

ProSep Inc.
Unaudited Consolidated Interim Financial Statements
For the three and nine-month periods
ended September 30, 2010

ProSep Inc.
Consolidated statements of loss and comprehensive loss
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	8,140,093	9,186,352	26,200,779	31,689,103
Cost of goods sold	6,174,221	6,523,948	19,085,282	22,093,579
Gross margin	1,965,872	2,662,404	7,115,497	9,595,524
Expenses				
Sales and marketing	519,057	539,185	1,528,725	1,644,836
Research and development	35,392	95,140	187,311	395,773
General and administrative	2,252,802	2,660,772	7,165,430	7,861,851
	2,807,251	3,295,097	8,881,466	9,902,460
Loss before the following items:	(841,379)	(632,693)	(1,765,969)	(306,936)
Impairment of goodwill	-	-	-	6,500,000
Increase in fair value of long-term investments (Note 7)	-	(400,000)	(375,000)	(400,000)
Net financial charges (Note 3)	528,360	2,742,592	1,695,188	4,773,825
Amortization	361,961	410,637	1,106,661	1,180,816
(Gain) Loss on sale of assets	(800)	-	25,468	-
Loss before income taxes	(1,730,900)	(3,385,922)	(4,218,286)	(12,361,577)
Current tax provision (recovery)	15,486	(74,047)	(351,756)	111,038
Future tax provision (recovery)	(201,396)	128,383	(712,156)	100,011
Income taxes (recovery)	(185,910)	54,336	(1,063,912)	211,049
Net loss	(1,544,990)	(3,440,258)	(3,154,374)	(12,572,626)
<i>Weighted average number of shares (basic and diluted)</i>	<i>191,767,990</i>	<i>130,840,835</i>	<i>177,227,930</i>	<i>86,819,126</i>
<i>Basic and diluted loss per share (Note 5)</i>	<i>-0.01</i>	<i>-0.03</i>	<i>(0.02)</i>	<i>(0.14)</i>

Statement of Comprehensive Loss

	2010		2009	
	\$	\$	\$	\$
Net loss	(1,544,990)	(3,440,258)	(3,154,374)	(12,572,626)
Foreign currency translation adjustment (Note 14)	(875,206)	-	422,105	-
Comprehensive loss	(2,420,196)	(3,440,258)	(2,732,269)	(12,572,626)

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

ProSep Inc.
Consolidated balance sheets

	Unaudited September 30,	Audited December 31,
	2010	2009
	\$	\$
Assets		
Current assets		
Cash	2,522,446	7,689,695
Restricted cash (Note 6)	-	2,022,940
Receivables	14,087,022	12,807,205
Inventories	318,418	392,709
Prepaid expenses	707,225	665,162
Income tax recoverable	897,707	544,177
Future income tax assets	258,724	207,698
	18,791,542	24,329,586
Long-term investment (Note 7)	3,729,775	3,425,000
Property and equipment	1,214,122	1,526,561
Goodwill	15,133,317	15,195,645
Intangible assets	8,373,991	8,918,517
	47,242,747	53,395,309
Liabilities		
Current liabilities		
Bank credit facilities (Note 8)	-	5,006,206
Accounts payable and accrued liabilities	11,921,011	12,836,057
Deferred revenue	224,717	71,796
Current portion of long term debt	1,679,001	1,672,602
	13,824,729	19,586,661
Long-term debt (Note 9)	10,680,456	11,689,450
Future income tax liabilities	1,000,616	1,661,127
Pension obligation	661,214	495,440
	26,167,015	33,432,678
Shareholders' equity		
Share capital (Note 10)	75,725,324	72,010,934
Contributed surplus	11,767,651	11,499,512
Accumulated other comprehensive income	2,322,616	1,900,511
Deficit	(68,739,859)	(65,448,326)
	21,075,732	19,962,631
	47,242,747	53,395,309

Approved by the Board

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

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

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ProSep Inc.
Consolidated statements of contributed surplus
(unaudited)

	Nine-month period ended September 30, 2010				Total contributed surplus
	Stock-based compensation	Warrants	Conversion feature of loans	Other	
	\$	\$	\$	\$	
Contributed surplus, beginning of period	2,909,496	660,828	171,560	7,757,628	11,499,512
Stock-based compensation and restricted share units (Note 4)	350,698	-	-	-	350,698
Vested restricted share units settled in cash	(68,670)	-	-	-	(68,670)
Vested restricted share units	(13,889)	-	-	-	(13,889)
Contributed surplus, end of period	<u>3,177,635</u>	<u>660,828</u>	<u>171,560</u>	<u>7,757,628</u>	<u>11,767,651</u>

	Nine-month period ended September 30, 2009				Total contributed surplus
	Stock-based compensation	Warrants	Conversion feature of loans	Other	
	\$	\$	\$	\$	
Contributed surplus, beginning of period	2,548,774	8,000,821	1,977,544	-	12,527,139
Stock-based compensation and restricted share units	262,877	-	-	-	262,877
Induced conversion and settlement of convertible debentures	-	-	(1,977,544)	417,635	(1,559,909)
Issuance of new convertible debentures	-	-	171,560	-	171,560
Contributed surplus, end of period	<u>2,811,651</u>	<u>8,000,821</u>	<u>171,560</u>	<u>417,635</u>	<u>11,401,667</u>

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

ProSep Inc.

**Consolidated statements of deficit and accumulated other comprehensive income
(unaudited)**

Deficit	Nine months ended September 30,	
	2010	2009
	\$	\$
Deficit, beginning of period	(65,448,326)	(48,485,076)
Share issue costs (Note 10)	(137,159)	(886,470)
Inducement for debt conversion	-	(2,198,397)
Net loss	(3,154,374)	(12,572,626)
Deficit, end of period	(68,739,859)	(64,142,569)

Accumulated other comprehensive income

	2010	2009
	\$	\$
Balance, beginning of period	1,900,511	-
Foreign currency translation adjustment	422,105	-
Balance, end of period	2,322,616	-

At September 30, 2010, the sum of deficit and Accumulated other comprehensive income is \$66,417,243.

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

ProSep Inc.
Consolidated statements of cash flows
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Operating activities				
Net loss	(1,544,990)	(3,440,258)	(3,154,374)	(12,572,626)
Interest received on long-term investment	-	11,239	-	387,576
Items not affecting cash				
Stock-based compensation	131,246	100,163	350,698	262,877
Amortization of property and equipment	179,350	241,101	564,795	671,928
Amortization of intangible assets	182,611	169,679	541,866	509,031
(Gain) Loss on sale of asset	(800)	-	25,468	-
Accretion on long-term debt	15,585	47,883	43,451	421,785
Impairment of goodwill	-	-	-	6,500,000
Increase in fair value of long-term investment	-	(400,000)	(375,000)	(400,000)
Periodic pension cost in excess of contribution	99,528	35,255	165,773	125,879
Future income taxes (recovery)	(201,396)	250,010	(712,156)	221,638
Unrealized exchange loss (gain)	91,636	(598,793)	574,971	(711,896)
	(1,047,230)	(1,512,178)	(1,974,508)	(2,512,265)
Changes in operating working capital items	(303,470)	(4,736,145)	(2,869,916)	(7,696,420)
	(1,350,700)	(6,248,323)	(4,844,424)	(10,208,685)
Investing activities				
Restricted cash	5,065,479	-	2,022,940	-
Disposal of tangible assets	801	-	1,355	-
Subsidies on intangible assets	(222)	-	44,696	-
Acquisition of property and equipment	(48,516)	(138,760)	(293,328)	(480,788)
	5,017,542	(138,760)	1,775,663	(480,788)
Financing activities				
Restricted cash released	-	-	-	4,196,832
Bank credit facilities	(5,981,866)	(236,356)	(4,686,052)	(1,835,292)
Increase in long term debt	-	-	-	67,906
Shares issued (net of expenses)	-	4,113,530	3,563,344	4,113,530
Repayment of long-term debt	(12,112)	(207,547)	(802,004)	(1,059,386)
	(5,993,978)	3,669,627	(1,924,712)	5,483,590
Decrease in cash	(2,327,136)	(2,717,456)	(4,993,473)	(5,205,883)
Effect of exchange rate on cash	(20,666)	(37,596)	(173,782)	271,426
Cash, beginning of period	4,870,248	5,435,714	7,689,701	7,615,119
Cash, end of period	2,522,446	2,680,662	2,522,446	2,680,662

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

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods ended September 30, 2010 and 2009

1. Financial Statement Presentation and Going Concern

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial statements, following the same accounting policies as those outlined in Note 2 to the consolidated financial statements for the year ended December 31, 2009.

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

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

The Company has incurred a loss of \$3,154,374 for the nine-month period ended September 30, 2010, has an accumulated deficit of \$68,739,859 and has not so far generated positive cash flows from operations. In addition, the Company is subject to certain restrictive covenants. Accordingly, there exists significant doubt that the Company would be able to continue as a going concern at September 30, 2010. These conditions require that the Company continues to seek external sources of financing in order to continue its operations and to achieve profitability in the future.

At September 30, 2010, the Company had a cash balance of \$2,522,446. Taking into consideration the senior overdraft facility (see Note 8), the Company believes that it has sufficient liquidity to meet its obligations for the next twelve months.

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

2. Segmented Information

Operating Segments

The Company designs, develops and manufactures process solutions to treat produced water, oil and gas for the upstream oil and gas industry. Segments are based on geographic locations except for Corporate Office that was separated based on its distinct operations. US, European & Middle East and Asia Pacific operations relate to manufacturing and commercialization of process solutions. The former Product Development segment has been integrated into European & Middle East Operations to represent the unit's operational functionality. Comparable information has been reclassified accordingly.

The accounting policies that apply to the reportable segments are the same as those used to prepare the consolidated financial statements.

ProSep Inc.

Notes to the consolidated financial statements (Unaudited)

For the three-month and nine-month periods ended September 30, 2010 and 2009

2. Segmented Information (continued)

Revenue and Expenses by Segment

For the three-month period ended September 30, 2010

	US operations	European & Middle-East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	5,437,821	750,922	1,951,350	-	-	8,140,093
Revenue inter-segment	52,991	-	-	-	(52,991)	-
Total revenue	5,490,812	750,922	1,951,350	-	(52,991)	8,140,093
Cost of goods sold	4,065,748	344,183	1,817,281	-	(52,991)	6,174,221
Gross margin	1,425,064	406,739	134,069	-	-	1,965,872
Operating expenses	1,221,612	655,799	188,799	741,041	-	2,807,251
EBITDA*	203,452	(249,060)	(54,730)	(741,041)	-	(841,379)

Three clients of the US operations represented respectively 20.3%, 13.4% and 9% of the Company's revenue and one client of the Asia Pacific operations represented 9.4% of the Company's revenue for the three-month period ended September 30, 2010.

For the three-month period ended September 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	5,827,616	1,154,924	2,203,812	-	-	9,186,352
Revenue inter-segment	-	-	-	-	-	-
Total revenue	5,827,616	1,154,924	2,203,812	-	-	9,186,352
Cost of goods sold	4,307,571	470,624	1,745,753	-	-	6,523,948
Gross margin	1,520,045	684,300	458,059	-	-	2,662,404
Operating expenses	1,366,859	901,262	327,287	699,689	-	3,295,097
EBITDA*	153,186	(216,962)	130,772	(699,689)	-	(632,693)

One client from the Asia Pacific operations represented 14.5% of the Company's revenue and two clients of the US operations represented 15% and 13.5% of the Company's revenue for the three-month period ended September 30, 2009.

For the nine-month period ended September 30, 2010

	US operations	European & Middle-East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	16,421,372	4,969,021	4,810,386	-	-	26,200,779
Revenue inter-segment	94,556	9,750	-	-	(104,306)	-
Total revenue	16,515,928	4,978,771	4,810,386	-	(104,306)	26,200,779
Cost of goods sold	12,536,009	2,209,674	4,443,905	-	(104,306)	19,085,282
Gross margin	3,979,919	2,769,097	366,481	-	-	7,115,497
Operating expenses	3,863,793	2,080,783	540,831	2,396,059	-	8,881,466
EBITDA*	116,126	688,314	(174,350)	(2,396,059)	-	(1,765,969)

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods ended September 30, 2010 and 2009****2. Segmented Information (continued)**

Two clients of the US operations represented 33.2% and 12.4% of the Company's revenue and one client of the European & Middle East operations represented 11.6% of the Company's revenue for the nine-month period ended September 30, 2010.

For the nine-month period ended September 30, 2009

	US operations	European & Middle-East operations	Asia Pacific operations	Corporate Office	Consolidation & Inter segment eliminations	Consolidated operations
	\$	\$	\$	\$	\$	\$
Revenue	20,983,458	3,648,768	7,056,877	-	-	31,689,103
Revenue inter-segment	74,683	166,223	174,010	-	(414,916)	-
Total revenue	21,058,141	3,814,991	7,230,887	-	(414,916)	31,689,103
Cost of goods sold	15,092,697	1,845,262	5,570,535	-	(414,916)	22,093,578
Gross margin	5,965,444	1,969,729	1,660,352	-	-	9,595,525
Operating expenses	4,055,447	2,724,114	772,976	2,349,923	-	9,902,460
EBITDA*	1,909,997	(754,386)	887,376	(2,349,923)	-	(306,936)

Three clients of the US operations represented 14%, 11% and 10.5% of the Company's revenue and one client from the Asia Pacific operations represented 13.5% of the Company's revenue for the nine-month period ended September 30, 2009.

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

Geographic Information

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Sales to customers situated in:				
United States	1,799,468	3,253,729	4,770,049	12,050,804
Columbia	2,477,829	1,412,681	9,522,966	1,501,321
Kuwait	231,955	933,461	437,532	4,710,302
Malaysia	1,599,866	1,377,244	3,269,720	4,464,802
Venezuela	10,669	1,509	10,669	2,049,482
Norway	721,533	511,131	4,078,853	1,477,168
UK	-	66,667	395,208	266,667
Singapore	167,148	784,017	1,261,722	1,854,586
Other countries	1,131,625	845,913	2,454,060	3,313,971
	8,140,093	9,186,352	26,200,779	31,689,103

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods ended September 30, 2010 and 2009****3. Financial Charges**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Financial charges				
Other financial liabilities				
Interest on long-term debt	191,648	150,101	626,124	999,469
Accretion on long-term debt	15,585	47,883	43,451	421,785
Interest charges	182,312	64,526	375,408	365,345
Sub-total	389,545	262,510	1,044,983	1,786,599
Held for trading				
Interest revenue on held for trading financial assets	(7,271)	(32)	(25,823)	(65,776)
Sub-total	(7,271)	(32)	(25,823)	(65,776)
Loss on foreign exchange	146,086	403,150	676,028	976,038
Loss on induced conversion and settlement of debts	-	2,071,543	-	2,071,543
Other	-	5,421	-	5,421
	528,360	2,742,592	1,695,188	4,773,825

4. Restricted Share Units

For the three-month period ended September 30, 2010, no restricted share units were granted. During the nine-month period ended September 30, 2010, the Company granted respectively 3,650,000 restricted share units at a weighted average value of \$0.17 per share for a total of \$620,500, and 100,000 restricted share units at a weighted average value of \$0.125 per share for a total of \$12,500 (No amount was granted during the three-month period ended September 30, 2009 and 2,215,000 were granted during the nine-month period ended September 30, 2009 at a weighted average value of \$0.21 per share for a total value of \$462,150). The expenses recorded in the consolidated statements of loss and credited to contributed surplus for the three and nine-month periods ended September 30, 2010 were respectively \$131,246 and \$350,698 (\$100,163 and \$262,877 for the three and nine-month periods ended September 30, 2009).

	Nine-month period ended September 30, 2010
	Number of restricted share units
Balance, beginning of period	4,161,778
Granted	3,750,000
Forfeited	(373,565)
Vested	(458,213)
Balance, end of period	7,080,000

5. Basic and Diluted Loss Per Share

Basic and diluted loss per share has been calculated using the weighted-average number of common shares outstanding during the period: 191,767,990 shares for the three-month period ended September 30, 2010 and 177,227,930 shares for the nine-month period ended September 30, 2010 (respectively 130,840,835 shares and 86,819,126 shares for the three-month and nine-month periods ended September 30, 2009).

As a result of the loss for the three-month and the nine-month periods ended September 30, 2010, 4,460,242 potentially dilutive warrants, 420,000 potentially dilutive options and 7,080,000 potentially dilutive restricted share units as well as the convertible feature of the loan have not been included in the calculation of diluted loss per share because the effect would have been anti-dilutive (27,635,027 warrants, 420,000 options and 4,186,778 restricted share units as well as the convertible features of the debenture and secured loans during the period ending September 30, 2009).

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods ended September 30, 2010 and 2009****6. Restricted Cash**

At September 30, 2010, restricted cash related to letters of credit was fully released.

7. Long term Investment and Related Credit facility**Estimate of Fair Value**

At September 30, 2010, the Company held the same Class A-1, A-2, B and C Notes issued by Master Asset Vehicle II ("MAV 2") at December 31, 2009. Although there is evidence that some isolated transactions have occurred on some of these Notes since December 31, 2009, such transactions are not representative of an active market and accordingly quotations from an active market were not available at September 30, 2010. In fact, the Notes held by the Company have not traded in an active market since the restructuring of January 2009. On September 21, 2010, DBRS upgraded the rating of the Class A-1 Notes to A (high) (sf) from "A" (sf) and has removed the ratings from Under Review with Positive Implications, where they were placed on June 22, 2010. At the same time, DBRS has confirmed the BBB (low) (sf) rating of the MAVII Class A-2 Notes. Furthermore, Blackrock, the administrator of MAV 2, indicated that the ineligible Asset Tracking Notes Class 1 have also been reduced to zero following credit events in the underlying transactions. Nevertheless, the Ineligible Asset Tracking Notes Class 1 and 2 remain eligible under the put option arrangement with the National Bank of Canada.

The fair value of the Notes at September 30, 2010 was determined using a methodology consistent with the one used at December 31, 2009 which is based on management's judgment using available information and assumptions market participants would use in pricing such Notes at the balance sheet date. The Company took into account information provided by DBRS and BlackRock including current and anticipated credit ratings, composition and valuation estimates of the underlying assets, the estimate of the extent of leverage in the transactions underlying the MAV 2 Notes, general economic conditions and the price levels of the aforementioned irregular transactions in considering the fair value of the investment.

The Company estimated the fair value of the Notes using the discounted cash flow evaluation technique based on observable market assumptions to the extent possible. The main assumptions are comprised of the anticipated interest coupons, anticipated maturity of the Notes and an appropriate discount rate considering the underlying risks. The estimated discount rate was determined based on observable market assumptions for similar securities. The Company used the following discount factors to evaluate the Notes:

Replacement Notes	September 30, 2010		December 31, 2009	
	Expected Yield	Market related Discount factors (Canada Bond rate plus)	Expected Yield	Market related Discount factors (Canada Bond rate plus)
Class A-1	157 basis points*	265 basis points	283 basis points**	590 basis points
Class A-2	157 basis points*	605 basis points	283 basis points**	705 basis points
Class B	0 basis points*	840 basis points	283 basis points**	850 basis points
Class C	0 basis points	3,040 basis points	0 basis points	2,350 basis points
Ineligible	0 basis points	158 basis points	0 basis points	203 basis points

* September 30, 2010 bankers' acceptance swap rate of 2.07% minus 50 basis points

** December 31, 2009 bankers' acceptance swap rate of 3.33% minus 50 basis points

The risk premiums added to the basic bankers' acceptance rates reflect liquidity, credit and other risks.

The fair value of the put options embedded in the credit facility with the National Bank of Canada at September 30, 2010 was estimated using a valuation technique that incorporates a probability-weighted approach, applied to discounted future cash flows of the underlying IA and Eligible Notes while considering: (i) the fair value of such Notes, (ii) the maximum amount that can be drawn under the respective credit facilities, (iii) the recourse features of such drawings, and (iv) the discount rate relating to National Bank.

At September 30 2010, management concluded that the fair value of the Notes and the embedded put options remained unchanged from the June 30, 2010 value.

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods ended September 30, 2010 and 2009**

The 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. 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 future. Following the analysis, the Company identified that the discount rate related to Classes A-1 and A-2 of MAV 2, and the embedded put option on the IA Notes generate the vast majority of the volatility in the valuation model of the Notes and embedded put options fair value. For example, a 50 basis point increase or decrease in the discount rate for A-1 and A-2 Notes and the IA Notes put option would result in a \$98,822 change in the aggregate fair value of the Notes.

8. Bank Credit Facilities

The Company has a bank credit facility with DnB NOR consisting of a senior overdraft facility of 30,000,000 NOK (\$5,250,079 at September 30, 2010) and a guarantee facility of 15,000,000 NOK (\$2,625,039 at September 30, 2010) to be used to provide customer guarantees against advances received under sales contracts. The senior overdraft facility outstanding, secured by the assets of the Company, is nil at September 30, 2010 as one of the two annual clean downs was in progress (27,719,866 NOK (\$5,006,206) at December 31, 2009). The interest rate of 4.41% (3.96% in 2009) is the one month Norwegian Interbank Offered Rate (NIBOR) of 2.41% at September 30, 2010 (1.96% at December 31, 2009), plus 2% per annum.

The letters of guarantee outstanding amount to \$1,547,975 at September 30, 2010 (\$2,083,112 at December 31, 2009).

9. Long-term Debt

	September 30, 2010	December 31, 2009
	\$	\$
Convertible unsecured subordinated debenture in the nominal amount of \$3,953,500, bearing interest of 13.25% payable semi-annually and maturing on July 16, 2014.	3,643,976	3,600,526
Revolving credit facilities with National Bank of Canada bearing interest at prime rate (3% at September 30, 2010) minus 1% payable monthly (Note 7).		
- IA Notes facility, maturing in March 2011	2,523,797	2,523,797
- Less embedded put option	(2,470,000)	(2,400,000)
- Eligible Notes facility, first tranche, maturing in March 2012	2,524,528	2,524,753
- Eligible Notes facility, second tranche, maturing in March 2012	2,132,014	2,132,014
Obligations under capital leases	67,583	104,764
Credit facility with DnB NOR: The interest rate of 5.29% (5.11% in 2009) is the three month Norwegian Interbank Offered Rate (NIBOR) +3.00% and the principal amount is payable in 10 equal installments of 4,500,000 NOK (\$787,512 as of September 30, 2010) every 6 months. Expiration date is October 25, 2012.	3,937,559	4,876,198
	12,359,457	13,262,052
Current portion of long term debt	(1,679,001)	(1,672,602)
Long-term debt	10,680,456	11,689,450

ProSep Inc.**Notes to the consolidated financial statements (Unaudited)****For the three-month and nine-month periods ended September 30, 2010 and 2009****10. Share Capital**

	Number of shares	Amount \$
Balance, December 31, 2009	163,255,910	72,010,934
Issued pursuant to the private placement (a)	28,465,385	3,700,501
Issued shares (b)	76,713	13,889
Balance, September 30, 2010	<u>191,798,008</u>	<u>75,725,324</u>

- (a) Pursuant to a private placement closed on May 18, 2010, the Company issued a total of 28,465,385 common shares at a price of \$0.13 per common share for gross proceeds of \$3,700,501. The transaction costs of \$137,159 have been accounted for as an increase in the deficit (share issue expenses).
- (b) Pursuant to vested restricted share units that were exercised, the Company issued a total of 76,713 common shares

11. Defined Benefit Pension

For the three-month period ended September 30, 2010, a net amount of \$99,528 has been recorded in the statement of loss to account for the increase in the pension obligation (net amount for \$35,255 for the three months ended September 30, 2009). For the nine-month period ended September 30, 2010, a net amount of \$165,773 has been recorded in the statement of loss to account for the increase in the pension obligation (net amount of \$125,879 for the nine-month period ended September 30, 2009).

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net periodic benefit cost	<u>\$ 99,528</u>	<u>\$ 35,255</u>	<u>\$ 165,773</u>	<u>\$ 125,879</u>

12. Contingencies

In addition to the letters of guarantee disclosed in Note 8, the Company has an amount of \$335,826 (\$3,643,958 at December 31, 2009) of letters of guarantee outstanding with Export Development Canada.

13. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

14. Self-sustaining Foreign Operations

Effective October 1, 2009, as all foreign subsidiaries were self-sustaining, the Company translates its foreign operations using the current rate method. As a result, the Company's non-monetary assets, liabilities and Shareholders' Equity decreased by \$875,206 for the three-month period ended September 30, 2010 and increased by \$422,105 for the nine-month period ended September 30, 2010.