



Annual Information Form

March 11, 2009

TABLE OF CONTENTS

Date of Annual Information Form	4
Information Incorporated by Reference	4
General Disclosure Matters	4
Forward-Looking Information	4
1. Corporate Structure	4
2. General Development of the Business	6
2.1. Vision and Mission	6
2.2. Business Overview	6
2.3. Corporate Model and Sales Network	7
2.3.1. Europe and Middle-East Business Unit	7
2.3.2. American Business Unit	7
2.3.3. South-East Asia Business Unit	8
2.3.4. Global Network of Agents	8
2.4. Global short and medium term objectives and strategy	8
2.5. History	9
3. Description of the Business	14
3.1. Market Segments and Product Penetration	14
3.2. Product and Services Overview	15
3.3. Mix of Conventional and Proprietary Product Offering	16
3.4. Gas Treatment Products	16
3.5. Oil Treatment Products	18
3.6. Produced Water Products	19
3.7. Services	21
3.8. Product Development	22
4. Market Overview	22
4.1. O&G Upstream Market Overview	22
4.2. Investments in O&G	24
4.3. Upstream Oil Treatment Overview	25
4.3.1. O&G Upstream Gas Treatment Overview	25
4.3.2. O&G Produced Water Treatment Overview	26
5. Competition	27
6. Other business considerations	28
6.1. Intellectual Property	28
6.2. Environmental Policy	28
6.3. Completed Reorganization	28
7. Risk Factors	29

8.	Dividends	37
9.	Description of Capital Structure.....	37
9.1.	Common Shares	37
9.2.	Options	38
9.3.	Restricted Share Units.....	38
9.4.	Warrants.....	38
9.5.	Constraints.....	38
10.	Market for Securities.....	39
10.1.	Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer	39
11.	Directors and Executives	39
11.1.	Directors.....	40
11.2.	Executives	41
12.	Interests of Management and Others in Material Transactions	42
13.	Transfer Agent and Registrar	42
14.	Material Contracts	42
15.	Legal Proceedings	42
16.	Interest of Experts.....	42
17.	Audit Committee	42
18.	Audit Committee Pre-approval Policy	44
19.	Additional Information	44
	SCHEDULE "A"	45

ProSep Inc.

ANNUAL INFORMATION FORM

DATE OF ANNUAL INFORMATION FORM

This Annual Information Form is dated as at March 11, 2009. Except as otherwise indicated, the information contained in this Annual Information Form is stated from December 31, 2007 to December 31, 2008.

INFORMATION INCORPORATED BY REFERENCE

Some of the information contained in this Annual Information Form ("AIF") may be found in other documents filed by ProSep Inc. with Canadian securities regulators, which ProSep Inc. makes available via SEDAR and which can be accessed at www.sedar.com. See also the section in this AIF entitled "Additional Information".

GENERAL DISCLOSURE MATTERS

Unless otherwise noted or the context otherwise indicates, "ProSep", the "Company", the "Corporation", "we", "us" and "our" refers to ProSep Inc. and its subsidiaries. Unless otherwise noted, all dollar amounts in this AIF are expressed in Canadian dollars. References to "\$" are to Canadian dollars and references to US\$ are to U.S. dollars. "CTOUR", "PROPURE", "Pro Pure", "TORR" and "RPA" are registered (or pending) trademarks owned and used by ProSep. All other trademarks used in this AIF are the property of their respective owners.

FORWARD-LOOKING INFORMATION

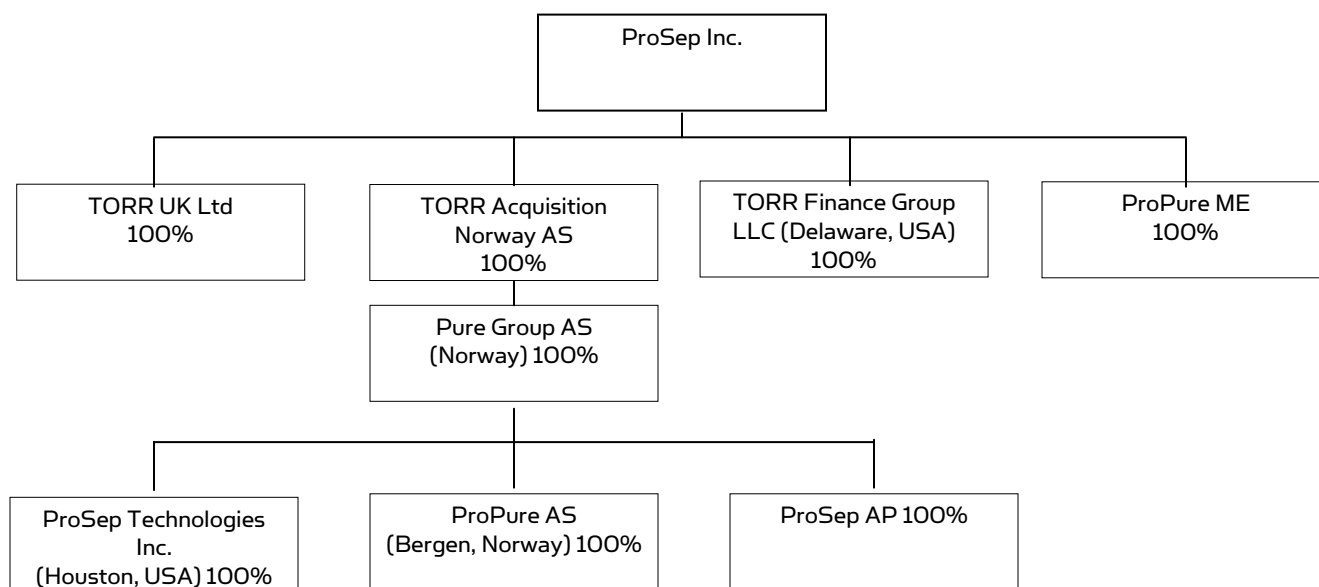
Certain statements made or incorporated by reference in this AIF may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors (including, but not limited to, the factors discussed under "Risk Factors") which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Although the forward-looking statements contained in this AIF are based upon what the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements reflect current expectations regarding future events and speak only as of the date of this AIF, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

1. CORPORATE STRUCTURE

ProSep Inc. was incorporated under the *Company Act* (British Columbia) on October 6, 1986 under the name of Stacia Ventures Inc. We were duly continued under the *Canada Business Corporations Act* on March 25, 1993. Effective November 9, 1995, we changed our name to Environmental Applied Research Technology House – EARTH (Canada) Corporation. On November 4, 2005, our articles were further amended to change our name to TORR Canada Inc. We received Shareholder approval on April 29, 2008 at a Special and General Annual Meeting to change the name of TORR Canada Inc. to ProSep Inc., to further build on the successful acquisition of TORR Acquisition Norway AS, Pure Group AS, ProPure AS, ProSep Technologies Inc. and Pure Group Asia Pacific Sdn Bhd, and to better reflect Company's broader offering and important role played by one of the leading subsidiaries, ProSep Technologies Inc, that has developed a good reputation in the Upstream Oil and Gas Processed Equipment market.

Our head and registered office is located at 1155 Wellington, Montreal, Québec, H3C 1V9.

In order to achieve an optimal corporate and capital structure, ProSep established the following legal corporate structure. Efforts are ongoing to achieve the most efficient fiscal structure to better reflect our international operations.



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 has limited operations only related to represent the Group's products in the UK market. In light of its diminished use, the Company has commenced liquidation procedures as of October 2008.

TORR Finance Group LLC

TORR Finance Group LLC, 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.

ProPure ME

ProPure ME is a limited liability company incorporated on November 2, 2008 pursuant to the Commercial Companies Law of Bahrain. Its head office is located in Manama, in the Kingdom of Bahrain. The company represents foreign commercial companies and acts as management and business administration consultants.

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. and Pure Group Asia Pacific ("Pure Group AP"). 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 Technologies 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 Technologies is comprised of industry-recognized experts in their field, including executive management, process technology, engineering, design, fabrication and project management. ProSep Technology's employees have earned their reputation through extensive experience in providing internals, process vessels, skid-mounted packages and complete process systems.

Selected ProSep Technologies 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 Sdn Bhd

Kuala Lumpur-based ProSep AP was originally founded by Pure Group under the name of Pure Group Asia Pacific Sdn Bhd 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.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1. Vision and Mission

ProSep's vision is:

Together creating pure oil, gas, and water

ProSep's mission is to:

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

2.2. Business Overview

ProSep designs, develops, manufactures, and commercializes process solutions to treat and purify oil, gas, and water for the O&G upstream industry. ProSep has a wide range of conventional and proprietary process equipment sold in units or in packages to O&G producers and engineering procurement and construction firms ("EPC") with or without process warranties.

Global Business Model:

ProSep is a solutions provider supplying traditional and proprietary process equipment packages with process warranty.

ProSep provides:

- In-house engineering from process to details; and
- Direct and hands-on involvement with project management to include fabrication, assembly commissioning and services

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

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

2.3. Corporate Model and Sales Network

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



2.3.1. Europe and Middle-East Business Unit

ProSep's operation in Bergen (Norway) is the center of excellence for a majority of the Company's proprietary products. It is home to the ProMix product portfolio that utilizes a patented injection mixer and in-line multiphase mixer process that optimizes liquid (oil or water) and gas separation. The CTour, a proprietary produced water treatment system that has gained considerable market share in the North Sea was developed in this region. During 2008, all knowledge relating to the TORR™ and RPA® system was transferred to this region and is now the center of excellence for this innovative process solution. Norway is also the Company's center of excellence for research and development activities through the Fusa offices. This business unit is ProSep's gateway to Europe and the Middle-East, where the entire line of conventional and proprietary solutions is offered. In 2008, an office was opened in Manama (Bahrain) as the Company was increasing its sales and commissioning activities in the Middle East.

2.3.2. American Business Unit

ProSep's Houston (Texas) based operation is the center of excellence for the Company's more conventional process equipment where both conventional and proprietary products are commercialised. Historically, this business unit was specialized in the supply of gas sweetening membranes, primary separation, heavy crude oil treatment systems and recently added a complete line of conventional produced water treatment systems. A 26,000 square feet manufacturing and assembly facility provides internals, process vessels, skid-mounted

packages and complete process systems. To support increased activities, plans are underway to relocate the manufacturing and assembly activities to a new facility that will allow the Company to double its production capacity. The Company's proprietary technology is also offered to the Americas through this business unit.

2.3.3. South-East Asia Business Unit

ProSep's Kuala Lumpur (Malaysia) based operation offers the Company's full line of conventional and proprietary products to the East Asian market. 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.

2.3.4. Global Network of Agents

ProSep has also built a global 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 remunerated on a success fee basis. Currently, agents cover several regions such as south America, Middle-East and South-East Asia.

2.4. Global short and medium term objectives and strategy

Since concluding the acquisition of Pure Group in October 2007, ProSep has revised its strategic plan, management and directors have set new global objectives and a successful reorganisation of the Company's structure and activities was accomplished. The year 2008 has seen strong growth, positive financial performance and increased market recognition. To continue to build on this momentum, management has set forth the following objectives to address current priorities.

Focus on working capital management:

- ProSep operates in an environment where business is driven by a long sales cycle that can take 6 to 18 months and a delivery cycle that can last up to 14 months. The ability to efficiently manage working capital is a key success factor. Management will look to optimize the Company's balance sheet and provide sufficient working capital to fund growth.

Focus on execution:

- ProSep operates in a highly competitive environment. The ability to continue to successfully manage projects (from quotation to commissioning) and attract/allocate resources accordingly is key to supporting growth. Continuing to be client focused, working to attract and retain the best possible candidates and solidify relationships with best-in-class suppliers are priorities to increase the Company's level of operational excellence.

Continue to deliver profitability:

- ProSep reported its best financial results of its operating history in 2008. Management will continue to focus on delivering profitability and positive cash flow from operations. This will increasingly provide ProSep with adequate resources to bid and deliver on an increased number of projects. Maintaining the current streamlined cost structure will allow ProSep to increase shareholder value.

Optimizing operations and marketing:

- ProSep's various business units each represent a center of excellence for specific product lines. Promoting transfer of knowledge and product expertise throughout the organization will increase synergies and reinforce the Company's global reach.
- ProSep's product offering is diversified and complementary. Continuing to develop conventional and proprietary products will favourably position ProSep in a highly competitive environment and increase repeat customer base. ProSep recently completed its conventional produced water treatment offering and management expects to capitalize on this growing segment of the industry.
- ProSep's brand is still young but is gaining market recognition. By implementing a global common branding strategy, the Company will strengthen industry recognition.

2.5. History

2008-2009

In this section, all material events and commitments for the period between January 1st 2008 and March 11th 2009 are presented.

On March 5, 2009 ProSep announced it was awarded a contract valued at \$2.1 million (US) to supply Whiting Petroleum with an additional membrane unit to increase their gas treatment capacity at their Wickett CO₂ Removal Facility located in West Texas.

On March 2, 2009 ProSep announced it was awarded a contract valued at \$2.0 million (US) to supply PETRONAS with a fuel gas treatment system package to be installed at the Tangga Barat Central Processing Platform offshore Peninsular Malaysia.

On February 23, 2009 ProSep launched a new line of conventional produced water treatment solutions. A comprehensive line of conventional and proprietary solutions are now offered to treat produced water at all three phases of separation, treatment and polishing for both onshore and offshore operations.

On February 12, 2009 ProSep announced it was awarded a contract valued at \$1.2 million (US) to supply BP Alaska with a multiphase separator complete with internals to be installed at BP Alaska Liberty Project. ProSep was also awarded a contract valued at \$0.3 million (US) to supply Saudi Aramco with a ProMix test unit to be installed at South Ghawar, the world's largest oil field.

On January 12, 2009 ProSep announced it was awarded a contract valued at \$3.7 million (US) by a major engineering, procurement and construction firm to supply fuel and seal gas packages that will be used on an unnamed offshore project in Asia.

On December 18, 2008 ProSep announced it was awarded two contracts, the first valued at \$0.57 million (US) to provide a nitrogen generation package to Encana Corporation and the second, valued at \$0.6 million (US) to provide Hunt Refining with packaging, instrumentation and a control system.

On November 17, 2008 ProSep announced it was awarded a contract valued at \$1.2 million (US) to provide a single-stage desalter to Hunt Refining, a petroleum refining and marketing company located in Tuscaloosa, Alabama. This agreement marks the Company's entry in the downstream oil and gas market.

On November 11, 2008 ProSep announced the amendment of the terms of the \$4 million unsecured debenture held by Fondaction originally issued on October 26, 2007. The principal amount was changed to \$4 million (US) and the interest rate reset from 13% to 13.25%. This amendment provided the company with an additional \$750,000 in liquidity to support sales growth and increasing backlog.

On October 20, 2008 ProSep announced it was awarded a contract valued at \$2.32 million (US) to provide PDVSA (Venezuela's state-owned energy company) with separation equipment that will treat approximately 20 million cubic feet of gas per day at the energy company's expansion project in Morichal, Venezuela.

On October 16, 2008 ProSep announced it was awarded a contract valued at \$1.7 million (US) to provide Petronas Carigali with a fuel gas conditioning skid and a seal gas conditioning skid to be used at the operator's compressed gas capacity enhancement project located off the shores of the Malaysian peninsula in the South China Sea.

On September 25, 2008 ProSep announced it had received a Deloitte Technology Green 15 Award in recognition of its suite of technology solutions that deliver improved efficiencies and reduce costs to upstream O&G production activities while addressing environmental concerns.

On September 10, 2008 ProSep announced it was awarded a contract valued at \$1.1 million (US) by PEMEX,

Mexico's state-owned O&G company, to provide its ProSalt Mixer system, a proprietary process that ensures removal of corrosive salt content from process equipment while facilitating separation of water and crude oil.

On August 6, 2008 ProSep announced it was awarded new contracts totalling \$2 million to provide process equipment and services to various O&G upstream production activities.

On July 31, 2008 ProSep announced the appointment of Mr. Patrice Daignault as Chief Financial Officer and Corporate Secretary. Mr. Daignault is a chartered accountant with more than 15 years of accounting, finance and risk management experience. Most recently, Mr. Daignault was Director of Risk and Treasury with St-Lawrence Cement Group Inc.

On July 23, 2008 ProSep announced the appointment of Mr. David Laidley, a retired partner and Chairman Emeritus of Deloitte & Touche (Canada), to the Company's board of directors. Mr. Laidley has more than 40 years of experience, providing taxation, financial and strategic counsel to leading organizations in a number of industries. Mr. Laidley is also a member of the board of directors of Bank of Canada, Biovail Inc., EMCOR Group Inc. Inc., Groupe Aeroplan Inc. and Nautilus Indemnity Holdings Ltd., where he serves as chairman.

On July 9, 2008 ProSep announced it was awarded a contract valued at \$3.3 million to provide a glycol regeneration package to be used by Petronas for its Gumusut-Kapap deep-water project.

On July 7, 2008 ProSep announced it was awarded a contract valued at \$4.83 million (US) to provide BP Exploration with specialized equipment that will separate gas from produced reservoir fluids in its gas project in Prudhoe Bay, Alaska.

On May 23, 2008 ProSep announced that the Company's common shares and common share purchase warrants began trading under the new stock symbols "PRP" and "PRP.WT" respectively, effective at the start of trading on May 23, 2008 on the Toronto Stock Exchange. The Company's new CUSIP numbers are "74347v 10 8" for the common shares, and "74347v 11 6" for the common share purchase warrants.

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

On April 28, 2008 ProSep announced it was awarded two contracts to supply gas membrane separation units for a total value of approximately \$13 million (US). A single stage gas membrane separation unit will be provided for Occidental of Elk Hills' Gas Quality Project. A second contract, for a single skid, 2-stage gas membrane separation unit was concluded and will be installed at Hudson's Hope Gas's Peace River Project in British Columbia.

On April 24, 2008 ProSep announced the completion of a private placement consisting of convertible unsecured subordinated debentures and common share purchase warrants (exercisable at \$0.30) for gross proceeds of \$5,090,000. ProSep also agreed to reduce the exercise price of share purchase warrants issued on October 26, 2007 to Fondaction from \$1.65 to \$0.55 per common share.

On April 21, 2008 ProSep announced it was awarded a contract valued at approximately \$11 million (US) by Al-Rashed Company, to supply a complete crude oil processing train for separation, dehydration, and desalting to Kuwait Oil Company's Ratqa and Abdali Early Production Facility in northern Kuwait.

On April 8, 2008 ProSep announced it was awarded a contract valued at \$1.44 million (US) to supply BP Exploration (Alaska) with first stage discharge and second stage suction scrubber equipment to be installed at BP's WRDx Gas Partial Processing Project in Prudhoe Bay.

On January 28, 2008 ProSep announced it was awarded a contract valued at \$0.85 million (US) to provide engineering and design services to BP Exploration (Alaska).

On January 23, 2008 ProSep announced the appointment of Mr. Petter Hovland, P. Eng. as President of

ProPure AS and General Manager for the European and Middle-Eastern markets. 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.

2007

On December 19, 2007 ProSep announced the results of its Annual and Special Meeting. At the meeting, all matters put before the shareholders were approved, including the appointment of Raymond Chabot Grant Thornton as auditors of PROSEP and the proposed Restricted Share Unit Plan. For further details, please see the management proxy circular available on www.sedar.com.

On December 3, 2007, ProSep announced that its American division, ProSep Technologies has been awarded a US\$12.9 million contract to supply gas treating equipment packages to Pan American Energy LLC – Sucursal Argentina (“Pan American”) for its Valle Hermoso gas production site located in the Comodoro Region in southern Argentina.

On November 19, 2007, ProSep announced that it was awarded a contract valued at \$1.1 million to supply Fabrikom, a Suez Group Company, with a CTour Produced Water Treatment process solution which will be installed on Statoil’s Snorre Redevelopment Project on the Norwegian Continental Shelf. ProSep was also awarded a contract valued at approximately \$500,000 to supply BOG CONS Ltd., a small international Oil and Gas producer with a gas membrane system to be installed in Turkey.

On November 5, 2007, ProSep announced that Jacques L. Drouin, previously Senior Vice-President and Chief Financial Officer, was appointed President, Chief Executive Officer and Director of the Company effective immediately. Mr. Drouin replaced Alain Ferland, PROSEP’s President and CEO since early 2003. Mr. Ferland resigned as an Officer and Director of the Company and assisted Mr. Drouin until December 31, 2007 to ensure a seamless transition.

On October 30, 2007, ProSep provided an update following its acquisition of Pure Group AS. Two of the recently acquired business units concluded the sale of three oil and gas treatment systems for total considerations of approximately US \$2 million.

On October 29, 2007, ProSep announced it obtained a \$4 million unsecured, subordinated debenture from FondAction. The proceeds will be used for working capital and general corporate purposes. The debenture bears an interest of 13% per annum, payable monthly. ProSep has also issued along with the debenture 2,424,242 warrants to purchase Shares of ProSep at a price of \$1.65 per Share for a period of five years. On November 11, 2008 ProSep and FondAction amended the terms of this debenture.

On October 25, 2007, ProSep 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 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 TORR, as well as a repayment of preferred shares in the acquired company which was financed through a new credit facility of \$8,127,136 (45,000,000NOK). In order to finance the repurchase of the preferred shares of Pure Group as well as the current working capital requirements of the subsidiaries of Pure Group, ProSep secured a new credit facility with DnB Nor, Norway’s largest financial services group. The new credit facility consists of (i) a five-year senior acquisition facility in an amount of 45,000,000NOK (approximately \$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 (approximately \$5,418,000) and (iii) a guarantee facility of 15,000,000NOK (\$2,709,000).

Further to the disruption in the market for asset-backed security investments in Canada, ProSep provided information in the same press release issued on October 25, 2007 on its ABCP holdings and announced it had approximately \$9 million of its liquidities invested in non-extensible asset-backed commercial paper which had not been repaid at maturity and currently remains outstanding. In order to prevent any liquidity concerns, ProSep entered into a new \$7.2 million credit facility with National Bank of Canada, with the asset-backed commercial paper being provided as security (Refer to Section 7.2 for details).

On August 7, 2007, ProSep announced that Fonds de solidarité des travailleurs du Québec 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. The principal amount was converted at a price of \$0.65 per common share, for a total of 769,231 common shares issued by the Company. The aggregate amount of the accrued and unpaid interest was converted at a price of \$0.5672 per common share, for a total of 317,691 common shares to be issued by the Company.

On July 30, 2007, ProSep announced it had entered into an agreement with HitecVision Private Equity III AS and Statoil Innovation AS to acquire all the shares of Norwegian-based Pure Group AS, a provider of leading technologies for oil, gas and water purification. The purchase price of approximately \$43.8 million, subject to closing adjustments, would be paid \$11 million in cash, \$25.5 million through the issuance (subject to shareholder approval) of 15.4 million common shares of PROSEP, priced at \$1.65 per share, and \$7.3 million through the refinancing of an existing loan. An additional 1 million shares would be issued to Hitec and Statoil if revenues from certain of Pure Group's products in the financial year ending June 30, 2009 meet a certain threshold set forth in the Purchase Agreement.

On July 18, 2007, ProSep announced it had received an additional payment for the remaining options relating to training, supervision and start-up of the units sold in March 2006 to SK Engineering & Construction ("SKEC").

On January 23, 2007, ProSep announced the appointment of Paul M. Coppinger to its Board of Directors. Mr. Coppinger has extensive experience in the oil and gas service sector for two of the world's biggest Tier 1 Oil Field Services companies, as Vice President Sales and Marketing of EIMCO, formerly part of Baker Hughes's water-related process equipment division, and as Vice President and General Manager of Highland Artificial Lift Systems, a division of Energy Ventures Inc., now part of Weatherford. He holds a Bachelor of Science in Petroleum Engineering from Texas Tech University and was at the time Group Vice President in charge of the Energy Products Segment at CIRCOR International Inc., responsible for developing tailor-made solutions for customer-specific fluid control issues for the oil and gas industry.

2006

On December 13, 2006, ProSep announced the appointment of Richard Elliott Lint to its Board of Directors. Mr. Lint has extensive experience as a senior executive and director at several of Canada's largest investment banks, including Scotia Capital where he was Deputy Chairman and Head of Oil, Gas & Pipeline Group. At Citibank Canada, Mr. Lint was Chairman and CEO and repositioned the bank's Global Finance team. He has also held senior positions at Nesbitt Thomson, RBC Dominion Securities, and McKinsey & Co. Mr. Lint is a Consultant for Mercer Human Resource Consulting, where he counsels corporations in the financial and oil and gas industries on compensation and strategic planning. He also serves on the boards of several public companies.

On October 26, 2006, ProSep announced the grant of 905,000 stock options to members of its Board of Directors, senior management, as well as key employees. The stock options vest in four equal tranches over the next three years, and provide the right to purchase of one common share of ProSep per option. The options can be exercised at a price of \$0.85 per share..

On September 14, 2006, ProSep's common shares and warrants, which up until then were traded on the TSX Venture Exchange, commenced trading on the TSX under the same symbols: TOR and TOR.WT.

On June 15, 2006, ProSep announced it had secured a new US\$5,000,000 demand loan facility with National Bank of Canada ("NBC"), used to finance up to 90% of pre-shipment direct costs associated with the export contract with SKEC announced on March 27, 2006, with certain guarantees being granted by Export Development Canada ("EDC"). This new credit facility was to complement existing commercialization facilities granted by NBC, consisting of: (i) a \$1,000,000 demand loan under the pre-shipment program from EDC to finance exports; (ii) a \$500,000 export operating line of credit under the Master Account Renewable

Guarantee (MARG) program from EDC; (iii) a \$1,650,000 currency conversion risk facility; and (iv) a \$10,000,000 letter of guarantee or letter of credit facility.

On June 1, 2006, ProSep announced it successfully completed an offering of 12,200,000 common shares of the Company 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, were to be used: (i) to expand our 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 our RPA[®] manufacturing plant, build new TORR[™] demonstration units and update our information systems; (iii) to continue the 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 April 19, 2006, ProSep announced that Lothian Partners 27 (sarl) SICAR, which acquired on December 9, 2004 the portfolio of investments of Société Innovatech du Grand Montréal ("Innovatech"), which held a convertible term loan granted to ProSep in the context of the \$3 million private placement completed on November 2, 2004, exercised its right to convert the aggregate \$1,000,000 principal amount of such loan, and the accrued and unpaid interest on such loan, of an aggregate amount of \$180,387.95, into common shares of the Company. The principal amount was converted at a price of \$0.65 per common share, for a total of 1,538,462 common shares. The aggregate amount of accrued and unpaid interest was converted at a price of \$0.879 per common share, representing the average closing price of the common shares on the TSX Venture Exchange for the twenty trading days preceding the date of exercise (April 13, 2006) of the conversion right by Lothian Partners 27 (sarl) SICAR, for a total of 205,220 common shares.

On March 27, 2006, ProSep announced it was awarded a contract valued at US\$20.9 million by SKEC, one of the world's leading engineering, procurement and construction firms for the supply of seven TORR[™] systems to Kuwait Oil Company ("KOC"). The contract included a vessel, pumps, solid liquid cyclones, piping, frames and instruments to treat 260,000 BPD of produced water, to upgrade and relocate underground process piping at ten gathering centers and a booster station.

On February 9, 2006, ProSep announced it was awarded a contract to supply a 5,000 BPD TORR[™] system to be used by a leading "super major" oil and gas producer to provide well clean-up facilities on an offshore facility in West Africa. The deal was brokered by Expro International Group PLC ("Expro Group"), the Company's licensing partner.

2005

On November 23, 2005, ProSep announced that the TSX Venture Exchange approved the name change of the Company from Earth Canada Inc. to TORR Canada Inc., the adoption of "TOR" as the new stock symbol and the consolidation of the common shares on the basis of one new common share for every five common shares previously issued and outstanding. The TSX Venture Exchange also approved the listing for trading of the warrants which were issued in the context of the \$8.5 million private placement which closed on June 23, 2005. All listed warrants are exercisable into one common shares at a price of \$0.65 per common share (post-consolidation) until November 2, 2009. Trading of the consolidated shares and warrants of the Company, under the new name and stock symbol, began on Thursday, November 24, 2005.

On September 12, 2005, ProSep announced it was awarded a contract to supply a TORR[™] system to Wood Group ESP, Inc., a large engineering, procurement and construction firm, that provides a range of offshore services to Amerada Hess Corporation, a major oil and gas producer and operator. The sale of the TORR[™] system was accompanied by a five-year RPA[®] cartridge supply contract, for a total purchase price of \$4.4 million. The TORR[™] system was installed on the Amerada Hess Corporation-operated Triton floating, production, storage and offloading vessel located in the North Sea, for the polishing treatment of produced water, as part of its overall environmental management and regulatory compliance strategy.

On June 23, 2005, ProSep announced the successful completion of a private placement of 17,000,000 units of the Company at a purchase price of \$0.50 per unit (post-consolidation) for gross proceeds of

\$8,500,000, with each unit consisting of one common share and one share purchase warrant and with each common share purchase warrant being exercisable for one common share at a price of \$0.65 per common share (post-consolidation) until November 2, 2009. Quest Securities Company and Paradigm Capital Inc. acted as agents for the Company and received a cash commission, as well as broker warrants exercisable for units equal to 10% of the units issued under the private placement exercisable until December 23, 2006. The net proceeds of the private placement were used for the ongoing commercialization of proprietary RPA[®] and TORR[™] products and for general working capital purposes.

On June 15, 2005, ProSep announced a formal partnership with USFilter Zimpro Products ("USFilter"), a division of Siemens Corporation, pursuant to which the Company's products were to be added to US Filter's range of solutions. USFilter is a world leader in providing solutions for water treatment in many industries, including the oil and gas industry.

On May 10, 2005, Tecsol S.C.R.L. ("Tecsol"), an affiliate of Rosetti Marino Group, a ProSep licensee that provides professional engineering and management services, projects and products in the field of environmental technology and industrial safety, sold its first TORR[™] unit to ENI SpA, a major oil and gas company also active in the petrochemical, engineering, construction and electricity generation sectors, for installation on an offshore gas platform in the Adriatic Sea.

On March 21, 2005, ProSep entered into a two-year, renewable, non-exclusive, worldwide (except Canada and the United States) licensing agreement with Weatherford Artificial Lift Systems Inc. ("Weatherford") to manufacture and commercialize the TORR[™] systems. The RPA[®] cartridges used for purposes of these TORR[™] systems will continue to be manufactured and sold by ProSep. Weatherford's products and services span the drilling, completion and production cycles of oil and natural gas across more than 100 countries through its worldwide infrastructure.

On January 31, 2005, ProSep announced a share-for-debt transaction pursuant to which the Company paid to Plastiques GYF Ltée an amount of \$20,000 and issued 246,154 common shares at an issue price of \$0.65 per common share (post-consolidation). This cash payment and issuance of common shares represented final payment pursuant to an asset purchase agreement dated July 18, 2002 which allowed for the acquisition by the Company from Plastiques GYF Ltée of an oil absorbent product named GYFSORB (an important component of RPA[®]) and related intellectual property rights.

2004

On December 23, 2004, ProSep announced that it had been granted a secured commercialization banking facility of an aggregate principal amount of \$2,025,000 by NBC.

On December 3, 2004, ProSep announced the execution of a manufacturing and licensing agreement with Tecsol.

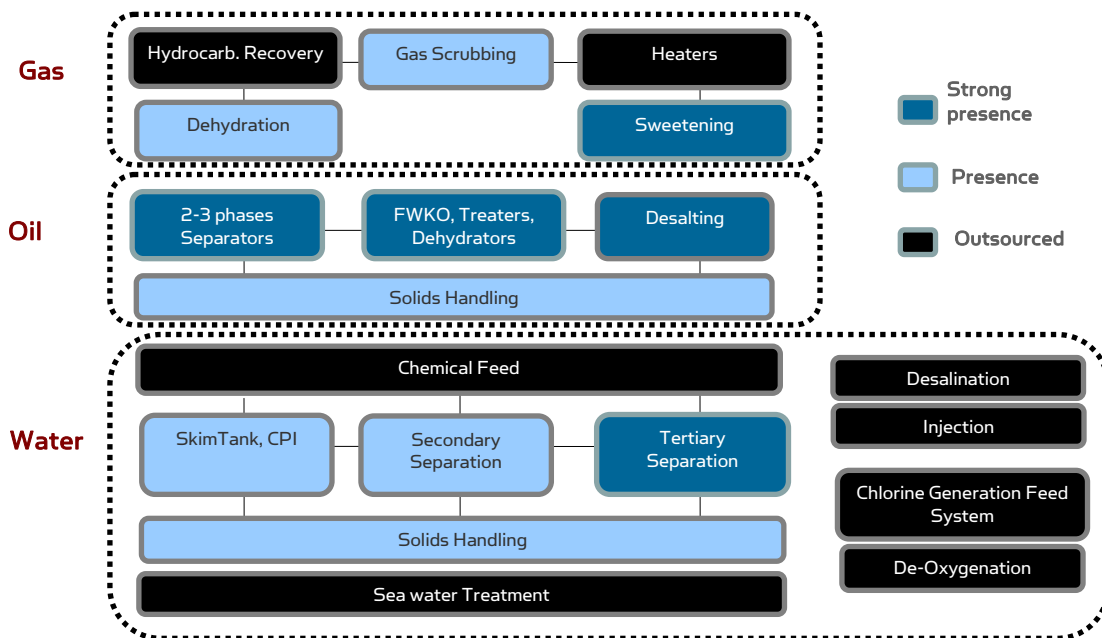
On November 2, 2004, ProSep announced the successful completion of a private placement of (i) secured convertible term loans in the aggregate principal amount of \$3 million, and (ii) warrants to purchase 4,615,385 common shares at an exercise price of \$0.65 per common share (post-consolidation) for an aggregate amount of \$3 million at any time on or before November 2, 2009, to the FTQ, Innovatech, Fonds d'investissement en développement durable, s.e.c. ("FIDD") and Business Development Bank of Canada, Venture Capital Group ("BDC").

3. DESCRIPTION OF THE BUSINESS

3.1. Market Segments and Product Penetration

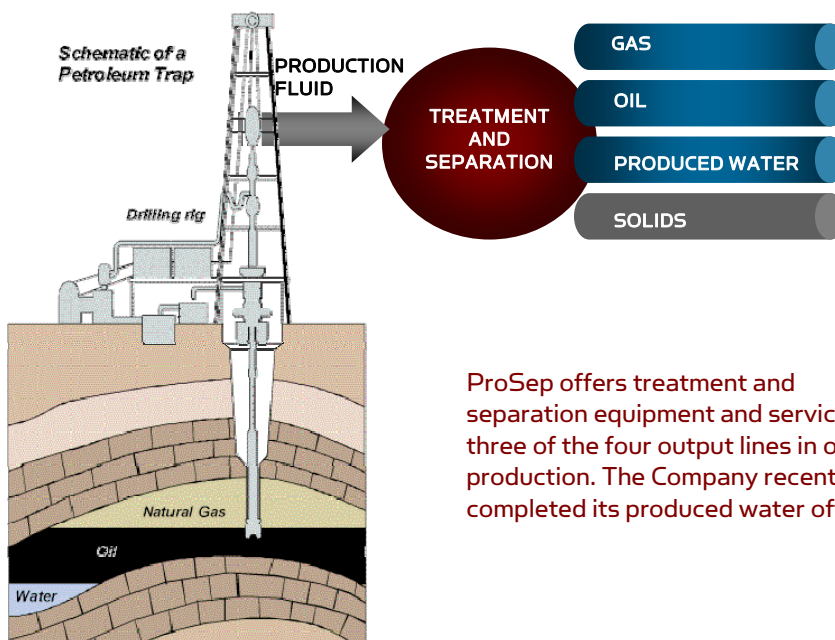
ProSep's international team of engineers has developed extensive knowledge of process solutions for the upstream O&G treatment market. The Company's expertise lies in three main production lines: produced water, oil and gas. ProSep designs customer specific solutions using its own products (a mix of proprietary and conventional technologies) and/or other solutions available on the market. A well diversified product offering and custom solutions-oriented service are key to ProSep's value proposition. The following is a

diagram of the Company's product penetration within each treatment line.



3.2. Product and Services Overview

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



ProSep offers treatment and separation equipment and services for three of the four output lines in oil production. The Company recently completed its produced water offering.

Illustration: ProSep's current product offering includes solutions to treat gas, oil and produced water. Some applications are used in solids handling.

3.3. Mix of Conventional and Proprietary Product Offering

Conventional Offering:

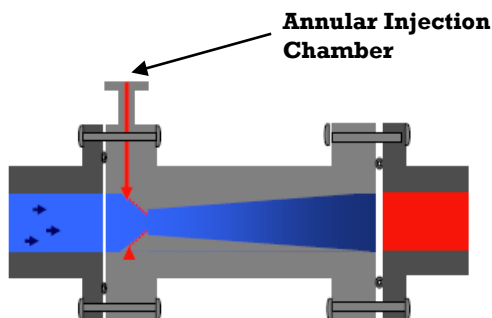
ProSep offers a wide range of conventional equipment to treat oil, gas and produced water. This segment of the Company's offering is customized and built to each client's specifications at the Houston (Texas) manufacturing and assembly facility or through the South East Asian operations. In-house production allows control over the fabrication process, ensuring timely delivery, better cost efficiencies and quality control, important differentiation factors in the oil and gas industry. These products are either offered as individual components or as "industrial packages" that are customized packages of equipment consisting of vessels, pumps, valves, instrumentation and other specialized equipment.

Proprietary Offering:

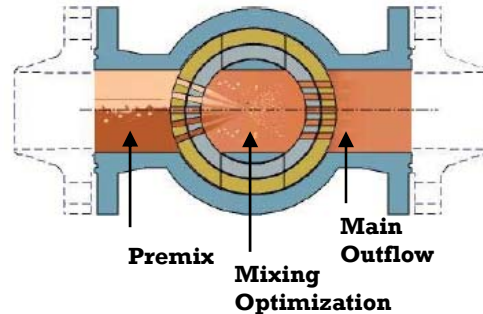
ProSep also offers proprietary solutions that cater to specific production or treatment environments. Most of the proprietary technologies are derived from the Company's patented injection mixer and in-line multiphase mixer processes developed in Norway, a very technologically inclined oil and gas environment. Other proprietary offerings include the TORR™ system that treats produced water by forcing oily water in a coalescing media and the Sorbfloc that uses a high performance eco-friendly flocculent to remove unwanted dissolved particles from produced water.

ProSep's patented mixing process:

ProPure C-100 Injection Mixer



ProPure M-100 In-Line Multiphase Mixer



In its simplest form, the mixer generates a homogenous phase flow with significantly reduced pressure drops than conventional technologies. Depending on specific applications derived from this proprietary mixing technology, improved oil / water separation is achieved and chemical consumption is reduced by improving chemical reactive efficiency, therefore providing important economic and environmental benefits. ProSep's mixing process optimizes liquid-liquid, gas-liquid or gas-gas separation by achieving the optimal size distribution of droplets and increasing surface contact. In effect improving mixing efficiencies to achieve better separation results.

Following is a list of the Company's most important conventional and proprietary product offering per treatment and separation line.

3.4. Gas Treatment Products

Gas Membranes (gas sweetening)

Membranes are used for removal of CO₂, H₂S and H₂O from natural gas. Membrane systems are suited for pipeline gas sales, enhanced oil recovery and de-bottlenecking amine plants. Applicable to a variety of processes, they can successfully treat feed gas at 300-1715 psig and 3-88% CO₂ concentrations. In the

residual stream, membrane systems typically achieve CO₂ concentrations below 2%. A 2-stage system can keep overall hydrocarbon losses to 1.5% or lower. Other benefits include their compactness, modularity, quick and easy to install, passive, environmentally safe and low capital investment required.

Gas Separation Internals

Inlet vane diffusers and demisters expand the flow area from the inlet pipeline into the vessel, reducing inlet momentum and improving optimal utilization of the available vessel volume. Profiled vanes improve flow distribution and can improve scrubber gas capacity by 50% without loss of performance. They can be installed on horizontal and vertical vessels and efficiently eliminate mist in gas flow.

Compact Gas Scrubbers

Inlet devices have the highest potential to improve separation performance. Gas scrubbers increase gas load, reduce inlet momentum and improve optimal utilization of available vessel volume. Compact gas scrubbers can achieve 50% scrubber gas capacity without loss of performance and can easily be installed on both horizontal and vertical vessels. They efficiently remove mist in gas flow.

Gas Dehydrators (TEG)

Gas dehydrators allow for efficient removal of 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. ProSep's gas dehydrators offer a compact design, are easy to operate, provide high dehydration capacity, minimal glycol loss and are environmentally friendly.

ProScav

The ProScav is a proprietary scavenging technology used for offshore and onshore removal of H₂S that both reduces costs of operation and reduces environmental impacts compared to conventional systems. The ProScav allows for reductions in scavenger chemical consumption by 30 to 40% with a low pressure drop. This 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 pipe specifications (usually 2-4 ppm). Other benefits are reduction of size of storage tanks, high turn-down ratio, resistant to clogging, maintenance free and easy to install at any pipe angle.

ProCap

The ProCap is a proprietary compact alkanolamine plant that improves H₂S selectivity in comparison to conventional technologies. Its novel co-current contacting technology improves H₂S selectivity and can reduce solvent circulation rates. With a single stage installation, this technology can remove up to 80-90% of H₂S, and offers best performances in higher CO₂ concentrations. In a multistage configuration H₂S removal efficiencies are above 90%. The ProCap has a limited footprint and can be retrofit on offshore fields. Other benefits include reduction in amine circulation rate, reduced environmental impact, compact process with in-line absorption, high turn-down ratio is easy to install at any pipe inclination and is maintenance free.

ProDry

The ProDry, in final stages of development, uses ProSep's proprietary mixing technology for the dehydration of gas. By re-circulating solvent (usually Triethylene Glycol "TEG") and uniformly mixing with minimal pressure drop, mass transfer of water vapour into the gas is maximized and enriches the solvent. Other benefits of the ProDry include its compactness, light weight, high turn down ratio and low maintenance.

3.5. Oil Treatment Products

Separators

Separators are vessels used to separate a multiphase mixture of fluids into its separate phases, i.e. vapour, oil, water and solids. ProSep provides custom built 2 phase (gas / liquid) or 3 phase (gas / oil / water) separators. State of the art internals ensure optimal performance. A typical oil train (or series of equipment) may consist of several stages of separators to reduced pressure, stabilize liquids and cope with the amount of gas associated with the inlet production to the treating facility.

Free Water Knockout

ProSep's FWKO (Free Water Knockout) Bulk Water Removal Systems are 2 phase (gas / liquid) or 3 phase (gas / oil / water) separators custom designed to meet oil quality requirements. Only free water is removed from the production inlet stream, leaving the emulsified water in the outlet oil stream. Two and three phase designs are offered and built according to customer specifications.

Thermal or Heater Treaters

ProSep's thermal treaters combine both heating and coalescing capabilities in one efficient process unit. Custom designed 2 phase (gas / liquid) or 3 phase (oil /gas /water) systems are available with either mechanical or electrostatic coalescing elements and allow customers to meet spec oil requirements.

Mechanical or Electrostatic Desalters

Crude desalting process extracts corrosive metallic salts from crude oil that would otherwise reduce the life of downstream equipment, specifically at refineries. ProSep offers customized desalting systems to reduce salt content in oil. Customized to site specific salt content at the beginning of production and outlet oil specifications, ProSep's desalting systems are designed as single or multi-stage dehydration systems using dilution water injections to reduce overall salt content.

ProSalt

ProSalt's enhanced proprietary mixing technology increases desalting efficiency and can be easily implemented in a single or multistage process for onshore or offshore fields. The ProSalt reduces pressure drops and shear force anomalies as wash water and chemicals can more efficiently extract salt from crude. Other benefits include reduction in water wash consumption, high turnover ratio in wash water, low pressure drops, compact in-line design, low installation costs, reduction of oil in water, reduction of chemical consumption and is maintenance free.

ProMix

ProMix's enhanced proprietary mixing technology allows for optimal performance of injected chemicals into the production stream. It generates a homogenous phase flow in combination with a significant lower pressure drop than conventional mixing methods. Shear forces are far better controlled and more evenly distributed, therefore giving an ideal distribution of the production chemicals and improving their reactive efficiency so that consumption can be reduced. This achieves an improved liquid / gas separation, with less emulsion created. The benefits are therefore economic as well as environmental. ProSep's ProMix systems are designed and tailored to each customer's particular applications, ensuring optimum efficiency. Other benefits include high turn-down ratio for injected fluids, reduced pressure drop and no maintenance required.

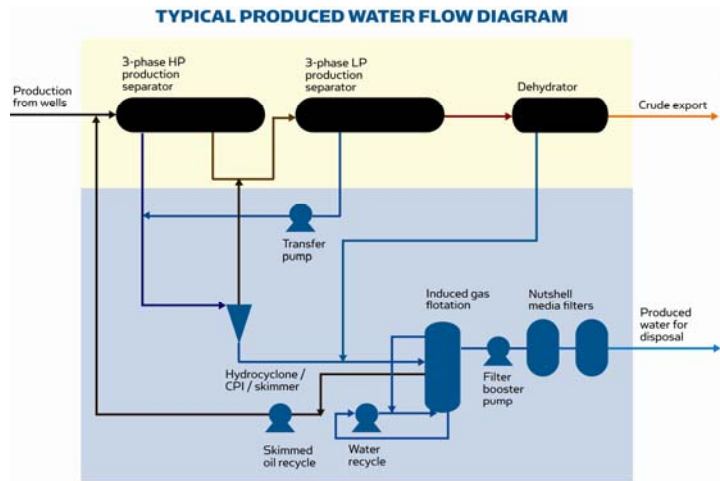
ProClean

The ProClean proprietary system for sand removal can be used in many primary separation vessels, FWKO and treaters to prevent sand accumulations to interfere with oil treating process. ProClean's efficient automatic and adjustable solids removal system prevents disruptions to the steady-state process, large accumulations of solids, corrosion or abrasion damaged caused by build-up and minimizes the use for jetting

fluids.

3.6. Produced Water Products

Following is a typical produced water flow diagram. The primary and secondary treatment phases are dominated by more conventional solutions. Primary separation equipment is designed to take substantial concentrations of dispersed oil in water down to levels well below 500 mg/l. At this phase, best results are accomplished with equipments that have the longest residence time. Secondary treatment usually conditions produced water for overboard discharge, re-injection or further polishing through filtration. At this stage of treatment, oil in water levels can be achieved between 15-30 mg/l. Further treatment can be achieved in the tertiary phase, usually polishing down to very low levels of oil in water, usually with the use of proprietary technology. Typically, offshore applications require a smaller footprint and processes that are less affected by wave motions.



Primary Separation:

Hydrocyclones

In most offshore applications where sufficient process pressure is available, hydrocyclones represent the option with the smallest footprint and best performance. Their drawback is that they have a brief residence time, rendering them ineffective in most upset conditions. Unlike other available primary separation equipment, hydrocyclones are unaffected by wave motions prevalent on floating applications. Utilizing a tangential inlet and tapered geometry, deoiling hydrocyclones set up a centripetal force to separate water from oil and gas, resulting in typical removal efficiencies of 85-95% of all oil droplets.

Corrugated Plate Interceptors (CPI)

When available pressure is lower or high inlet oil concentrations are present, a skimmer or CPI is recommended. CPIs are atmospheric or pressurized vessels that are filled with polypropylene, fibreglass-reinforced polyester or metal packs designed to enhance coalescence and separation. They are designed to provide the same removal efficiency as traditional gravity separators but in a much smaller vessel, making them ideal for fixed-platform and land-based installations. It can handle surges and high percentage oil volumes.

For floating applications with low pressure profiles, a CPI designed as a liquid-packed pressure vessel (instead of atmospheric) mitigates the effects of wave motions.

Skim Tanks

When available pressure is lower or high inlet oil concentrations are present, a skimmer or CPI is recommended. A vertical skimmer is a good motion-insensitive substitute for a CPI although generally larger.

They can be fitted with coalescing packs to enhance efficiency and reduce residence time requirements and achieve comparable performance as a CPI.

Secondary Treatment:

Induced Gas Flotation (IGF) or Dissolved Gas Flotation (DGF)

An IGF is typically employed when issues of solubility of inert and fuel gas arise at high temperatures characteristic of produced water processes. This process involves the introduction of gas into the wastewater stream where gas bubbles attach to oil and solids, reducing their apparent density and causing them to rise much more rapidly to the vessel's surface for skimming. An IGF is most commonly designed as a horizontal multiple-cell unit consisting of four independent cells in series where water passes sequentially maximizing the opportunity for oil droplets to attach to gas bubbles. This design can better handle upsets and are ideal for onshore and fixed offshore applications because of their ability to achieve oil in water concentrations near 15 mg/l. As oil needs to be skimmed off the surface, they are poor choices for floating applications.

The use of a vertical single-cell (or multiple vertical single-cell) is best suited for floating offshore applications as this design minimizes the liquid surface area susceptible to motion. Differential pressure cells can also alleviate motion sensitivity in a multiple vertical single-cell design.

Tertiary Treatment:

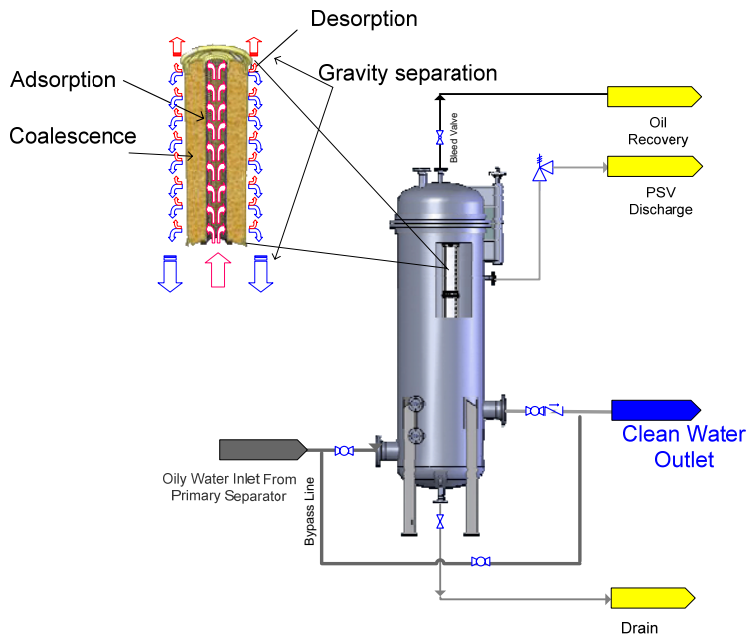
Nutshell and Deep Bed Filters

These types of filters filled with renewable pecan / walnut shells of uniform size are recommended as they prevent oil and sand to form tar, plugging the filter and preventing dig-outs (as would less expensive sand or anthracite mix filters). The unique qualities of these nut shells make it a durable media that is both hydrophilic and elastic while being hard and durable. Produced water flows from the top of the vessel to the bottom through a bed of media. Under normal conditions (inlet oil and solids concentrations below 50 mg/l) nutshell filters will treat water discharge below 3 mg/l. This technique requires a backwashing of the media, necessitating disruption of the downstream flow and thus might require a downstream surge vessel. The need for relatively high volumes of backwash water, higher weight and footprint of these filters are usually is a limiting factor on offshore applications.

CTour®

The CTour® is a proprietary process that removes dispersed oil and dissolved hydrocarbon contaminants by means of condensate, which is injected and mixed with the produced water. The CTour® currently qualifies as one of the best technologies available for the treatment of large volumes of produced water according to the OSPAR Commission for the Protection of the Marine Environment on the North East Atlantic. This proprietary process will yield residual oil discharge of less than 4-5 ppm. Where the appropriate type of condensate is available, the CTour® can be implemented on all types of production facilities. Other benefits include reduction of dissolved hydrocarbon components by 80-95%, removal of some production chemicals, no waste products and no added chemicals.

TORR™ and RPA® Cartridges



The TORR™ process is a multi-stage adsorption and separation system that has the capacity of multi-phase separation of large and small oil droplets (free-floating and dispersed) present in produced water. This is done by means of a coalescing media called RPA®, (the media). The technology incorporates adsorption, coalescence, desorption and gravity separation into one engineered envelope. The technology's separation process consists of routing the oily water to its inlet. The oily water passes through one or two vessels containing continuous coalescing elements. The media inside the coalescing elements continuously adsorbs the oil emulsions, coalesces and desorbs them into larger oil droplets. Oil droplets desorbed by the media float to the top of the vessel 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. Compared to other separation technologies, the TORR is not sensitive to turndown ratios and oil concentration variations. Other benefits include a small footprint, lightweight, additional freed-up deck space and reduced process complexity. The system also has the ability to remove and recover oil droplets larger than 2 microns and does not require use of heat or chemicals and minimizes pressure drops.

Sorbloc

ProSep's ProMix technology is adapted with high performance environmental green flocculent, supplied by partner Sorbwater Technology AS. The "Sorbloc" has the capacity to remove dissolved hydrocarbons, heavy metals and nanoparticles in addition to dispersed oil. Product development was recently completed after successful testing at ConoccoPhilipps Eldfisk platform.

3.7. Services

ProSep also offers value added 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 offers joint industry projects (JIP) to enable the field testing of its new technologies to demonstrate their benefits. Under such programs, the Company 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 appropriate solution. We receive fees for each step of such programs.

3.8. Product Development

ProSep's product development activities are focused on designing, developing, testing and integrating new products, features and functionalities as well as enhancing the performance of existing proprietary products. The Company's product development activities allows it to keep its technological edge, develop its intellectual property portfolio, and extend the conditions under which the technology can perform in existing and new markets. Product development activities follow a well-defined process to ensure that focus is kept on meeting customers' needs, including product specifications, price and required time-to-market and that products achieve high standards of quality and reliability. ProSep's R&D activities are usually conducted under the umbrella of joint industry partnerships with super major oil and gas companies. This is a highly efficient collaboration model that allows the Company to develop pioneering technologies by addressing a fair portion of project financing needs and validates market interest before the applications reach commercialization. The Company retains all property rights including technology, patents and licensing fees relating to future sales of all products developed.

4. MARKET OVERVIEW

Notice to reader: the recent turmoil affecting the global economy and steep decline in commodity prices reduces short and medium term visibility with regards to the industry's growth estimates. Very little data yet exists on the real impact of the current slowdown and global observers, analysts and companies have just recently revisited their projected growth scenarios. The following section's objective is to provide long term growth perspectives for the oil and gas industry while considering possible short and medium term impacts of the current slowdown.

4.1. O&G Upstream Market Overview

The Upstream O&G industry refers to exploration and production (E&P) activities for crude oil and natural gas. The global upstream O&G market has grown dramatically in the last few years mainly driven by increased energy demand from developing economies and by sustained economic growth from OECD countries.

Demand:

The International Energy Agency (IEA) predicted in its 2008 World Energy Outlook (WEO) that long term global primary demand for oil would increase on average by 1% per year, from 85 million barrels per day (mb/d) in 2007 to 106 mb/d in 2030. Most of this demand should come from non-OECD countries such as India and China while the proportion of global oil demand stemming from OECD countries should drop from 57% in 2007 to 43% in 2030.

In its February 11, 2008 Oil Market Report, the IEA provided a downward revision to its forecast for global oil demand to 84.7 mb/d for 2009. This would represent a second year of decline, down 1.1% from 2008 demand. Two consecutive years of demand contraction have not occurred since 1982-1983. Recent data shows that the US, Pacific and European demand is down while non-OECD demand growth has show signs of slowing down. Simmons & Company expects total demand contraction of 1.4% in 2009 but they expect contraction to moderate over the course of the year as recently announced global stimulus packages positively impact worldwide GDP.

Supply:

A significant share of projected long term increases in supply is expected to come from OPEC conventional oil reserves. The IEA predicts this share of global output from OPEC producers will rise from 44% in 2007 to 51% in 2030. Non-conventional oil production should continue to grow steadily as it needs to make up for declining rates of production observed in non-OPEC regions such as the Gulf of Mexico, North Sea and as of this year, Russia that accounted for 70% of non-OPEC supply over the past decade¹. Following is a table showing peak production years and current declining production from the world's largest producing oil fields.

World's 20 biggest oilfields by production

Source: IEA WEO Table 10.1

Field	Country	Location	Year of discovery	Peak annual production		2007 production
				Year	Kb/d	
Ghawar	Saudi Arabia	Onshore	1948	1980	5,588	5,100
Cantarell	Mexico	Offshore	1977	2003	2,054	1,675
Safaniyah	Saudi Arabia	On/Offshore	1951	1998	2,128	1,408
Rumaila N&S	Iraq	Onshore	1953	1979	1,493	1,250
Greater Burgan	Kuwait	Onshore	1938	1972	2,415	1,170
Samotlor	Russia	Onshore	1960	1980	3,435	903
Ahwaz	Iran	Onshore	1958	1977	1,082	770
Zakum	Abu Dhabi (UAE)	Offshore	1964	1998	795	674
Azeri-Chirag-Guneshli	Azerbaijan	Offshore	1985	2007	658	658
Priobskoye	Russia	Onshore	1982	2007	652	652
Top 10 total:						14,260
Bu Hasa	Abu Dhabi (UAE)	Onshore	1962	1973	794	550
Marun	Iran	Onshore	1964	1976	1,345	510
Raudhatain	Kuwait	Onshore	1955	2007	501	501
Gachsara	Iran	Onshore	1928	1974	921	500
Qatif	Saudi Arabia	On/Offshore	1945	2006	500	500
Shaybah	Saudi Arabia	Onshore	1968	2003	520	500
Saertu (Daqing)	China	Onshore	1960	1993	633	470
Samotlor (Main)	Russia	Onshore	1961	1980	3,027	464
Fedorovo-Surguts	Russia	Onshore	1962	1983	1,022	458
Zuluf	Saudi Arabia	Offshore	1965	1981	677	450
Top 20 total:						19,163

Currently, remaining proven reserves of conventional oil and gas liquids amount to approximately 1.2 trillion barrels. To face future demand in the context of declining rates of production and lack of new discoveries of major fields, future production growth will have to come from enhanced oil recovery (EOR) techniques and other technological advances. These new techniques increase recovery of oil at mature sites and allow production from new reservoirs located in challenging environments and from unconventional hydrocarbons. Non-conventional resources (oil sands and extra-heavy oil) amount to 6 trillion barrels, of which one sixth to a third may be ultimately recoverable economically according to the IEA WEO 2008. These new techniques will be associated with higher production costs and sometimes lower quality of oil. In order to cope with this new production environment the oil and gas industry is likely to seek better production process equipment and also new technologies associated with more efficient performance and lower operational costs.

Currently, National Oil Companies (NOC) control most of the world's oil reserves and it is expected that their

²⁻³ Simmons & Company International, Perspectives on Macro Energy, E&P Capital Spending and Oil Services Industry Fundamentals and Trends, January 2009

share of global production will increase from 57% in 2007 to 62% in 2030. International Oil Companies (IOC) are mostly present in mature fields and have dwindling reserves. NOCs tend to be less technologically and financially efficient but are increasingly working with oilfield-services companies and IOCs to develop methods to help them face more challenging production environments. These new partnerships are likely to play an important role in the future development of the oil and gas industry.

4.2. Investments in O&G

According to the IEA, global average annual natural declining rates of producing fields is estimated to increase and reach levels above 10% by 2030. The average new field size across all regions is also expected to decline and production is expected to gradually move offshore. Long term investments in upstream oil and gas will need to grow to offset these declines in production and increasingly challenging oil production environments.

To make up for declining production rates at existing fields and to reach the expected oil demand, important investments will continue to be needed. An additional 64 mb/d of gross capacity needs to be brought online to meet projected global oil demand by 2030. Between 2000 and 2007, capital spending grew by 18% per annum to reach \$390 billion. Last year alone, Simmons & Company estimated that capital spending increased 25-30%.

The IEA forecasted in its 2008 WEO a need for cumulative investments of \$8.4 trillion up to 2030, an average of \$350 billion per year. The share of upstream investments represented 68% of total oil and gas investments between 2000 and 2007 and is expected to increase to 70% by 2012. These projections are highly sensitive to future oil prices and costs and might be more volatile than expected. In the context of the recent decline in commodities and equity markets and sustained lower prices of crude oil combined with a challenging credit environment, the oil and gas industry has started to reduce capital spending. Both IOCs and some NOCs have recently announced reduced CAPEX and OPEX budgets for 2009.

Simmons & Company² expects E&P spending to be down in 2009 and overall unchanged from big cap majors. Many capital intensive projects are rendered uneconomical at the current price levels. For example, Canadian oil sands and unconventional oil require \$70-100bbl oil to be viable and ultra-deep water projects need an average of \$65bbl of oil. An important part of upstream capital spending is financed out of the companies' cash-flows and up to now, their cash positions had shielded them from the global credit crisis. With the recent dramatic drop in the price of oil, IOC and E&P firms have started revisiting their CAPEX budgets and some projects have been delayed or shelved. Simmons & Company³ reported that oil sands players and some mid-cap integrated O&G producers have started projecting lower capital spending, down roughly by 25%. The same is to be expected by big cap majors (IOC): their 2009 projected CAPEX spending was expected to increase by a quarter over their 2008 investments. That number is now expected to remain at the same levels.

Historically, the bulk of investments in new projects came from IOCs and more than half of these investments have gone towards maintaining output at producing fields. Oil and gas companies operating in OECD countries have accounted for about 70% of investments in new projects.

Not all oil producing regions should be affected equally. Since unit development costs in the Middle East are the lowest of all regions, their share of total expected investments is relatively smaller. However, in the context of declining oil prices, investments in such low-cost regions should be less affected by sustained low levels of price in the price of oil.

^{2 6} Simmons & Company International, Perspectives on Macro Energy, E&P Capital Spending and Oil Services Industry Fundamentals and Trends, January 2009

4.3. Upstream Oil Treatment Overview

Upstream Oil and Gas separation

Whether recovered from onshore or offshore production facilities, the extracted hydrocarbon stream (oil, gas, water and solids) is brought to the surface to be processed and separate all components. Oil must be cleaned of salt, dissolved gas and other components, gas must be stabilised and freed of all liquids and unwanted components such as hydrogen sulphide and carbon dioxide to be commercialised. Produced water needs to be treated to remove all dissolved components, organic materials and solids before being disposed of or used for re-injection.

Crude oil primary treatment:

In the first phase of separation, crude oil is sent to a two or three phase separation system where pressure is reduced and gravity initially separates gas and liquids in specialized vessels. The resulting oil, gas and water are then sent to respective treatment and processing lines.

Crude oil secondary treatment:

The sour crude oil is sent for further processing to reduce contaminants and dissolved components such as water, solids, gas and salt to meet pipeline and sales specifications.

4.3.1.O&G Upstream Gas Treatment Overview

Natural gas is one of the fastest growing energy sources. The IEA WEO 2008 projected global gas demand to increase at an average rate of 1.8% per year. Natural gas' share of total global energy consumption currently represents 22%.

Removal of sulphur contaminants:

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, among others:

- It 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 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 of for streams only requiring H₂S polishing is usually H₂S scavenging with direct injection of chemicals (scavenger solvents). This technology is the dominant one 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 approved by different specifications. The specifications can be set by national or regional environmental regulations, by industrial organizations and/or by individual companies.

4.3.2. O&G Produced Water Treatment 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, mixed 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 usually tend to increase dramatically as older oilfields pass their peak production. The volume of produced water from oil and gas wells does not remain constant over time. The water-to-oil ratio increases over the life of a conventional oil or gas well. For such wells, water makes up a small percentage of produced fluids when the well is new. Over time, the percentage of water increases and the percentage of product declines. Lee et al. (2002) report that U.S. wells produce an average of more than 7 barrels of water for each barrel of oil. For crude oil wells nearing the end of their productive lives, water can comprise as much as 98% of the material brought to the surface. Wells elsewhere in the world average 3 barrels of water for each barrel of oil (Khatib and Verbeek 2003). Coal bed methane (CBM) wells, in contrast, produce a large volume of water early in their life, and the water volume declines over time⁴.

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 standards. New conventions, agreements and other mechanisms of international law

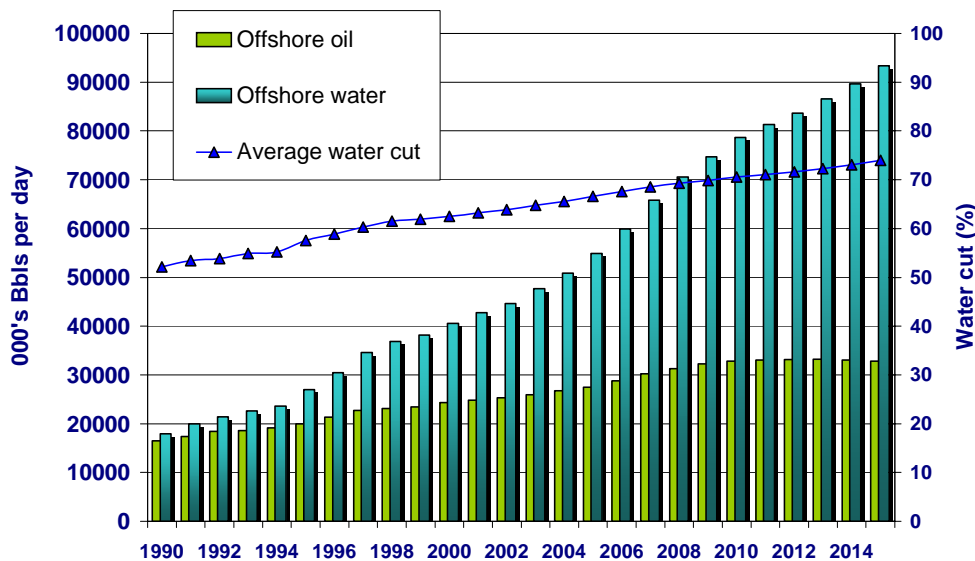
⁴ A White Paper Describing Produced Water from Production of Crude Oil, Natural Gas and Coal Bed Methane prepared for the US DOE

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”. Produced water is heavily regulated in some areas, while in others, it is unregulated. For example, current discharge limits in Venezuela are set at 20ppm while Norwegian and Canadian legislation call for a limit of 40 ppm.

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 over 200 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. (Source: Douglas-Westwood Ltd www.dw-1.com)

5. COMPETITION

There is a broad range of oil, gas and water separation devices that range from very conventional products to proprietary devices designed for specific operating conditions.

As a global service and equipment provider to the upstream oil and gas industry, ProSep’s competitive landscape can be segmented in two major categories: (i) global solutions providers and (ii) geographically and/or technologically focused providers.

Global solutions providers such as Natco Group Inc. (NYSE: NTG), Cameron (NYSE: CAM), M-I SWACO, Aker Solutions (Oslo: AKSO) and Siemens AG (XETRA, NYSE: SI) have a wide product and service offering and target the upstream, midstream and downstream markets around the world.

Geographically and/or technologically focused providers such as, in no specific order, CDS Separation Technology a wholly-owned subsidiary of FMC Technologies (NYSE: FTI), CETCO Oilfield Services Company (a wholly-owned subsidiary of Amcol International Corp.), Global Process Systems, VME Process, Merpro Group Ltd, EProcess Technologies, Aibel Technologies, etc. These companies offer separation equipment to major oil and gas producers that range from more conventional products to highly technological applications. Most complete their conventional offering with proprietary technologies.

6. OTHER BUSINESS CONSIDERATIONS

6.1. Intellectual Property

In accordance with industry practices, ProSep relies on a combination of contractual provisions and patent, copyright, trademark and trade secret laws to protect our proprietary rights in our products.

ProSep has been granted over 50 patents and 143 patent-pending applications for its proprietary products.

ProSep has obtained or applied for trademark registrations for several trade names in the United States, Canada and several other countries in Europe. "CTOUR", "PROPURE", "Pro Pure", "TORR" and "RPA" are registered (or pending) trademarks owned by ProSep.

At times, the Company may license the use of its technology to customers. These licenses contain terms and conditions prohibiting the unauthorized reproduction, disclosure, reverse engineering or transfer of ProSep's products. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with customers, suppliers, employees and consultants. All material components of ProSep's products have been either developed by its employees or independent contractors who have assigned of all their intellectual property rights to the Company.

6.2. Environmental Policy

Being dedicated to providing efficient process solutions that deliver economic and environmental benefits to the oil and gas industry, including a complete line of produced water treatment solutions, environmental protection is at the core of ProSep's mission. To demonstrate the Company's commitment to environmental protection, ProSep has adopted an environmental policy defining the principles which guide overall activities. Some of these principles are:

- delivering products with a tested environmental performance in response to rigorous quality controls;
- through compliance with a continuous improvement plan, increasing the environmental performance of treatment technologies;
- supplying our customers with the technical support to optimize their operating systems and ensuring compliance by them with applicable environmental regulations; and
- offering environmental training to employees to ensure compliance with applicable environmental regulations.

The financial and operational impacts of the Company's compliance with applicable environmental laws have not been isolated from general operating costs since they are known to be minimal and not subject to significant variance over time.

6.3. Completed Reorganization

Since concluding the acquisition of Pure Group in October 2007, ProSep has revised its strategic plan, management and directors have set new global objectives and a successful reorganization of the Company's structure and activities was accomplished.

Corporate Achievements:

- Merged the former TORR Canada and Pure Group operations and transformed the new organization into three profit centers;
- Centralized product development activities in Norway; the world's leading O&G technology hub;
- Built a new organization with qualified and experienced managers and directors;

Operational Achievements:

- Built a strong backlog of contracts with well established O&G producers around the World;
- Significantly increased revenues
- Transformed a consolidated pro forma negative EBITDA into a positive EBITDA within a few months;
- Reduced operating expenses by 40%;
- Generated positive cash flow from operations before changes in non-cash operating working capital items

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

7. RISK FACTORS

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

New Products and Technological Change

The markets for the Company's 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.

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.

Recession Risk

ProSep's activities depend on conditions in the O&G industry. The global economic environment affects demand for oil and gas, thus affecting the price of these commodities and, in turn, our industry's willingness to invest in exploration and development CAPEX, including for the types of process equipment and services provided by our company. Any substantial reduction in demand for oil and gas as a result of a global recession,

accompanied by lower prices and reductions in CAPEX programs, could therefore negatively impact our business.

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.

Growth Management

The size of our backlog and portfolio of quotations have 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 maintain (or hire) 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.

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.

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.

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.

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.

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 efforts 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.

Manufacturing Risk

Revenues are dependent on the continued operations of the manufacturing facility. Despite investments, ProSep 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. The current expansion of the manufacturing facility 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 ProSep's business, financial condition and results of operations. ProSep does not generally carry a large inventory of intermediate or finished products, and therefore any significant interruption in production could adversely affect ProSep's business, financial condition and results of operations.

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.

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.

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 later result 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.

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.

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.

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.

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.

Increased Indebtedness

ProSep'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 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 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 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 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 to service its debt obligations or may have an adverse impact on its business. ProSep existing debt agreements limit its ability to take certain of these actions. ProSep'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.

Investment in Asset-backed Commercial Paper

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCP into long-term variable 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 December 23, 2007 the Pan Canadian restructuring committee announced an agreement in principle to restructure the ABCP issued by 20 trusts, including the trust of which the Company holds ABCP. Under the proposal, holders of ABCP were to exchange their paper for floating rate notes that have maturities based on the maturities of the underlying ABCP. The notes are to be designed so that all available cash flow in the trusts will be paid to note holders.

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

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

The ABCB restructuring efforts of the Pan Canadian committee led to a final agreement on December 24, 2008, the closing of which occurred on January 21, 2009. As expected, the restructuring plan contemplated the replacement of the ABCP by new floating rate notes that have maturities based on the maturities of the underlying ABCP. The key elements of the plan are as follows:

- Creation of three new trusts named "Master Asset Vehicles" ("MAV"):
 - MAV 1 and MAV 2 are composed of 100% synthetic transactions, a combination of assets provided as collateral and credit default swaps and hybrid transactions, a combination of synthetic assets and traditional assets. They include also the ineligible (subprime) assets of these transactions ;
 - MAV 3 is composed of transactions comprised solely of traditional assets or ineligible assets.

- Creation of five categories of notes for MAV 1 and MAV 2 (A-1, A-2, B, C and IA) and two categories for MAV 3 (TA and IA). The TA and 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 with the following face values, representing the ABCP value as of August 14, 2007:

MAV 2	
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.

In addition to the replacement notes, the Company has received upon the restructuring cash amounting to \$298,526 representing accrued interest for the period from August 2007 to August 2008, net of the estimated restructuring costs incurred by the Pan Canadian committee.

The ABCP held by the Company has not traded in an active market since mid-August 2007 and as of December 31, 2008, there were no quotations from an active market available.

The fair value of the ABCP as of December 31, 2008, was determined based on management's judgment using available information and assumptions market participants would use in pricing such ABCP as at the balance sheet date. The Company reviewed information provided by the Pan Canadian restructuring committee and DBRS including current and anticipated credit ratings, composition and valuation estimates of the underlying assets, the estimate of the extent of leverage in the trusts, the progress in the approval process of the restructuring plan and general economic conditions in considering the fair value of the investment. Given the final agreement reached in December 2008 and notes received in January 2009, the Company has estimated the fair value using a valuation approach based on a 100% likelihood of a successful restructuring.

The Company estimated the fair value of these investments using the discounted cash flow evaluation technique based on observable market assumptions to the extent possible. The main assumptions are comprised of the accrued interest received in January 2009 for the period from August 2007 to August 2008, the anticipated coupons moving forward, the anticipated maturity for the variable rate notes to be obtained in exchange for the ABCP and an appropriate discount rate based on the prevailing value of the notes, whenever applicable, considering risks of future losses. The estimated discount rate was determined based on observable market assumptions for similar securities. For the ABCP backed by ineligible assets, the fair value was established based on the terms of the proposed agreement with National Bank of Canada ("National Bank") as is further described below. The Company used the forecasted rates available in the proposed restructuring plan prepared by the Pan Canadian committee and the following discount factors:

Replacement Notes	Expected Yield	Market related Discount factors
Class A-1 and A-2	141 basis points*	Canada bond rate plus 575 basis points
Class B	141 basis points*	Canada bond rate plus 1100 basis points
Class C	141 basis points*	Canada bond rate plus 1600 basis points
Ineligible	0 basis points	Canada bond rate plus 450 basis points

*December 31, 2008 BA swap rate 1.91% minus 50 basis points

The risk premiums added to the basic Canadian government bond rates reflect the liquidity, credit and other risks. Regarding the ineligible securities, the nominal amount used in the yield and discount calculation was reduced by 25% to take into consideration the agreement proposed by the National Bank, which was conditional upon the implementation of the ABCP restructuring plan prepared by the Pan Canadian committee. For these ineligible assets, a \$2,531,250 revolving credit facility agreement was proposed representing an amount equal to 75% of the face value (\$3,375,000) of the replacement notes received in lieu of the ineligible assets. This credit facility is valid for two years and maturity is extendable for additional one-year periods, up to a maximum of five one-year renewals. The proposed agreement also grants to the Company the right to sell to National Bank the Ineligible notes at an exercise price of 75% of the notional amount exercisable at the end of two years. The proceeds from the exercise of the option would have to be used to settle the credit facility. Consequently, by accepting this agreement, the Company will incur a maximum loss of 25% on the ineligible securities.

National Bank has also offered, for the eligible assets (namely the MAV 2 Class A-1, A-2, B and C notes), a revolving credit facility totalling \$4,668,750 or 83% of the total face value of the replacement notes with a face value of \$5,625,000. This credit facility is valid for 3 years and extendable for additional one-year periods, up to a maximum of four one-year renewals. The proposed agreement also grants to the Company the right to sell to National Bank a portion of the eligible notes representing 45% of the notional amount of the eligible note. The proceeds from the exercise of the option would have to be used to settle the credit facility.

These credit agreements will provide the Company with \$7,200,000 in long term financing facility in replacement of the current term loan secured with the ABCP and maturing on April 30, 2009. The bank's recourse with respect to this new credit facility will be limited to the replacement notes.

Based on this assessment of fair values, the Company recognized an impairment charge of \$1,385,000 during the year ended December 31, 2008 while \$1,800,000 was recorded during the six-month period ended December 31, 2007 for a total impairment charge of \$3,185,000 since the acquisition, representing a cumulative impairment of 35% 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 the probability of the scenarios, returns, credit risk and liquidity risk could significantly affect the value ascribed to the replacement 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 \$136,000 decrease on the investments' value.

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

As the ABCP has since been replaced by long term notes, the Company has classified its ABCP as long-term investments on the Company's balance sheet dated December 31, 2008.

8. DIVIDENDS

There are no restrictions on our ability to pay dividends, other than (i) a prior approval right granted to ProSep's banker pursuant to the terms governing ProSep's existing credit facilities; and (ii) applicable statutory limitations. We have never paid dividends on our common shares and our intention is to reinvest the earnings to finance the continued growth of our business. Accordingly, we do not intend to pay dividends on any of our common shares in the foreseeable future.

9. DESCRIPTION OF CAPITAL STRUCTURE

9.1. Common Shares

Our authorized share capital consists of an unlimited number of common shares, of which 64,443,451 common shares issued and outstanding, on December 31, 2008.

We are authorized to issue an unlimited number of common shares without par value. The holders of the common shares are entitled to receive notice of and to attend all annual and special meetings of shareholders and to one vote in respect of each common share held at all such meetings. The holders of the common shares are entitled, at the discretion of our board of directors, to receive any or all of our profits or surplus properly available for the payment of dividends, as well as any dividend declared by the Board of Directors and payable by the Company on the common shares. The holders of the common shares will participate rateably in any distribution of our assets upon liquidation, dissolution or winding-up or other distribution of our assets among our shareholders for the purpose of winding up our affairs. Such participation will be subject to the rights, privileges, restrictions and conditions attached to any securities issued and outstanding at such time ranking in priority to the common shares upon liquidation, dissolution or winding-up.

9.2. Options

As at December 31, 2008, options to purchase 449,000 common shares of the Company issued pursuant to our Stock Option Plan were outstanding.

9.3. Restricted Share Units

The Company grants restricted share units to attract, retain and motivate key personnel and reward officers and employees for significant performance and distributable cash flow growth. Each restricted share unit is equal in value to one common share of the Company. The shares will be issued from the treasury of the Company. The number of shares reserved at any time must not exceed 10% of the aggregate number of shares.

As at December 31, 2008, 1,851,500 restricted share units were issued and outstanding.

9.4. Warrants

As at December 31, 2008, warrants to purchase 27,635,027 common shares of the Company were outstanding.

Pursuant to the terms of the subscription agreement dated April 24, 2008, ProSep issued 200 common share purchase warrants at an exercise price of \$0.30 per share. As part of the private placement concluded on the same date, ProSep agreed to reduce the exercise price of the 2,424,242 warrants issued in October 2007 to Fondaction, at an exercise price from \$1.65 to \$0.55 per common share. The maturity date of the warrants has not been amended.

Pursuant to the terms of the subscription agreement dated October 29, 2007, we issued warrants to purchase 2,424,242 common shares at an exercise price of \$1.65 per common share for a period of five years to Fondaction.

Pursuant to the terms of subscription agreements dated June 23, 2005, we issued 17,000,000 units of the Company at a purchase price of \$0.50 per unit for gross proceeds of \$8,500,000, with each unit consisting of one common share of the Company and one warrant and with each warrant being exercisable for one common share of the Company at a price of \$0.65 per common share until November 2, 2009. The broker warrants were also issued as part of this transaction of which all have been exercised as of the date of this AIF.

Pursuant to the terms of subscription agreements dated November 2, 2004, we issued warrants to purchase 4,615,385 common shares of the Company at an exercise price of \$0.65 per common share until November 2, 2009 to the FTQ, Innovatech, FIDD and BDC.

9.5. Constraints

The Company has no capital constraints imposed on the ownership of securities other than what is required by regulatory authorities and the Toronto Stock Exchange.

10. MARKET FOR SECURITIES

All of the Company's outstanding common shares have been listed for trading on the TSX since September 14, 2006 and were previously traded on the TSX Venture Exchange since October 6, 1986. ProSep's common shares have been traded on the TSX under the symbol "PRP" and its common share purchase warrants under the symbol "PRP.WT" since May 23, 2008 to better reflect the Company's new name. Previously to the name change, ProSep's shares traded on the TSX under "TOR" and its common share purchase warrants under the symbol "TOR.WT". The following table outlines the share prices, trading ranges and share volumes (on a post-consolidation basis), traded for each month from January 2007 to February 28, 2009 for the last trading day of each month.

Price at last trading day of the month	Share Price Trading Range			Volume
	High	Low	Close	
Month	(\$ per share)			Traded
2008				
January	0.36	0.295	0.355	413,300
February	0.29	0.27	0.29	56,000
March	0.30	0.275	0.30	55,200
April	0.415	0.40	0.40	375,200
May	0.45	0.41	0.45	64,600
June	0.36	0.35	0.35	226,800
July	0.29	0.28	0.285	11,000
August	0.325	0.305	0.325	3,700
September	0.30	0.28	0.30	28,800
October	0.18	0.17	0.17	31,100
November	0.17	0.16	0.16	17,200
December	0.135	0.125	0.135	13,200
2009				
January	0.14	0.14	0.14	800
February	0.15	0.15	0.15	2,700

Source: www.tsx.com

10.1. Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer

On October 25, 2007, The Company acquired 100% of the shares of Norwegian-based Pure Group AS, a provider of leading technologies for oil, gas and water purification for total consideration of \$29,149,540. One of the components of the transaction required that 5,143,222 common shares of which 1,457,229 were to be kept in escrow and accounted for at \$0.70 representing the average trading price 5 days before and 5 days after the announcement date of July 30, 2007 for a total amount of \$3,600,255.

11. DIRECTORS AND EXECUTIVES

The following summary is a list of directors and executive officers of ProSep Inc. and its subsidiaries, in alphabetical order.

11.1. Directors

Name, City, Province and Country of Residence	Principal Occupation and Brief Biography	Director since
G�rard Caron ⁽¹⁾ Montreal, Qu�bec, Canada	Mr. G�rard Caron graduated from HEC Montreal in 1963 and has been a member of the Order of the Chartered Accountants of Qu�bec since 1965. Mr. Caron was the President, Chief Executive Officer and Secretary General of the Order of Chartered Accountants of Qu�bec from 1997 to 2003, and has been Director General and Secretary General of the Order since 1995. A Fellow Chartered Accountant and Fellow Certified Management Consultant, Mr. Caron has spent most of his career in information technology consulting in accounting firms and in information technology businesses and departments. He was a consultant in accounting organization with Hydro-Qu�bec and a consultant in organization and methods with the <i>Soci�t� g�n�rale de financement</i> . During his nearly ten years at the <i>Soci�t� g�n�rale d'informatique (SGI) Inc.</i> , he successively held the positions of Senior Consultant, Partner and Vice President. He subsequently returned to private practice to work with Maheu Noiseux LLP and then with PricewaterhouseCoopers LLP where, as a partner, he held senior positions in Information Systems and Management Consulting Services.	2003
Paul Coppinger ⁽²⁾ Oklahoma City, Oklahoma U.S.A.	Mr. Coppinger has extensive experience in the oil and gas service sector for two of the world's biggest tier 1 oil field services companies, as Vice President Sales and Marketing of EIMCO, formerly part of Baker Hughes Incorporated's water-related process equipment division and also as Vice President and General Manager of Highland Artificial Lift Systems, a division of Energy Ventures Inc., now part of Weatherford International Ltd. He holds a Bachelor of Science in Petroleum Engineering from Texas Tech University and has recently been named President and CEO of the Energy Products Segment at CIRCOR International Inc., responsible for developing tailor made solutions for customer-specific fluid control issues for the oil and gas industry.	2007
Jacques L. Drouin Montreal, Qu�bec Canada	Mr. Jacques L. Drouin brings over 15 years of experience in corporate finance. As a former Vice President and director at Deloitte & Touche Corporate Finance Canada Inc., he has undertaken and managed numerous financing and merger and acquisition transactions for public as well as private companies. Mr. Drouin also worked as a corporate finance senior consultant at KPMG and at Nesbitt Thomson (now BMO Nesbitt Burns) as financial analyst in the investment-banking department. Jacques L. Drouin holds a bachelor in commerce and a master in management science from HEC Montr�al, both specialized in finance.	2007
Bruno Ducharme ⁽¹⁾ Montreal, Quebec, Canada	Mr. Ducharme is Chairman and CEO of TIW Capital Partners, a management and strategic advisory company specialized in telecommunications, media and technology. Since 2005 Mr. Ducharme has participated in several LBOs of telecommunications companies in Greece, Austria, Lithuania, Latvia, and Norway. From 1994 to 2005 Mr. Ducharme was CEO of Telesystem International Wireless, a mobile communications company which he helped found as a start-up. From 1990 to 1994, Mr. Ducharme was EVP of Telesystem, EVP of Teleglobe, and CEO of the predecessor to Microcell. Mr. Ducharme currently serves as a non-executive director of UAB Bit� Lietuva, ONE GmbH, and Mobsat Group Holding s.�r.l. and as an advisory board member to the TMT fund of Millenium Private Equity, a Dubai-based private equity fund. Mr. Ducharme holds an MBA and an MA from The Wharton School of the University of Pennsylvania and a BCL from McGill University. Mr. Ducharme was nominated as Global Leader for Tomorrow by the World Economic Forum and as a Canadian Top 40 Under 40.	2008
David Laidley ⁽¹⁾ Montreal, Quebec Canada	Mr. Laidley is Chairman Emeritus of Deloitte & Touche LLP (Canada), where he was a partner from 1975 until his retirement in 2007 and where he served as Chairman from 2000 to 2006. A chartered accountant, he has enjoyed a distinguished career spanning 40 years with Canada's largest professional services firm, with specialization in its tax and audit practices. Applying his background in tax, he has counselled many clients in the areas of corporate reorganizations, acquisitions and divestitures. Mr. Laidley currently serves on the boards of EMCOR Group Inc., Groupe Aeroplan Inc., the Bank of Canada, Biovail Corp., Nautilus Indemnity Limited (where he is Chairman) and on a number of other boards of private institutions and foundations. Mr. Laidley received a Bachelor of Commerce degree from McGill University, Montr�al.	2008
Richard Lint ^{(1) (2*)} Toronto, Ontario Canada	Mr. Lint has extensive experience as senior executive and director at several of Canada's biggest investment banks, including Scotia Capital Inc. where he was Deputy Chairman and Head of Oil, Gas and Pipeline Group. At Citibank Canada, Mr. Lint was Chairman and CEO and repositioned the bank's Global Finance team. He also held senior positions at Nesbitt Thomson Inc., RBC Dominion Securities Inc. and McKinsey & Company. Currently, Mr. Lint is a Consultant for Mercer Human Resource Consulting LLC, where he provides advice to corporations in the financial and oil and gas industries on compensation and strategic	2006

Name, City, Province and Country of Residence	Principal Occupation and Brief Biography	Director since
Anthony Rustin ⁽²⁾ Montreal, Québec, Canada	<p>planning. He holds a Bachelor's Degree in Industrial Engineering and an MBA from the University of Toronto.</p> <p>Mr. Anthony Rustin has extensive experience in the industry, having held executive-level positions in corporate management, marketing, operations, manufacturing, project management and process development. As Executive Vice President of SNC-Lavalin until 1999, he was responsible for many different industry sectors. For much of his career, first in the petroleum sector, and then for 26 years at SNC-Lavalin, he worked in petroleum production and processing. He negotiated contracts in numerous countries and was responsible for the acquisition of licensed technologies. Since he retired from full-time employment at SNC-Lavalin, Mr. Rustin has been acting as advisor to SNC-Lavalin on numerous matters, and has served as a member of the board of directors of several companies in which SNC-Lavalin is a significant shareholder. Mr. Rustin has served on the board of start-up companies in Canada and overseas, and has a B.Sc. and Ph.D. in Chemical Engineering. He is also a graduate of the Advanced Management Program at the Wharton Business School.</p>	2003

⁽¹⁾ Member of the Audit Committee.

⁽²⁾ Member of the Human Resources and Corporate Governance Committee. ^(2*) Member since August 2008.

Each director remains in office until the following annual shareholders' meeting or until the election of his successor, unless he resigns or his office otherwise becomes vacant.

Executives who do not currently sit on the board of directors are set forth below, in alphabetical order.

11.2. Executives

Name, City, Province or State and Country of Residence	Principal Occupation and Brief Biography	Position Held with ProSep
Patrice Daignault Laval, Québec Canada	<p>Mr. Patrice Daignault is a Chartered Accountant with over 15 years of experience in treasury, risk management and operations for a major publicly traded company. Mr. Daignault has a strong accounting background and experience with international companies as well as an extensive background in mergers and acquisitions and various banking transactions, structured financings and strategic expansions. He is a graduate of the École des Hautes Études Commerciales and was most recently Director of Risk and Treasury with St-Lawrence Cement Group.</p>	Chief Financial Officer and Corporate Secretary
Serge Fraser Montreal, Québec, Canada	<p>Mr. Serge Fraser brings over 12 years of experience in product development, process development, and manufacturing. His extensive knowledge of industrial operations enables the Corporation to advance in establishing state-of-the-art operations. He has worked in various sectors including industrial sewing, pulp and paper, and lithium polymer batteries. During his career, Mr. Fraser successfully brought numerous products from research and development to production stages. Mr. Fraser holds a bachelor degree in Mechanical Engineering from École Polytechnique de Montreal.</p>	Vice President, Corporate Development
Petter Hovland, Bergen, Norway	<p>Mr. Hovland and has worked in the Oil and Gas industry for over 15 years. He holds an engineering degree and has extensive experience in managing sales and sales organizations as well as mastering execution and delivery of projects. Mr. Hovland held various senior positions in sales and marketing, project management and was General Manager for Bennex Valves & Automation, a Norwegian based supplier of products and services to the Subsea oil and gas industry. Most recently, Mr. Hovland was Global Sales and Marketing Director for Bennex's sub-sea oil and gas equipment division.</p>	President, ProPure AS, General Manager Europe and Middle-East
Harald Linga, Bergen, Norway	<p>Mr. Harald Linga brings 24 years experience within research and product development for the oil and gas industry during including his former positions in SINTEF, Christian Michelsen Research and Framo Engineering. His work area has been related to multiphase flow, gas conditioning, mass transfer and separation. Mr. Linga has been responsible for technology development within ProPure since the start-up in 1999, and has throughout his career established and managed several JIP's with key operators in the O&G business. He holds</p>	Vice President Product Development, Pure Group

Name, City, Province or State and Country of Residence	Principal Occupation and Brief Biography	Position Held with ProSep
	a M.Sc. in Technical Physics and a Ph.D. in Mechanical Engineering from The Norwegian University of Science and Technology.	
Lewis Mologne, Houston, Texas, United States	Mr. Mologne established ProSep Technologies in June 2005. Prior to joining ProSep, he was the President of Kvaener Process Systems US Inc. since 1998. Mr. Mologne has a solid experience within the oil and gas processing and technology-based process equipment business. He holds a bachelor of science degree in Chemical Engineering from the Colorado School of Mines.	President, ProSep Technologies Inc.
Matthew Rummer, Kuala Lumpur, Malaysia	Mr. Rummer has established Pure Group AP. He has over nine years experience in the oil and gas industry. Prior to joining Pure Gorup, Mr. Rummer held various managerial positions with Aker Kverner Process Systems Group in Malaysia and in Australia. He hold a bachelor's degree in mechanical engineering from Curtin University of Technology in Western Australia.	General Manager Pure Group Asia Pacific

As at March 11, 2009, our directors and executives, as a group, owned beneficially, directly or indirectly, 1,217,202 common shares representing approximately 1.89% of the 64,443,451 common shares then issued and outstanding.

12. INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the beginning of the last complete financial year, none of the Company's directors or officers had any direct or indirect material interest in any dealing with the Company in respect of any matter that has materially affected or will materially affect the Company.

13. TRANSFER AGENT AND REGISTRAR

Our registrar and transfer agent is Computershare Trust Company of Canada located at 1500 University Street, Montreal, Québec H3A 3S8.

14. MATERIAL CONTRACTS

No material contracts, other than contracts entered into in the normal course of business, were entered into during the most recently completed financial year, or before the most recently completed financial year that are still in effect,

15. LEGAL PROCEEDINGS

ProSep is not involved in any legal proceedings that would represent an amount exceeding 10% of the Company's assets.

16. INTEREST OF EXPERTS

The Company's audited financial statements for the year ended December 31, 2008 were audited by Raymond Chabot Grant Thornton LLP. The partners of RCGTLLP beneficially own, directly or indirectly, no securities of the Company.

17. AUDIT COMMITTEE

Composition and Mandate

The Audit Committee is currently composed of Gérard Caron, Chairman, Bruno Ducharme and David Laidley, all of whom are independent. The Audit Committee is governed by a written mandate, a copy of which is attached to this AIF as Schedule "A".

Relevant Experience and Education of the Audit Committee Members

The following briefly summarizes the education and experience of each Audit Committee member that is relevant to the performance of his duties on the Audit Committee, in particular any education or experience that provides the member with an understanding of the accounting principles used by the Company to prepare its annual and interim financial reports.

- Mr. Gérard Caron graduated from HEC Montreal in 1963 and has been a member of the Order of Chartered Accountants of Québec since 1965. Mr. Caron, a Fellow Chartered Accountant and Fellow Certified Management Consultant, was the President, Chief Executive Officer and Secretary General of the Order of Chartered Accountants of Québec from 1997 to 2003, and has been Director General and Secretary General of the Order since 1995.
- Mr. Ducharme is Chairman and CEO of TIW Capital Partners, a management and strategic advisory company specialized in telecommunications, media and technology. Since 2005 Mr. Ducharme has participated in several LBOs of telecommunications companies in Greece, Austria, Lithuania, Latvia, and Norway. Mr. Ducharme holds an MBA and an MA from The Wharton School of the University of Pennsylvania and a BCL from McGill University. Mr. Ducharme was nominated as Global Leader for Tomorrow by the World Economic Forum and as a Canadian Top 40 Under 40.
- Mr. Laidley is Chairman Emeritus of Deloitte & Touche LLP (Canada), where he was a partner from 1975 until his retirement in 2007 and where he served as Chairman from 2000 to 2006. A chartered accountant, he has enjoyed a distinguished career spanning 40 years with Canada's largest professional services firm, with specialization in its tax and audit practices. Applying his background in tax, he has counselled many clients in the areas of corporate reorganizations, acquisitions and divestitures. Mr. Laidley received a Bachelor of Commerce degree from McGill University, Montréal.

External Auditor's Fees

RCGT are the current auditors of ProSep. RCGT provided audit, tax and other audit-related services to ProSep. The Audit Committee has considered and concluded that the provision of these services by RCGT was compatible with maintaining RCGT'S independence. The following chart shows all fees paid to Deloitte & Touche, the previous External Auditors ('D & T'), by ProSep and its subsidiaries and fees paid to RCGT for the most recent financial year.

Fees Paid to Deloitte & Touche and RCGT:

	Fees paid to RCGT		Fees paid to D&T		
	December 31, 2008	December 31, 2008	December 31, 2007	June 30 2007	June 30 2006
Audit services	\$229,820	\$26,719	\$82,000	\$ 64,222	\$ 38,622
Audit-related services	\$35,580	\$26,200	\$50,742	\$150,600	\$9,500
Tax services	\$42,500	\$14,173	\$4,850	\$125,144	\$35,213
Other services	\$17,796	\$7,500	\$345,545	\$50,000	\$25,795
TOTAL:	\$325,696	\$74,592	\$483,137	\$ 389,966	\$ 109,130

Raymond Chabot Grant Thornton were appointed as auditors on December 19, 2007. All amounts exclude taxes.

"**Audit Fees**" consist of all fees paid to Raymond Chabot Grant Thornton LLP for the audit of the annual financial statements and other statutory and regulatory audits or filings.

"**Audit-Related Fees**" consist of all fees paid to Raymond Chabot Grant Thornton LLP for the audit or review of interim financial statements, including advice provided in connection with financial reporting and accounting standards.

"**Tax Fees**" consist of all fees paid to Raymond Chabot Grant Thornton LLP for tax compliance services, tax advice and planning and advice related to the preparation of tax returns and capital and sales tax statements. "**All Other Fees**" refers to fees paid to Raymond Chabot Grant Thornton LLP for all services other than the services reported under Audit Fees, Audit-Related Fees and Tax Fees, including, *inter alia*, due diligence and financing-related fees.

18. AUDIT COMMITTEE PRE-APPROVAL POLICY

The Audit Committee has a policy on the pre-approval of work done by our auditor. At each year-end, Management and the external auditor make a joint submission to the Audit Committee showing the list of audit services, audit-related services, tax services and non-audit services which require pre-approval for the following year. The list of proposed services is reviewed and approved by the Audit Committee on an annual basis.

If Management considers that it is necessary to have the external auditor perform a service which is not included on the joint submission, a request will need to be submitted to the Audit Committee for purposes of obtaining a specific pre-approval to allow for the delivery of this additional service. Such request must include relevant documentation regarding the additional service to be rendered and a joint statement by both the Chief Financial Officer and the auditor as to whether, in their view, the request is consistent with the rules on auditor independence.

19. ADDITIONAL INFORMATION

Additional information relating to ProSep may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, and principal holders of the Company's securities, and of securities of the Company authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular for the most recent annual meeting of shareholders.

Additional financial information may be found in our financial statements and Management's Discussion & Analysis for our most recently completed financial year and interim period.

For copies of documents, please contact Patrice Daignault, Chief Financial Officer and Corporate Secretary at (514) 522-5550, ext. 235.

SCHEDULE "A"

MANDATE OF THE AUDIT COMMITTEE

1. Overall Purpose/Objective

The Audit Committee is appointed by the Board of Directors to assist the Board of Directors in discharging its oversight responsibilities. The Audit Committee oversees the financial reporting process to ensure the balance, transparency and integrity of published financial information. The Audit Committee also reviews: (i) the effectiveness of ProSep's internal financial control and risk management system; (ii) the independent audit process, including recommending the appointment and assessing the performance of the external auditors; (iii) ProSep's process for monitoring compliance with laws and regulations affecting financial reporting; and (iv) if applicable, ProSep's process for monitoring compliance with ProSep's code of business conduct.

In performing its duties, the Audit Committee maintains effective working relationships with the Board of Directors, Management and the external auditors. To perform his or her role effectively, each Audit Committee member needs to develop and maintain his or her skills and knowledge, including an understanding of the Audit Committee's responsibilities and of ProSep's business operations and risks.

2. Authority

The Audit Committee has the responsibility for:

- 2.1 Performing activities within the scope of its mandate.
- 2.2 Engaging independent counsel and other advisors when deemed necessary to carry out its duties.
- 2.3 Ensuring the attendance of the officers of the Company at meetings of the Audit Committee, as appropriate.
- 2.4 Requesting and gaining access to members of Management, employees and relevant information.
- 2.5 Establishing confidential and anonymous procedures for dealing with concerns of employees, and the receipt of complaints, regarding accounting, internal control or auditing matters.
- 2.6 Recommending for approval by the Board of Directors the appointment, compensation, retention and annual scope of work of the external auditors.
- 2.7 Approving all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and, if required, the pre-approval of such non-audit work.

3. Organization

Membership

- 3.1 The Board of Directors shall nominate the Audit Committee members and the Chair of the Audit Committee. In the absence of the Chair, a member of the Audit Committee can act in the capacity of the Chair provided the quorum is maintained.
- 3.2 The Audit Committee shall be comprised of at least three members and not more than five members. All members shall be independent Directors. Any member of the Audit Committee may be removed or replaced at any time by the Board of Directors. Any member shall cease to be a member of the Audit Committee upon ceasing to be a Director.

- 3.3 Members of the Audit Committee should attend every meetings of such committee. A quorum at any meeting of the Audit Committee shall consist of two members present by phone or in person.
- 3.4 Each Audit Committee member shall have skills and experience commensurate with the discharge of the duties and responsibilities associated with such function.
- 3.5 Each member shall be financially literate and at least one member shall have accounting or related financial expertise.
- 3.6 Audit Committee members shall be appointed for a one-year term of office.
- 3.7 The secretary of the Audit Committee shall be the meeting secretary, or such other person as nominated by the Board of Directors.
- 3.8 The Audit Committee shall invite the President and Chief Executive Officer and the Chief Financial Officer and Secretary and, as necessary, any other person, except during an *in camera* period where only the Audit Committee members are entitled to attend. The Chair of the Audit Committee shall have the right to determine who shall or shall not be present at any time during a meeting of the Audit Committee.
- 3.9 The external auditors should be invited to make presentations to the Audit Committee, as appropriate.

Meetings

- 3.10 Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by other electronic means to each member of the Audit Committee at least 48 hours prior to the time fixed for such meeting. A member may in any manner waive notice of the Audit Committee meeting. Attendance of a member at an Audit Committee meeting shall constitute waiver of notice.
- 3.11 Meetings shall be held not less than four times a year and should correspond with ProSep's financial reporting cycle. Teleconferences, although not the preferred meeting method, are acceptable.
- 3.12 Special meetings may be convened as required by the Audit Committee, Management or the external auditors.
- 3.13 The secretary of the Audit Committee shall circulate the agenda and supporting documentation to the Audit Committee members a reasonable period in advance of each meeting.
- 3.14 The secretary of the Audit Committee shall circulate the minutes of meetings to members of the Board of Directors and, where appropriate, to the external auditors, after approval of such minutes by the Chair of the Audit Committee.
- 3.15 As a minimum, the Chair of the Audit Committee (or another member of the Audit Committee) shall attend the Board of Director meeting at which the financial statements are approved.
- 3.16 The Audit Committee may call a meeting with outside legal counsel if it is deemed necessary.
- 3.17 The Audit Committee will meet with the external auditors at least once a year without Management present.

4. Roles and Responsibilities

The Audit Committee shall:

Internal Control

- 4.1 Understand the overall internal controls implemented by Management.
- 4.2 Require from Management that it implements a process to identify major risks relating to ProSep (including in relation to the insurance portfolio, the currency position, any pending and threatened litigation, any contingent liabilities and to the adequacy of provisions of ProSep's accounts) and that it takes all necessary measures to manage such risks.
- 4.3 Assess the overall effectiveness of the internal control and risk management frameworks through discussions with Management and the external auditors and consider whether recommendations made by the external auditors have been implemented by Management.
- 4.4 Receive periodical Management reports assessing the adequacy and effectiveness of ProSep's disclosure controls and procedures and systems of internal controls.
- 4.5 Review ProSep's risk assessment and risk management policies, including its insurance coverage.

Financial Reporting

- 4.6 Monitor the quality and integrity of ProSep's accounting and financial reporting process through discussions with Management, the external auditors and the internal auditors.
- 4.7 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- 4.8 Oversee the periodic financial reporting process implemented by Management and review the interim financial statements, annual financial statements, Management's Discussions and Analyses and press releases prior to their public dissemination.
- 4.9 Review any analysis or other written communications prepared by Management, the internal auditors or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the application of generally accepted accounting principles methods.
- 4.10 Ensure that adequate procedures are in place for review of ProSep's public disclosure of financial information extracted or derived from ProSep's financial statements (other than Section 4.8 above) and periodically assess the adequacy of such procedures.
- 4.11 Review Management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information.
- 4.12 Meet with Management and the external auditors to review the financial statements, the key accounting policies and estimates, and the results of the audit.
- 4.13 Ensure that significant adjustments, unadjusted differences, disagreements with Management and critical accounting policies and practices are discussed with the external auditors.
- 4.14 Review any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of ProSep and the appropriateness of the disclosure thereof in the documents reviewed by the Audit Committee.

Compliance with Laws and Regulations

- 4.15 Review the effectiveness of the system for monitoring compliance with laws and regulations.
- 4.16 Obtain regular updates from Management regarding compliance matters that may have a material impact on ProSep's financial statements.
- 4.17 Be satisfied that all regulatory compliance matters related to ProSep's business have been considered by Management in the preparation of the financial statements.
- 4.18 Review the findings of material reports by regulatory agencies.

Working with Auditors

- 4.19 Review the professional qualification of the auditors (including background and experience of the responsible partner and the assigned auditing personnel).
- 4.20 Consider the independence of the external auditors and any potential conflicts of interest.
- 4.21 Review the performance of the external auditors on an annual basis and make recommendations to the Board of Directors for (i) the appointment, reappointment or termination of the appointment of the external auditors and (ii) the compensation of the external auditors, with a view to ensuring that the nature of such compensation does not jeopardize the independence of the auditor.
- 4.22 Review the external auditors' proposed audit scope of work and approach for the current year in light of ProSep's current circumstance and changes in regulatory and other requirements.
- 4.23 Discuss with the external auditors any audit problems encountered in the normal course of audit work, notably in respect of any restriction on audit scope or access to information, and review management's response and/or action plan.
- 4.24 Ensure that significant findings and recommendations made by the external auditors and Management's proposed response are received, discussed and appropriately acted upon.
- 4.25 Discuss with the external auditors the appropriateness of the accounting policies applied in ProSep's financial reports including (i) all critical accounting policies and practices used, (ii) any alternative treatments of financial information that have been discussed with Management, the ramification of their use and the treatment preferred by the external auditors, and (iii) any other material written communications between ProSep and the external auditors.
- 4.26 Meet separately with the external auditors to discuss any matters that the Audit Committee or auditors believe should be discussed privately and ensure that the auditors have access to the Chair of the Audit Committee when required.
- 4.27 Review policies for the provision of non-audit services by the external auditors and, if required, the pre-approval of such non-audit work.
- 4.28 Ensure ProSep follows regulations for hiring firm personnel for senior positions after they have left the audit firm.
- 4.29 Review Management's proposed internal control plan for the coming year and ensure that there is appropriate coordination with the external auditors.

Reporting Responsibilities

- 4.30 At the first subsequent meeting of the Board of Directors and at such other times as required, update the Board of Directors on all activities of the Audit Committee and make appropriate

recommendations in such a manner as required by the Board of Directors or as the Audit Committee in its discretion may consider advisable.

- 4.31 Ensure the Board of Directors is aware of matters that may significantly impact on the financial condition or affairs of the business.
- 4.32 Prepare any reports required by regulations on the Audit Committee's mandate and activities to be included in the section on corporate governance in the Management Proxy Circular.

Evaluating Performance

- 4.33 Evaluate the Audit Committee's own performance on the basis of its mandate, both from the standpoint of the individual members and collectively as a committee, on an annual basis and report the findings to the Board of Directors.

Review of the Committee Mandate

- 4.34 Review the Audit Committee mandate annually and discuss any required changes first with the HR&CG Committee and with the Board of Directors.
- 4.35 Ensure that the mandate is approved or re-approved by the Board of Directors.

In the performance of its duties and responsibilities, the Audit Committee shall have access to any and all books and records of ProSep as necessary for the execution of the Audit Committee's obligations and may discuss with the officers of the Company and the external auditors of ProSep such accounts, records, documents and other matters considered appropriate.

No alteration of the roles and responsibilities of the Audit Committee shall be effective without the approval of the Board of Directors.