2009 BA rate of 3.01% minus 50 basis points

The risk premiums added to the basic Canadian government bond rates reflect the liquidity, credit and other risks. Regarding the IA Notes, the nominal amount used in the yield and discount calculation was reduced by 25% to take into consideration the final agreement the National Bank of Canada the terms of which were accepted by the Company in April 2009 and were implemented in July 2009.

Credit facility related to IA Notes

This credit agreement provides for a \$2,523,797 revolving credit facility agreement representing an amount equal to 75% the nominal amount of such Notes. This credit facility is valid for a minimum of two years and bears interest at the prime rate less 1%. The agreement also grants to the Company the right to sell to National Bank the IA Notes at the end of two years. The proceeds from the sale has to be used to reduce the outstanding amount under the credit facility and any remaining balance under the credit facility is without recourse to the Company. Consequently, by virtue of this agreement, the Company will incur a maximum loss of 25% on the nominal amount on the IA Notes.

Credit facility related to Eligible Notes

This credit agreement provides for a \$4,656,767 revolving credit facility representing an amount equal to 83% of the total nominal amount of the MAV II Class A-1, A-2, B and C Notes (collectively the "Eligible Notes"). These credit facilities are valid for a minimum term of 3 years and also bear interest at the prime rate less 1%. The agreement provides for borrowings to be made under two tranches: a first tranche representing 45% of the nominal amount of the Eligible Notes and a second tranche representing 38% of the nominal amount of the Eligible Notes. It also grants the Company the right to sell to National Bank the Eligible Notes at the end of 3 years. The proceeds from the sale of the Eligible Notes has to be used to settle the first tranche and then the second tranche of the credit facility. Any remaining balance under the first tranche of the credit facility is without recourse to the Company. Consequently, by virtue of this agreement, the Company will incur a maximum loss of 55% of the nominal amount on the Eligible Notes.

The Company has granted a first ranking hypothecation to National Bank on the Notes. These two credit agreements will provide the Company with \$7,180,564 in long term financing facilities in replacement of the previous term loan that was secured with the ABCP and maturing on April 30, 2009. As mentioned above, except for the second tranche of the Eligible Notes facility, the bank's recourse with respect to these new credit facilities will be limited to the Notes.

Estimation of fair value

Based on its assessment of fair values, the Company did not recognize any change in fair value during the three and six month periods ended June 30, 2009 (\$450,000 for the six-month period ended June 30, 2008) for a cumulative impairment charge of \$3,469,000 since the acquisition of the original ABCP, representing a cumulative impairment of 38.5% of the original cost.

The above estimated fair values may not be indicative of the ultimate net realizable value or the future fair value. Because of the uncertainty in the market, numerous reasonable assumptions exist. While management believes that its valuation technique is appropriate under the circumstances, changes in significant assumptions, especially those relating to returns, credit risk and liquidity risk could significantly affect the value ascribed to the Notes in the next quarters. Following the analysis, the Company identified that the discount rate related to Classes A-1 and A-2 of MAV 2, generate the vast majority of the volatility in the valuation model of the ABCP's fair value. For example, a 50 basis point increase in the discount rate for A-1 and A-2 notes results in a \$88,500 decrease on the investments' value.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

10. Bank credit facilities

The company has a bank credit facility with DnB NOR which consists of a senior overdraft facility of 30,000,000 NOK (\$5,414,967 at June 30, 2009) and a guarantee facility of 15,000,000 NOK (\$2,707,483 at June 30, 2009) to be used to provide customer guarantees against advances received under sales contracts. The bank credit facility outstanding is \$2,920,167 at June 30, 2009 (\$4,396,044 at December 31, 2008). The interest rate of 5.86% is the three month Norwegian Interbank Offered Rate (NIBOR) of 2.86%, plus 3% per annum.

The letters of guarantee outstanding amount to \$2,270,973 at June 30, 2009 (\$2,123,508 at December 31, 2008). There is no letter of credit outstanding at June 30, 2009 or at December 31, 2008.

11. Long-term debt and Interest payable

	June 30, 2009		December 31, 2008	
	Loan \$	Interest payable \$	Loan \$	Interest payable \$
Secured convertible loans due by ProSep Inc. in the aggregate principal amount of \$1.5 million, convertible into common shares, bearing interest at 12% per annum compounded and maturing on October 29, 2009. (Note 16)	1,226,207	775,984	979,540	649,540
Unsecured debenture due by ProSep Inc. in the principal amount of \$4 millions USD (\$5,036,000 as at June 30, 2009), bearing interest at 13.25% per annum, payable monthly. The principal amount and interest are payable in 48 equal monthly instalments of \$107,807 USD (\$135,863 as at June 30, 2009) starting on July 1, 2009 and expiring on June 1, 2013. * (Note 16)	4,650,000	50,928	4,898,400	55,208
Credit facility with DnB NOR due by Torr Acquisition Norway AS, a wholly owned subsidiary of ProSep Inc. The interest rate of 5.86% is the three month Norwegian Interbank Offered Rate (NIBOR) +3.00% and the principal amount is payable in 10 equal instalments of 4 500 000 NOK (\$840,603 as of June 30, 2009) every 6 months. Expiration date is October 25, 2012.	5,685,715	55,683	6,318,006	98,447
Convertible unsecured subordinated debenture due by ProSep Inc. in the principal amount of \$5.1 million, bearing interest at 13% payable monthly and maturing on April 30, 2013. (Note 16)	3,235,399	110,284	3,108,165	110,283
Revolving credit facilities with National Bank of Canada bearing interest at prime rate (2.25% at June 30, 2009) minus 1% payable monthly (Note 9).	7,180,564	-	-	-
Obligations under capital leases	149,218	-	105,488	-
	22,127,103	992,879	15,409,599	913,478
Current portion of long term debt and interest payable	(3,849,342)	(992,879)	(3,322,106)	(913,478)
Long-term debt and interest payable	18,277,761	-	12,087,493	-

* Following an agreement obtained during the period, the Company can delay its first principal payment scheduled for April 1 to July 1, 2009.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and six-month periods ended June 30, 2009 and 2008

12. Pension Obligation

For the three-month period ended June 30, 2009, an amount of \$36,243 has been recorded in the statement of loss to account for the increase in the pension obligation (\$12,400 for the three months ended June 30, 2008). For the six-month period ended June 30, 2009, an amount of \$90,624 has been recorded in the statement of loss to account for the increase in the pension obligation (\$21,616 for the six-month period ended June 30, 2008).

13. Capital management

The Company's business is not capital intensive, but is working capital intensive. During the past years, the Company has accumulated a large deficit. The objective of the Company is to achieve and maintain positive earnings and cash flow from operating activities as soon as possible and to maintain sufficient credit facilities to support growth.

The Company defines capital as being equity plus debt, plus bank indebtedness, less cash and cash equivalents.

	June 30, 2009	December 31, 2008
	\$	\$
Shareholders' equity	10,561,248	19,530,902
Bank credit facilities	2,920,167	11,596,044
Long term debt, including current portion	22,127,103	15,409,599
	35,608,518	46,536,545
Less cash and cash equivalents	5,435,714	7,615,119
Capital	30,172,804	38,921,426

14. Contingent liabilities

In addition to the letters of guarantee disclosed in Note 10, the Company has an amount of \$1,785,762 of letters of guarantee with Export Development Canada.

15. Comparative figures

Comparative figures for the consolidated financial statements for the three-month and six-month periods ended June 30, 2008, and as at December 31, 2008 have been reclassified to conform with the June 30, 2009 presentation. The Company has allocated the goodwill and the other intangibles by business units and those values are shown as part of the total assets of each business unit.

16. Subsequent events

On July 14, 2009, ProSep Inc. announced the filing of a final prospectus with securities regulators to raise a maximum of \$10,000,000 by way of a rights issue to shareholders, and on July 16, 2009, the Company announced the conclusion of the transaction to convert \$7,845,620 principal amount of indebtedness into common shares and remaining indebtedness was converted into a new debenture. A group of debenture holders have agreed to commit a minimum investment of \$4,840,000 to the Rights Issue. In view of ProSep's serious financial situation, on June 17, 2009, the TSX granted the Company an exemption from a formal valuation and minority shareholder approval under the "financial hardship exemption".

The closing of this transaction is expected in August 2009. The Company expects to record a loss on debt extinguishment during the third quarter, following the closing of this transaction.