THIRD REPORT OF THE MONITOR
KPMG INC.

Avis au lecteur : Ce document est la version originale anglaise.

Si vous désirez obtenir des informations en français sur ce document, prière de contacter un des représentants de KPMG Inc., contrôleur nommé par le tribunal de 2907160 Canada Inc. (anciennement connue sous le nom de ProSep Inc.).

M. Philippe Daneau, CPA, CA
514.940.8558
pdaneau@kpmg.ca

M. Carl Adjami, CPA, CA, PAIR
514.840.2323
cadjami@kpmg.ca

SUPERIOR COURT OF QUÉBEC
(COMMERCIAL DIVISION)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* RS.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OF PROSEP INC.

THIRD REPORT OF THE MONITOR KPMG INC.

TABLE OF CONTENTS

INDEX TO SCHEDULES

Schedule A – Cash Flow Projections for the period October 25 to December 6, 2013 (including Debtor's and Monitor's report thereon)

Schedule B – Summary of Variances – Actual vs. Projected Cash Flows for the period October 18 to November 15, 2013

Schedule C – Cash Flow Projections for period November 16, 2013 to January 17, 2014 (with notes and assumptions)

Schedule D – Debtor Representations on Cash Flow Projections

1. RESTRICTIONS AND SCOPE LIMITATIONS

1.1 In preparing this report, KPMG Inc. ("**KPMG**") has necessarily relied upon unaudited financial and other information supplied, and representations made, by management of ProSep Inc. ("**Management**"). Although this information has been subject to review, unless otherwise stated, KPMG has not conducted an audit, nor otherwise attempted to verify the accuracy or completeness of any of the information of ProSep Inc. ("**ProSep**" or the "**Company**") or its subsidiaries and affiliated companies. Accordingly, KPMG expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this report

1.2 Certain of the information referred to in this report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by the Canadian Institute of Chartered Accountants, has not been performed. Future oriented financial information referred to in this report was prepared based on Management's estimates and assumptions. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variances could be material.

1.3 All monetary amounts contained in this report are expressed in Canadian dollars, unless otherwise specified.

2. OVERVIEW

General Overview

2.1 On October 25, 2013, the Company filed a motion (the "**Initial Motion**") before this Honorable Court for the granting of an initial order (the "**Initial Order**") pursuant to the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), as well as for the issuance of an approval and vesting order (the "**Vesting Order**") to approve a transaction (the "**Transaction**") under an asset purchase agreement dated October 23, 2013 between the Company and PWA ProSep, Inc. as purchaser (the "**Purchaser**"), and Produced Water Absorbents, Inc. (the "**APA**").

2.2 On October 25, 2013, in support of the Initial Motion, KPMG, issued the Pre-Filing Report of the Proposed Monitor (the "**Pre-Filing Report**"), which included information regarding the Company's background and the events that have led to the commencement of the Company's proceedings under the CCAA (the "**CCAA Proceedings**"), some of which has not been repeated herein.

2.3 On October 28, 2013, the Court granted the Initial Order, which, amongst other things, provided the Company with a stay of proceedings until November 27, 2013 (the "**Initial Stay Period**"), and appointed KPMG as monitor under the CCAA (the "**Monitor**"). The Court also granted the Vesting Order on that date.

2.4 On November 15, 2013, the Transaction closed, and the purchase price (net of a holdback in accordance with the APA of $100,000 – the "**Net Purchase Price**") as required in the APA was remitted to the Company. On the same day, the Monitor filed with this Court a certificate confirming that all conditions to the closing of the Transaction had been either satisfied or waived by the parties and that the Net Purchase Price had been paid.

2.5 The Monitor understands that the Company has filed a motion (the "**Motion**") with this Court for an order requesting, amongst other things:

- An extension of the Initial Stay Period to January 17, 2014 (the "**Extended Stay Period**");
- Authorization to establish a procedure with respect to the identification, the determination, the resolution or the adjudication of all claims against the Company, its directors and officers (the "**Claims Process**");
- Authorization to file a plan of compromise under the CCAA (the "**Plan**");
- Authorization to convene, hold and conduct a meeting of the Company's creditors to vote on the Plan (the "**Creditors Meeting**"); and

- The holding of a hearing to consider and, if appropriate to sanction the Plan.

Purpose of this report

2.6 The purpose of this, the Monitor's Third Report ("**Third Report**"), is to provide this Court with information regarding the following:

a. The activities of the Company subsequent to the rendering of the Initial Order;

b. The activities of the Monitor since the rendering of the Initial Order;

c. The Company's actual cash flows to date as compared to projected amounts;

d. The Company's cash flow projections during the CCAA Proceedings;

e. The proposed Claims Process;

f. The Plan;

g. The proposed Creditors Meeting; and

h. The observations and recommendations of the Monitor

2.7 The Third Report should be read in conjunction with the Motion and the Pre-Filing Report which includes additional information which has not been duplicated herein.

3. THE COMPANY'S ACTIVITIES SUBSEQUENT TO THE INITIAL ORDER

3.1 Since the rendering of the Initial Order, the Monitor notes that the Company has:

- Acted and continues to act in good faith and with due care and diligence;
- The Company has been paying its employees (and making the related government remittances) in the ordinary course;
- Been paying, or making arrangements to pay for any goods and services provided after the date of the Initial Order; and

- Prepared a Plan in a serious and diligent manner.

3.2 Furthermore, the Monitor notes that there has been no prejudice suffered by any of the Company's creditors since the date of the Initial Order, and that there are no reasons to believe that the Company's creditors would be prejudiced during the Extended Stay Period.

3.3 The Company requires the Extended Stay Period to implement the Claims Process, hold the Creditors Meeting, and, if applicable apply to the Court for the Sanction Order and implement the Plan.

3.4 The Monitor supports the Company's request for the Extended Stay Period.

4. THE MONITOR'S ACTIVITIES SINCE THE RENDERING OF THE INITIAL ORDER

4.1 Since the rendering of the Initial Order, the Company has provided the Monitor with its full cooperation, and access to its premises, as well as its books and records. The Monitor has implemented procedures to ensure a weekly monitoring of the receipts and disbursements in relation to the cash flow projections (the "**Initial Cash Flow**") that were provided to the Court shortly following the rendering of the Initial Order. A copy of the Initial Cash Flow has been appended as Schedule A.

4.2 On November 1, 2013, the Monitor sent, by regular mail, a notice of the Company's CCAA Proceedings to all of the Company's known creditors. In addition, the Monitor posted on its web site a copy of the Initial Order and the Approval and Vesting Order, a list of the Company's known creditors as well as the notice of the CCAA Proceedings.

4.3 On November 2 and November 9, 2013, the Monitor published a notice of the Company's CCAA Proceedings in La Presse, in accordance with section 23 of the CCAA.

4.4 The Monitor complied with its obligations required under in the APA, to the satisfaction of the Purchaser.

5. CASH FLOW

Actual Cash Flows vs. Projections

5.1 The Monitor has reviewed the Company's actual cash flow for the three week period from October 25 to November 15, 2013 ("**Period to Date**") as compared to the Initial Cash Flow. In general, and except as noted below, the Company's actual cash flow has been consistent with the projections, save for some timing differences. A summary of the variances between the actual and projected cash flows for the Period to Date is included as Schedule B.

5.2 The most significant variance between the Company's actual cash flow compared to the projections for the Period to Date is that the Net Purchase Price was paid to the Company on closing, whereas the Company, in preparing the Initial Cash Flow, had contemplated that the Net Purchase Price would be held in trust by the Monitor, pending the acceptance of the Plan. This variance is of no incidence to the Company's creditors.

5.3 The Company has, for the most part, paid its suppliers for goods supplied and services rendered since the date of the Initial Order. At the date of this report, there remains some outstanding post-filing obligations, which the Company intends to pay over the next few weeks.

Cash Flow Projection

5.4 Management has prepared a cash flow projection for the period November 16, 2013 to January 17, 2013 (the "**Updated Cash Flow**") to cover the Extended Stay Period, subject to the approval of this Honorable Court. The Updated Cash Flow, as well as the Debtor's Report on the Cash Flow Projections is appended as Schedule C and D.

5.5 The Monitor has reviewed the Updated Cash Flow and its underlying assumptions. Nothing has come to the Monitor's attention that indicates that the Updated Cash Flow is unreasonable under the circumstances, based on the Monitor's understanding of the details of the Company's cash flow, and its monitoring of the Company's actual cash flows to date.

5.6 The Updated Cash Flow indicates that the Company projects to have sufficient cash reserves to pay for its post-filing obligations during the Extended Stay Period, which is the time frame it anticipates is required to complete the implementation of the Plan.

5.7 The following table summarizes the Updated Cash Flow for the Extended Stay Period:

ProSep Inc. - Cash Flow Projections for the Period November 16, 2013 to January 17, 2014	Total
Cash Receipts	
Accounts Receivable Collections	50,130
Proceeds from Sale of Assets	-
Release of collateral	-
Total Cash Receipts	50,130
Cash Disbursements	
Salaries, Wages and Commissions	141,000
Occupancy and Office Expenses	40,300
Travel	25,000
Insurance	21,705
Professional Fees	80,000
Restructuring Fees	695,801
Remittance to Monitor	3,243,117
Other	47,250
Total Cash Disbursements	4,294,173
Net Cash Flow	(4,244,043)
Cash Balance - Beginning	5,144,589
Cash Balance - Ending	900,546

6. CLAIMS PROCESS

6.1 The Motion includes a request that the Court issue a Claims and Meeting Procedure Order ("**C&M Order**") to govern, *inter alia*, the Claims Process. We have summarized below the significant aspects of the Claims Process. Capitalized terms not otherwise defined in this section are as defined in the C&M Order.

- The establishment of a Claims Bar Date of December 9, 2013 for all claims except for certain Restructuring Claims arising out of a notice of resolution, repudiation or termination of a contract received by a creditor after November 22, 2013, to which a 10 day "**rolling bar date**" shall apply;

- The publishing of the Notice of the Claims Process by the Monitor in French in La Presse, and in English in The Gazette and The National Post, as soon as possible but no later than November 25, 2013;

- The mailing of the Claims Package by the Monitor (regular mail) to every Known Creditor by November 22, 2013;

- The posting by the Monitor of the Claims Package, the C&M Order and the Creditors' List on the Monitor's website within 5 days of the rendering of the C&M Order.

6.2 In addition to the above, the C&M Order also includes certain standard provisions for the review by the Monitor of the claims received as well as a procedure for the revision or disallowance of claims by the Monitor and the related appeal provisions by a creditor.

6.3 In light of the relatively small number of possible creditors given the Company's limited activities as a holding company, the Monitor is of the view that the contemplated Claims Process, and related timeline, will provide a reasonable opportunity for the Company's creditors to assert their claim in the context of the CCAA Proceedings.

7. THE PLAN

7.1 The Motion includes a request by the Company for authorization to file the Plan. Capitalized terms not otherwise defined in this section are as defined in the Plan.

7.2 We have summarized below the significant aspects of the Plan:

- On or before the Plan Implementation Date (that is the date on which all conditions precedent of the Plan, namely a favourable vote by the Affected Creditors and a final judgment of the Court sanctioning the Plan, will have been fulfilled), the Company is to remit to the Monitor, the following amounts for distribution (the "**Distribution Proceeds**"):

  - The proceeds, if any, from the disposition of the Company's Remaining Assets; plus;

  - The proceeds from the Transaction, less;

  - Amounts outstanding, if any, on account of Post-Filing Liabilities;

- Amounts owing, if any, which are subject to the CCAA Charges (as defined in the Initial Order);
- Amounts owing, if any, to governmental entities and which may be subject to a deemed trust claim in accordance with section 67(2) of the Bankruptcy and Insolvency Act ("**BIA**");
- Amounts owing, if any, to employees for wages earned between the date of the Initial Order and the Plan Implementation Date;
- Amounts owing, if any, to employees for wages outstanding as at the date of the Initial Order, but which would be subject to a priority under s. 136 (1)(d) of the BIA.

- The distribution by the Monitor, as soon as possible after the Plan Implementation Date, subject to amounts being reserved pending the resolution of any disputed claims, of the Distribution Proceeds, to the Affected Creditors as follows:
  - The lesser of each Affected Creditor's proven claim and $2,000 (the "**First Level Distribution**");
  - The balance of the Distribution Proceeds, net of the aggregate of the First Level Distribution, to the Affected Creditors, in proportion of their proven claims net of the amounts received on account of the First Level Distribution.
- On the Plan Implementation Date, a release and discharge of the Company, its past and present directors, its employees, financial advisors, legal counsel and agents (the "**Plan Released Parties**");
- On the Plan Implementation Date, a release and discharge for the benefit of the Purchaser, Produced Water Absorbents, Inc. ("**PWA**") and their respective past and present directors, employees, advisors, legal counsel and agents, in respect of any possible responsibility as Employer Successor vis a vis the Company's employees (the "**Employer Successor Release**"); and

- On the Plan Implementation Date, a release and discharge of the Monitor and its directors, employees, advisors, legal counsel and agents.

7.3 The actual amounts due to the Company's unsecured creditors will be determined following the completion of the Claims Process. Based on the level of unsecured claims according to its records, the Company estimates that the range of recovery by the Affected Creditors could be between 48% and 55%.

8. THE MONITOR'S ANALYSIS OF THE PLAN

8.1 The acceptance of the Plan is subject to a favorable vote, by a majority in number, representing two thirds in value of the proven claims of those creditors present in person or by proxy at the Creditors's Meeting.

8.2 In the event the Plan is not accepted, the Company may lose the protection awarded by the stay of proceedings, and its creditors could be in a position to commence actions to recover amounts due to them, to the detriment of other creditors of equal ranking, which would require the Company to expend resources to defend such actions, reducing the amounts otherwise available for its creditors. In such a case, the Company will likely have no alternative than to immediately file for bankruptcy so that its assets can be distributed in an orderly fashion to its unsecured creditors.

8.3 The gross realization generated from the Company's assets within the context of a bankruptcy will be no different than the Distribution Proceeds, as virtually all of the Company's assets have already been converted to cash pursuant to the Transaction.

8.4 In the event of a bankruptcy, the amount that will be available to the Company's unsecured creditors for distribution is likely to be lower than in the context of the CCAA Proceedings as there will be further costs and delays incurred to administer the bankrupt estate.

8.5 The acceptance of the Plan will allow for a timely and orderly distribution of the Company's assets on a fair and equitable basis to its unsecured creditors, within a court supervised process.

8.6 In addition, the acceptance of the Plan will allow for the Company's smaller Affected Creditors to receive full payment on their claims, as opposed to a bankruptcy where they would only receive a partial payment (ie: 48% to 55% of their claim less any incremental bankruptcy estate administration costs).

8.7 The Monitor understands that the inclusion of the Employer Successor Release in the Plan by the Company was essentially done to reflect certain terms of the APA, at the request of PWA and the Purchaser.

8.8 The Monitor notes that, absent the Transaction, the Company would not have been in a position to file the Plan. As discussed in the Pre-Filing Report, the alternatives which would have been available to the Company had it not entered in the APA would have in all likelihood resulted in a recovery by the Company's creditors of a far lower amount than the Distribution Proceeds. PWA and the Purchaser have effectively been instrumental to the whole CCAA Proceedings, and their involvement benefits the Company's unsecured creditors

8.9 Overall, the Monitor is of the view that the Plan is fair and equitable to the Affected Creditors as it provides them with a recovery that is likely higher than in the context of a bankruptcy. Furthermore, the treatment of Unaffected Claims in the Plan is fair and reasonable in light of the rights of the Unaffected Creditors.

8.10 In the Monitor's view, it would be to the advantage of the Company's creditors that the Plan be accepted.

8.11 The Monitor recommends that Affected Creditors vote in favor of the Plan, for the following reasons:

- The acceptance of the Plan will allow for the Affected Creditors to receive a distribution with minimal delays compared to a bankruptcy;

- The acceptance of the Plan will allow the Company's smaller Affected Creditors to fully recover their claims as opposed to receiving a partial dividend in a bankruptcy; and

- A bankruptcy, which is the likely consequence of the Plan not being accepted, would result in addition estate administration costs, reducing the amounts available to the Affected Creditors.

9. THE CREDITORS MEETING

9.1 Finally, the Motion includes a request by the Company for an order allowing it to hold a meeting of creditors to consider and vote on the CCAA Plan (the "**Creditors' Meeting**"). We have summarized below the salient terms of the proposed Creditors Meeting. Capitalized terms not defined in the section are as defined in the Motion.

- The Creditors' Meeting is to be held on December 16, 2013, at the offices of the Company's counsel;
- The Monitor shall preside as chair of the Creditors Meeting;
- Any creditors who wish to appoint a Proxy shall do so on or prior to December 13, 2012;
- The Monitor is to post on its website the Meeting Materials on or before November 22, 2013;
- The Monitor is to publish a Notice of the Creditors Meeting in La Presse, in French, and in The National Post and The Gazette, in English, on or before November 25, 2013;
- The Monitor is to send, by regular mail to all Known Creditors, a copy of the Creditor Meeting Materials, by no later than the end of business on November 22, 2013;

9.2 The Monitor is of the view that the proposed Creditors' Meeting should allow for the Company's creditors to fairly express their intention in terms of whether or not to accept the Plan.

9.3 In the event of a favorable vote on the Plan by the Affected Creditors, the Company requests the Court to hold a hearing, on December 20, 2013 to sanction the Plan ("**Sanction Hearing**"). Following the Creditors' Meeting, the Monitor will report to this Court on its outcome and the appropriateness to hold the Sanction Hearing.

9.4 Provided the Sanction Order is granted, on or about December 20, 2013, it is currently anticipated that the Plan will be implemented before the end of the Extended Stay Period.

10. OBSERVATIONS RECOMMENDATIONS

10.1 The Monitor observes that the Company, given its liquidity profile, had identified the Transaction as being the only viable means for a significant recovery for its creditors. The Company has now closed the Transaction and is moving in an expeditious manner with the view of making a distribution to its creditors, subject to the acceptance of the Plan by the Affected Creditors and the sanction of the Court.

10.2 In light of the reasons stated above, the Monitor supports the Company's Motion filed with the Court for:

- An extension of the stay of proceedings to January 17, 2014;
- The establishment of the Claims Process including the setting of a claims bar date;
- The filing a plan of compromise under the CCAA;
- The holding of a meeting of the Company's creditors to vote on the Plan on December 16, 2013; and
- The holding of a hearing to consider and, if appropriate to sanction the Plan, on December 20, 2013.

In addition, the Monitor recommends that the Company's Affected Creditors vote in favor of the Plan.

KPMG INC.

KPMG Inc. in its sole capacity as Proposed Monitor of ProSep Inc.
Acting trustees: Dev A. Coossa & Phillip J. Reynolds

Schedule A

SUPERIOR COURT OF QUÉBEC
(COMMERCIAL DIVISION)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* RS.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF PROSEP INC.

REPORT OF THE MONITOR
KPMG INC.

ON THE PROJECTED CASH FLOWS

INDEX TO SCHEDULES

The attached statement of projected cash-flow (the "**Cash Flow**") of ProSep Inc. ("**ProSep**" or the "**Company**"), as of **the 6th day of November, 2013**, consisting of a six (6) week period from October 25, 2013 to December 6, 2013, has been prepared by the management of the Company for the purpose of setting out the liquidity requirements of the Company during the six week projected period, using the assumptions set out in the Notes and Summary of Assumptions (the "Notes and Assumptions").

The Cash Flow has been updated from the version that was appended to the Monitor's Pre-Filing Report to reflect the Company's actual transactions since that time.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the Company. Since the Notes and Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow. We have also reviewed the support provided by management for the Notes and Assumptions and the preparation and presentation of the Cash Flow.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

a) the Notes and Assumptions are not consistent with the purpose of the Cash Flow;

b) as at the date of this report, the Notes and Assumptions are not reasonably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow, given the Notes and Assumptions; or

c) the Cash Flow does not reflect the Notes and Assumptions.

Since the Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented even if the Notes and Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon us in preparing this report.

The Cash Flow has been prepared solely for the purpose of reflecting management's best estimate of the cash flow of the Company in its CCAA proceedings, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal, this 6th day of November, 2013.

KPMG INC.

In its capacity as Monitor of ProSep Inc.

Per: Dev A. Coossa, CIRP
Senior Vice-President

ProSep Inc.
Court No.: 500-11-045554-132
Cash Flow Projections for the Period October 25, 2013 to December 13, 2013

SCHEDULE A

	Week Ending						
	1-Nov-13	8-Nov-13	15-Nov-13	22-Nov-13	29-Nov-13	6-Dec-13	Total
Cash Receipts							
Accounts Receivable Collections	-	-	-	-	-	18,865	18,865
Release of collateral	-	-	440,000	-	-	-	440,000
Total Cash Receipts	-	-	440,000	-	-	18,865	458,865
Cash Disbursements							
Salaries, Wages and Commissions	-	52,205	15,438	55,693	15,438	-	138,774
Occupancy and Office Expenses	-	22,990	11,788	4,000	11,500	21,490	71,767
Travel	-	-	-	20,000	-	-	20,000
Insurance	25,983	-	-	-	-	21,705	47,688
Professional Fees	-	-	93,808	64,444	3,000	17,045	178,297
Restructuring Fees	50,030	-	-	-	195,000	-	245,030
Other	2,201	37,125	22,917	9,333	6,000	21,917	99,493
Total Cash Disbursements	78,214	112,320	143,951	153,470	230,938	82,156	801,049
Net Cash Flow	(78,214)	(112,320)	296,050	(153,470)	(230,938)	(63,291)	(342,184)
Cash Balance - Beginning	469,677	391,463	279,143	575,192	421,722	190,784	469,677
Cash Balance - Ending	391,463	279,143	575,192	421,722	190,784	127,493	127,493

UNAUDITED . PREPARED BY MANAGEMENT

ProSep Inc.
Per: BENOIT CROWE

ProSep Inc. (the "Company" or "ProSep")
Weekly Projected Cash Flows
Notes and Summary of Assumptions

Note 1: The purpose of these projected cash flows ("Cash Flows") is to set out the liquidity requirements and projected expenses of ProSep during the relevant portion of the CCAA proceedings.

Note 2: Proceeds from the release of collateral have been projected based on the Company meeting the necessary requirements stipulated in an agreement between it and the primary lender of the Company's operating subsidiaries.

Note 3: Salaries, wages and commissions have been projected based on anticipated personnel levels during the CCAA Proceedings and include the associated benefits.

Note 4: Occupancy and Office Expenses have been projected based on historical levels, taking into account management's plans during the CCAA Proceedings.

Note 5: Insurance premiums have been projected based on actual premiums for the period.

Note 6: Professional Fees and Restructuring Fees based on the projected fees of the various professionals (monitor and its counsel, corporate counsel) involved in the Company's CCAA Proceedings.

06/11/2013

SCHEDULE B

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: **01 - MONTREAL**
S.C.: 500 - 11 - 045554 - 132
SUPER.:

SUPERIOR COURT
COMMERCIAL DIVISION

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF:

PROSEP INC., body politic and corporate, duly incorporated according to law, and having its head office and principal place of business at 2015 Peel Street, Suite 630, in the city of Montréal, province of Québec H3A 1T8.

Debtor Company

- AND -

KPMG INC.

Proposed Monitor

DEBTOR COMPANY'S REPORT ON CASH-FLOW STATEMENT (UPDATED)

The management of **PROSEP INC.** has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent Debtor Company, as of the 6th day of November, 2013 consisting of the period from October 25, 2013 to December 6, 2013.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection, and the probable assumptions are suitably supported and consistent with the plans of the insolvent Debtor Company and provide a reasonable basis for the projection.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The projection has been prepared based on a set of probable and hypothetical assumptions. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montréal, this 6th day of November 2013

PROSEP INC.

Per: Benoit Crowe

Schedule B

Schedule B

ProSep Inc. - Cash Flow Projections for the Period October 18 to November 15, 2013 (Actual vs. Projected)			
	Actual	**Projected**	**Variance**
Cash Receipts			
Accounts Receivable Collections	26,817	-	26,817
Proceeds from Sale of Assets	4,368,117	-	4,368,117
Release of collateral	425,800	440,000	(14,200)
Total Cash Receipts	4,820,734	440,000	4,380,734
Cash Disbursements			
Salaries, Wages and Commissions	42,970	67,643	(24,673)
Occupancy and Office Expenses	19,787	34,777	(14,990)
Travel	-	-	-
Insurance	30,332	25,983	4,349
Professional Fees	-	93,808	(93,808)
Restructuring Fees	50,030	50,030	-
Other	2,703	62,243	(59,540)
Total Cash Disbursements	145,822	334,485	(188,662)
Net Cash Flow	4,674,912	105,515	4,569,396
Cash Balance - Beginning	469,677	469,677	-
Cash Balance - Ending	5,144,589	575,192	4,569,396

Schedule C

ProSep Inc.
Court No.: 500-11-045554-132
Cash Flow Projections for the Period November 16, 2013 to January 17, 2014

SCHEDULE C

	Week Ending									
	22-Nov-13 Projected	**29-Nov-13 Projected**	**6-Dec-13 Projected**	**13-Dec-13 Projected**	**20-Dec-13 Projected**	**27-Dec-13 Projected**	**3-Jan-14 Projected**	**10-Jan-14 Projected**	**17-Jan-14 Projected**	**Total Projected**
Cash Receipts										
Accounts Receivable Collections	-	34,800	-	-	-	15,330	-	-	-	50,130
Proceeds from Sale of Assets									-	-
Release of collateral	-	-	-	-	-	-	-	-	-	-
Total Cash Receipts	**-**	**34,800**	**-**	**-**	**-**	**15,330**	**-**	**-**	**-**	**50,130**
Cash Disbursements										
Salaries, Wages and Commissions	43,000	-	40,000	-	29,000	-	29,000	-	-	141,000
Occupancy and Office Expenses	2,000	11,500	10,100	-	4,700	12,000	-	-	-	40,300
Travel	20,000	-	-	-	5,000	-	-	-		25,000
Insurance	-	-	21,705	-	-	-	-	-		21,705
Professional Fees	63,000	-	17,000	-	-	-	-	-	-	80,000
Restructuring Fees	377,801	-	180,500	-	81,250	-	-	56,250	-	695,801
Remittance to the Monitor						3,243,117				3,243,117
Other	9,333	6,000	21,917	5,000	-	-	-	-	5,000	47,250
Total Cash Disbursements	515,134	17,500	291,221	5,000	119,950	3,255,117	29,000	56,250	5,000	4,294,173
Net Cash Flow	**(515,134)**	**17,300**	**(291,221)**	**(5,000)**	**(119,950)**	**(3,239,787)**	**(29,000)**	**(56,250)**	**(5,000)**	**(4,244,043)**
Cash Balance - Beginning	5,144,589	4,629,454	4,646,754	4,355,533	4,350,533	4,230,583	990,796	961,796	905,546	5,144,589
Cash Balance - Ending	4,629,454	4,646,754	4,355,533	4,350,533	4,230,583	990,796	961,796	905,546	900,546	900,546

UNAUDITED . PREPARED BY MANAGEMENT

ProSep Inc.
Per: BENOIT CROWE

Schedule C

ProSep Inc. (the “Company” or “ProSep”)
Weekly Projected Cash Flows
Notes and Summary of Assumptions

Note 1: The purpose of these projected cash flows (“Cash Flows”) is to set out the liquidity requirements and projected expenses of ProSep during the relevant portion of the CCAA Proceedings.

Note 2: The opening cash balance includes the proceeds from the closing of the Asset Purchase Agreement entered into by ProSep, PWA ProSep, Inc. and Produced Water Absorbents, Inc. (“APA”), net of an amount transferred to the Monitor to be held in trust in accordance with the APA, pending the resolution of certain potential employee claims.

Note 3: Salaries, wages and commissions have been projected based on anticipated personnel levels during the CCAA Proceedings and include the associated benefits.

Note 4: Occupancy and Office Expenses have been projected based on historical levels, taking into account management’s plans during the CCAA Proceedings, including the decision to disclaim any contractual agreements.

Note 5: Insurance premiums have been projected based on actual premiums for the period.

Note 6: Professional Fees and Restructuring Fees based on the projected fees of the various professionals (monitor and its counsel, corporate counsel) involved in the Company’s CCAA Proceedings.

Note 7: The Remittance to the Monitor represents the net proceeds from the closing of the APA less the amounts granted as CCAA Charges in the Initial Order.

Note 8: The Cash Flows include the payment of any post-filing obligations incurred by the Company since the date of the Initial Order.

Note 9: The estimated ending cash balance will be used to fund any liabilities subject to the CCAA Charges. Any remaining funds will be transferred to the Monitor for distribution to the creditors.

Schedule D

SCHEDULE D

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01 - MONTREAL
S.C.: 500-11-045554-132

SUPERIOR COURT
COMMERCIAL DIVISION

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF:

PROSEP INC., body politic and corporate, duly incorporated according to law, and having its head office and principal place of business at 2015 Peel Street, Suite 630, in the city of Montréal, province of Québec H3A 1T8.

Debtor Company

- AND -

KPMG INC.

Proposed Monitor

DEBTOR COMPANY'S REPORT ON CASH-FLOW STATEMENT (UPDATED)

The management of **PROSEP INC.** has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent Debtor Company, as of the 18th day of November, 2013 consisting of the period from November 16, 2013 to January 17, 2014.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection, and the probable assumptions are suitably supported and consistent with the plans of the insolvent Debtor Company and provide a reasonable basis for the projection.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The projection has been prepared based on a set of probable and hypothetical assumptions. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montréal, this 18th day of November 2013

PROSEP INC.

Per: Benoit Crowe