

Consolidated Financial Statements

Conporec inc.

December 31, 2007 and 2006

Conporec inc.

December 31, 2007

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Auditors' Report

To the Shareholders of
Conporec Inc.

We have audited the consolidated balance sheet of Conporec Inc. (the "Company") as at December 31, 2007 and the consolidated statements of income, comprehensive income, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated April 20, 2007.

*Samson Bélair
Deloitte & Touche s.e.n.c.r.l.*

Chartered Accountants

March 14, 2008

Conporec inc.

Consolidated Statements of Income

Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
Revenues	7,554,207	8,003,307
Direct operating costs	6,480,099	6,651,659
Income before selling and administrative expenses and other items	1,074,108	1,351,648
Selling and administrative expenses	4,415,363	4,321,491
Loss before the undernoted items	(3,341,255)	(2,969,843)
Other items		
Depreciation of property, plant and equipment	590,648	597,084
Amortization of intangible assets	95,046	95,046
Interest on long-term debt and debentures	197,071	827,517
Interest and bank charges	129,256	56,473
Gain resulting from debt redemption (Note 6)	(6,924,155)	-
	(5,912,134)	1,576,120
Income (loss) before income taxes	2,570,879	(4,545,963)
Income taxes		
Current	-	435
Future (recovery)	-	(20,000)
Net income (net loss)	2,570,879	(4,526,398)
Net income (loss) per share – basic and diluted (Note 7)	0.21	(0.77)
Weighted average common shares outstanding	11,976,157	5,861,759

Conporec inc.

Consolidated Statements of Comprehensive Income Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
Net income (net loss)	2,570,879	(4,526,398)
Other comprehensive income, net of taxes		
Changes in unrealized gains and losses on translation		
of self-sustaining foreign subsidiary	(196,733)	68,200
Comprehensive income	2,374,146	(4,458,198)

Consolidated Statements of Deficit Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
Balance, beginning of year	(19,814,528)	(14,867,322)
Share issue costs	(520,755)	(420,808)
Net income (net loss)	2,570,879	(4,526,398)
Balance, end of year	(17,764,404)	(19,814,528)

Conporec inc.

Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006
	\$	\$
Assets		
Current assets		
Cash	1,024,152	306,101
Investments held for trading (Note 4)	311,742	3,951,056
Accounts receivable	1,781,297	3,497,583
Work in progress	785,197	319,715
Prepaid expenses	449,115	377,456
	4,351,503	8,451,911
Property, plant and equipment (Note 5)	15,116,500	10,860,384
Intangible assets	681,897	776,943
	20,149,900	20,089,238
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,879,359	5,025,630
Future income tax liabilities	50,000	50,000
Current portion of long-term debt (Note 6)	1,375,201	5,883,902
Current portion of debentures (Note 6)	65,712	7,081,319
	6,370,272	18,040,851
Long-term debt (Note 6)	281,611	161,060
Long-term debentures (Note 6)	98,567	131,423
	6,750,450	18,333,334
Shareholders' equity		
Share capital (Note 7)	24,130,837	17,985,929
Contributed surplus (Note 7)	460,370	390,123
Warrants (Note 7)	6,775,000	3,200,000
Deficit	(17,764,404)	(19,814,528)
Accumulated other comprehensive income	(202,353)	(5,620)
	13,399,450	1,755,904
	20,149,900	20,089,238

Commitments (Note 14)

Contingencies (Note 15)

On Behalf of the Board



Jean Beaudoin, Director



Laurier Pedneault, Director

Comporec inc.

Consolidated Statements of Cash Flows Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
Operating activities		
Net income (net loss)	2,570,879	(4,526,398)
Adjustments for:		
Depreciation of property, plant and equipment	590,648	597,084
Amortization of intangible assets	95,046	95,046
Accrued interest on long-term debt	-	35,110
Compounded interest on debentures	-	225,095
Stock-based compensation	70,247	140,108
Write-down of the investment	-	25,000
Future income taxes (recovery)	-	(20,000)
Gain on sell off of property, plant and equipment	12,495	-
Gain on debts and debentures redemption	(6,924,155)	-
	(3,584,840)	(3,428,955)
Net change in non-cash working capital items (Note 12)	732,874	365,134
	(2,851,966)	(3,063,821)
Investing activities		
Proceeds on sale of property, plant and equipment	16,000	-
Additions to property, plant and equipment	(4,435,259)	(397,660)
	(4,419,259)	(397,660)
Financing activities		
Common shares and debentures issuance	7,500,000	7,208,340
Decrease in bank loan	-	(38,400)
Common share and warrant issue costs	(520,755)	(420,808)
Increase in long-term debt	1,549,683	1,298,080
Repayment of long-term debt	(3,982,233)	(1,084,018)
	4,546,695	6,963,194
Effect of exchange rates on cash and cash equivalents	(196,733)	68,200
Net increase (decrease) in cash and cash equivalents		
during the year	(2,921,263)	3,569,913
Cash and cash equivalents, beginning of year	4,257,157	687,244
Cash and cash equivalents, end of year	1,335,894	4,257,157

Supplementary information (Note 12)

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

1. Incorporation, nature of business, and going concern

Incorporation and nature of business

The Company is incorporated under the Canada Business Corporations Act and operates in the field of integrated waste management and organic waste recycling via composting.

Going concern

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred recurring operating losses and its accumulated deficit amounts to \$17,764,404 as at December 31, 2007 and has negative operating cash flows of \$2,851,966 for the full year.

In March 2007, following a repayment \$3,750,000 and the issuance of 831,963 common share, the Company had redeemed debt totalling \$12,904,000 from its liabilities, resulting in a gain on debt redemption of \$6,924,000 (Note 6). On December 22, 2006 and February 21, 2007, Amsterdam Effectenkantoor B.V. («AEK») had completed a common share private investment totalling \$11,500,000 in the Company. This restructuring of the Company's debt and equity, the private investment and the revenues from current operations had ensured that the Company continues as a going concern throughout 2007.

The Company's going concern assumption is based on its ability to obtain additional financing to support its working capital needs and its development. The management is currently looking at various financing scenarios and financial plans that would insure continuity to its operation beyond December 31, 2008. These financial statements do not include any adjustments or reclassifications of assets and liabilities which might be necessary should the Company be unable to continue its operations.

2. Changes in accounting policies

Financial instruments

The Company adopted the following recommendations of CICA Handbook:

- a) Section 3855, "Financial Instruments – Recognition and Measurement". This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets or liabilities held for trading, financial assets available-for-sale and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.
- b) Section 1530, "Comprehensive Income". This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Shareholders' equity, which results from transactions and other events and circumstances from non-shareholder sources. These transactions and events include unrealized gains and losses resulting from changes in fair value of investments classified as available-for-sale and from foreign currency translation of self-sustaining foreign subsidiaries.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. Changes in accounting policies (cont'd)

Financial instruments (cont'd)

- c) Section 3861, Financial instruments – Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.
- d) Section 3251, Equity. This Section establishes standards for the presentation of equity and changes in equity during the reporting period.
- e) The Company has made the following classification:
 - Cash and temporary investments are classified as financial assets held for trading and are measured at fair value.
 - Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method.
 - Accounts payable and accrued liabilities, long-term debt and debentures are classified as other liabilities and measured at amortized cost using the effective interest method.

Transaction costs

Transaction costs will be capitalized to the cost of financial assets and liabilities classified as other than held for trading.

These new standards were applied retroactively as of January 1, 2007 without restatement of prior years figures other than for reclassifying the foreign currency translation adjustment to accumulated other comprehensive income. The adoption of these new standards did not have a significant impact on the financial statement. No adjustments were made.

Future accounting changes

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. Changes in accounting policies (cont'd)

Future accounting changes (cont'd)

Financial instruments

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation", and Section 1535, "Capital Disclosures". All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

The Company does not expect that the adoption of these new sections will have a material impact on its consolidated financial statements.

3. Accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Classification

Cash	Held for trading
Temporary investments	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debentures	Other liabilities
Long-term debt	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in revenues.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Company has not designated any non-derivative financial liabilities as held for trading.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. Accounting policies (cont'd)

Financial instruments (cont'd)

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Conporec SAS, Conporec Pty Ltd. and Biomax Inc. The accounts of the joint venture Conporec S & W Services, in which the Company holds a 50% ownership interest, are accounted for using the proportionate consolidation method. All intercompany balances and transactions were eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Foreign currency translation

Items denominated in foreign currencies and the financial statements of integrated foreign operations, Conporec SAS and Conporec Pty Ltd., are translated into Canadian dollars under the temporal method whereby monetary items on the balance sheet are translated using rates in effect at year-end, while non-monetary items are translated at historical exchange rates. Revenues and expenses (other than depreciation and amortization which are translated at the rates applicable to the corresponding assets) are translated using exchange rates in effect on the transaction date or at the average exchange rates for the year. Translation gains and losses are included in the statement of income.

The joint venture in which the Company holds an ownership interest is a self-sustaining foreign operation. The Company's share of assets and liabilities is translated at the prevailing rates at the balance sheet date. The Company's share of revenues and expenses is translated using the rates in effect on the transaction date. Gains and losses resulting from the translation of the financial statements of the joint venture are included in accumulated other comprehensive income until there is a reduction in the net investment.

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. Accounting policies (cont'd)

Revenue recognition

Revenues are recognized as the services are provided and recovery is reasonably certain.

Revenues and profits on construction contracts and the related royalty revenues are accounted for using the percentage of completion method whereby contract revenues and profit are recognized proportionately with the percentage of completion of work. The percentage of completion is determined based on the number of completed project milestones. Contracts in progress are valued considering labour, raw material and overhead costs, and include estimated profits. Losses are recorded as soon as they can be estimated. The Company's management establishes future revenues and costs in respect of each ongoing contract based on its best estimates. Unforeseen events could arise and result in changes to these estimates.

Work in progress represents the costs and profits related to ongoing contracts yet to be invoiced.

As at December 31, 2005, the project with SIETOM of Tournan-en-Brie was slowed down then suspended in March 2006 due to the client's difficulty securing a building permit. To cover the costs of this period, the Company negotiated suspension costs that are paid by the client. As at December 31, 2007, work is still suspended. The date for resumption of work was still unknown when these financial statements were being prepared. Due to the uncertainty caused by this situation, management decided not to recognize any profits from this project until work resumes.

Cash and cash equivalents

Cash and cash equivalents consist of cash and investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and that have an original maturity of three months or less from the date of purchase.

Property, plant and equipment

Property, plant and equipment are recognized at cost and depreciation is calculated using the following methods and rates:

	Method	Rate
Landscaping	Straight-line	5%
Buildings	Declining balance	2.5%
Machinery and equipment	Declining balance	4%
Computer equipment	Straight-line	20%
Bins and containers	Straight-line	10%
Furniture and equipment	Straight-line	10% to 20%
Rolling stock – plant	Straight-line	10%
Rolling stock – other	Declining balance	30%
Signs and equipment	Declining balance	20%
Major projects – Equipment and procedures	Declining balance	25%
Technological equipment – R&D	Declining balance	25%

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. Accounting policies (cont'd)

Intangible assets

Intangible assets consist of intellectual property and are amortized on a straight-line basis over a 10-year estimated useful life.

Capital leases

Capital leases are contracts under which substantially all ownership risk in the property is transferred to the lessee. These leases are recognized by recording an asset and a corresponding liability at a value equal to the lower of the following amounts: the present value of the minimum lease payments or the fair value of the property at the lease date. Assets accounted for under capital leases are depreciated using the same method used for the property, plant and equipment of the same nature acquired by the Company where the capital leases include buy-out provisions or bargain purchase options. Where no such provisions exist, such assets are depreciated over the shorter of the lease term or the expected useful life.

Government assistance

Government assistance for additions to property, plant and equipment is presented as a reduction thereof and is amortized using the same rates used for the calculation of the depreciation of the corresponding property, plant and equipment.

Government assistance relating to current period charges is recorded as reduction thereof.

The unearned portion of government assistance is recognized a deferred credit.

Research and development tax credits recorded as a reduction of direct operating costs in the consolidated statement of income are as follows:

	2007	2006
	\$	\$
Research and development credits	53,831	268,330

Income taxes

The Company follows the liability method of accounting for income taxes according to which future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that are expected to apply in the periods such assets and liabilities are expected to be realized or settled. Future income tax assets are recognized to the extent that it is more likely than not that they will be realized.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. Accounting policies (cont'd)

Stock-based compensation

Direct awards of shares to employees and officers and the stock options granted to non-salaried employees are accounted for at fair value. The fair value of the stock options granted is determined using the Black-Scholes option pricing model on the award date. The fair value is recognized over the expected duration of the award as a stock-based compensation expense and in contributed surplus. When options are exercised, the related contributed surplus amount is transferred to share capital.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when significant events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying amount of the asset is greater than the undiscounted future cash flows expected to be generated by the asset. The amount of impairment loss, if any, is the excess of net carrying amount over fair value and is charged to income for the year.

Earnings per share

Basic earnings per share has been calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of stock options and warrants would be used to purchase common shares at the price in effect at the most recent share issue. The stock options and warrants mentioned in note 7 have not been included in computing diluted earnings per share, as the inclusion of these items would not have any effect on earnings per share.

4. Investments held for trading

	2007	2006
	\$	\$
Term deposits, ranging from January 3, 2007 to June 29, 2007, rates ranging from 1.55% to 4.10%	-	3,951,056
Term deposits, maturing between February 13, 2008 and November 10, 2008, rates ranging between 3% and 3.375%	311,742	-
	311,742	3,951,056

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

5. Property, plant and equipment

	2007		2006	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	\$	\$	\$	\$
Land	381,814	-	381,814	-
Landscaping	1,057,977	715,514	1,057,977	662,615
Buildings	4,723,760	917,373	4,723,760	819,774
Machinery and equipment	7,291,847	2,411,749	7,237,829	2,215,719
Computer equipment	208,824	149,561	190,470	129,736
Bins and containers	59,375	56,023	59,375	55,569
Furniture and equipment	186,825	114,809	234,704	163,122
Rolling stock – Plant	1,061,943	613,948	931,803	583,693
Rolling stock – Other	90,824	31,804	28,146	19,940
Signs and equipment	12,171	8,741	12,170	7,883
Major projects	368,545	152,801	278,813	95,842
Technological equipment	338,439	171,146	336,564	115,694
Current projects	4,677,625	-	256,546	-
	20,459,969	5,343,469	15,729,971	4,869,587
Less :				
Accumulated depreciation	5,343,469		4,869,587	
Net amount	15,116,500		10,860,384	

Comporec inc.

Notes to the Consolidated Financial Statements December 31, 2007 and 2006

6. Long-term debt

	2007	2006
	\$	\$
Long-term debt		
Term borrowings, Caisse populaire Desjardins Pierre-De Saurel and Investissement Québec, bearing interest at prime plus 1.5%, repaid in principal of monthly instalments of \$50,000 over a six-month period and by a \$500,000 instalment in 2006. On December 4, 2006, Fédération des Caisses Desjardins agreed to a standstill on the monthly blended payments until February 28, 2007. In March 22, 2007, the Company received a discharge from these loans, as explained further in this section	-	4,750,000
Term borrowings, Caisse populaire Desjardins Pierre-De Saurel and Investissement Québec for \$1,208,933, bearing interest at prime plus 5%, repayable in monthly principal instalments of \$30,000. On December 4, 2006, Fédération des Caisses Desjardins agreed to a standstill on the monthly blended payments until February 28, 2007. In March 22, 2007, the Company received a discharge from these loans, as explained further in this section	-	1,035,705
Obligations under capital leases, rates ranging from 0.00% to 13.84% (weighted average rate of 7.08%), repayable in blended monthly instalments of \$16,488, maturing on various dates through 2012	456,812	259,257
Balance of purchase price of \$ 1,200,000 with an annual interest rate of 6.45% with interest payable by monthly instalments of \$ 6,450, principal payable on June 14, 2008	1,200,000	-
	1,656,812	6,044,962
Current portion of long-term debt	1,375,201	5,883,902
	281,611	161,060

Comporec inc.

Notes to the Consolidated Financial Statements

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6. Long-term debt (cont'd)

	2007	2006
	\$	\$
Long-term debentures		
Debentures, Caisse populaire Desjardins Pierre-De Saurel and Investissement Québec, non-interest bearing until January 1, 2008, at which time interest will begin to accrue at the higher of the following rates: 10% or the prime rate plus 1.5%. In March 22, 2007, the Company received a discharge from these loans, as explained further in this section	-	5,871,320
Accrued interest on debentures, Caisse populaire Desjardins Pierre-De Saurel and Investissement Québec at 3.54% as defined above. In March 22, 2007, the Company received a discharge from these loans, as explained further in this section	-	831,614
Unsecured debenture, Centre local de développement du Bas-Richelieu, bearing interest at 5.75% which was compounded into the balance. The compounded interest as at December 31, 2006 amounted to \$45,529. In March 23, 2007, the Company received a discharge from this loan, as explained further in this section	-	345,529
Non-interest bearing unsecured debenture, Canada Economic Development. The debenture is repayable in five equal and consecutive annual instalments of \$32,856 as of December 1, 2007 or at the Company's discretion, interests may be paid at Bank of Canada prime rate plus 3% (7.75% as at December 31, 2007)	164,279	164,279
	164,279	7,212,742
Current portion of debentures	65,712	7,081,319
	98,567	131,423

Principal payments required on long-term debt and on long-term debentures over the next four years excluding obligations under capital leases are as follows:

	\$
2008	1,265,712
2009	32,856
2010	32,856
2011	32,856

Conporec inc.

Notes to the Consolidated Financial Statements December 31, 2007 and 2006

6. Long-term debt (cont'd)

Capital lease obligations are as follows:

	\$
2008	201,146
2009	167,196
2010	70,226
2011	49,068
2012	10,888
	<hr/> 498,524
Less: imputed interest	<hr/> 41,712
	<hr/> <hr/> 456,812

On March 22 and 23, 2007, Conporec reimbursed and got a clearance of its main creditors, Caisse populaire Desjardins Pierre-de-Saurel ("Desjardins"), Investissement Québec and Centre local de développement du Bas-Richelieu.

	2007
	<hr/> \$
Settlement	
Redemption of debts and debentures	12,904,063
Capital stock at issuance value (831,963 shares at \$2.50)	2,079,908
Cash	3,750,000
Settlement fees	150,000
Gain on debts and debentures redemption	<hr/> 6,924,155 <hr/>

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Share capital

Authorized, unlimited number of common shares, without par value.

Share consolidation

On November 29, 2007, the Company's Board of Directors approved a 10 for 1 consolidation of its outstanding common shares effective immediately. In connection with the common share consolidation, the number of Company's share was reduced from 126,924,130 to 12,692,413 common shares.

All references to share and per-share data for all periods presented in the consolidated financial statements have been adjusted to give effect to the 10 for 1 common share consolidation.

Issued and fully paid

	Number	
		\$
Balance as at December 31, 2005	5,064,813	13,977,589
Common shares issued in connection with financing	69,446	208,340
Common shares issued ^(a)	3,104,762	3,800,000
Balance as at December 31, 2006	8,239,021	17,985,929
Common shares issued ^(b)	3,571,429	3,925,000
Common shares issued relative to debt and debenture redemption	831,963	2,079,908
Common share issued regards the Parc Laprade acquisition	50,000	140,000
Balance as at December 31, 2007	12,692,413	24,130,837

^(a) Share and warrant issuing amounted to \$7,000,000. Of that amount, \$3,200,000 was allocated to warrants.

^(b) Share and warrant issuing amounted to \$7,500,000. Of that amount, \$3,575,000 was allocated to warrants.

	2007	2006
	\$	\$
Contributed surplus		
Balance, beginning of year	390,123	250,015
Stock-based compensation	70,247	140,108
Balance, end of year	460,370	390,123

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Share capital (cont'd)

Year ended December 31, 2007

On February 21, 2007, the Company issued 3,571,429 units in connection with a private placement consisted for an amount of \$7,500,000 at a price of \$2.10 per unit. Each unit consisted of one common share and one warrant on which entitling it to purchase one common share of Comporec at a price of \$2.30 until February 21, 2009. A value of \$3,575,000 were allocated to warrants.

On March 22, 2007, the Company had concluded agreements with its main creditors, Desjardins and Investissement Québec, to redeem debts and debentures from its balance sheet of an amount totalling \$12,558,534. The counterpart was cash of \$3,750,000 plus the accrued interest and the issuance of 751,963 common shares for a \$1,879,908 value at a price of \$2.50 per common share.

On March 23, 2007, the Company had concluded an agreement with Centre local de développement du Bas-Richelieu, to redeem a debenture worth \$345,529 from its balance sheet in consideration of the issuance of 80,000 common shares worth \$200,000 at a price of \$2.50 per common share.

On June 14, 2007, the Company issued 50,000 common shares at a price of \$2.80 per common share in connection with the acquisition of land and building located at Parc Industriel Laprade in Bécancour.

Year ended December 31, 2006

On January 26, 2006, the Company issued 69,446 common shares valued at \$208,340 to its lenders in connection with \$1,388,933 in financing granted by Desjardins and Investissement Québec.

On March 24, 2006, AEK made a \$1,500,000 private placement in 600,000 common shares and 600,000 warrants each of which entitling it to purchase one common share of Comporec at \$2.50 no later than 24 months following the issue. The warrants were valued at \$650,000.

On August 18, 2006, AEK made a \$1,500,000 private placement in 600,000 common shares and 600,000 warrants each of which entitling it to purchase one common share of Comporec at \$2.50 no later than 24 months following the issue. The warrants were valued at \$650,000.

On December 22, 2006, AEK made a \$4,000,000 private placement in 1,904,762 common shares and 1,904,702 warrants each of which entitling it to purchase one common share of Comporec at \$2.30 no later than 24 months followings the issue. The warrants were valued at \$1,900,000.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Share capital (cont'd)

Stock options

Concurrent with the 2005 reverse takeover, the Company adopted a stock option plan to grant to directors, officers, employees and consultants of the Company options for the purchase common shares. Total common shares issuable under the plan may not exceed 488,250. No options may be granted for a period exceeding five years. The rights in respect of these options generally vest upon the grant of the options or over a three to five year period.

Outstanding stock options of the Company as at December 31, 2007 and 2006 and changes thereto during the years then ended are summarized as follows:

	Number of options	2007 Weighted average exercise price	Number of options	2006 Weighted average exercise price
		\$		\$
Outstanding options, beginning of year	307,419	3.10	303,369	3.30
Granted	-	-	15,000	4.80
Cancelled	163,419	1.67	10,950	4.80
Outstanding options, end of year	144,000	4.80	307,419	3.10
Exercisable options, end of year	92,733	4.80	229,685	2.60

The information regarding the outstanding stock options as at December 31, 2007 is summarized as follows:

Exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
4.80	144,000	4.68	4.80	92,733	4.80

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Share capital (cont'd)

Stock options (cont'd)

No options were granted during the year ended December 31, 2007. Furthermore, an amount of 163,419 options were cancelled as they had reach their maturity date. An amount of \$70,247 was recorded under stock-based compensation in the consolidated statement of income. The compensation expense recorded during the year resulted from amortization using the graded vesting method.

The fair value of each option granted was determined using the Black-Scholes option pricing model and based on the following weighted assumptions:

	2007	2006
Risk-free interest rate	-	4.29%
Expected life	-	5 years
Expected stock price volatility	-	75%
Expected dividend yield	-	none

Warrants

	2007 Weighted average	2006 Weighted average		
	Number	exercise price	Number	exercise price
		\$		\$
Outstanding warrants, beginning of year	4,564,492	3.40	1,692,506	5.70
Granted	3,571,429	2.30	3,104,761	2.40
Expired	620,213	5.70	232,776	5.70
Outstanding warrants, end of year	7,515,708	2.71	4,564,491	3.40

Comporec inc.

Notes to the Consolidated Financial Statements December 31, 2007 and 2006

7. Share capital (cont'd)

Outstanding warrants

Date of grant	Number	Price	Expiry
		\$	
June 23, 2005 ⁽¹⁾	839,518	5.70	June 23, 2008
March 24, 2006	600,000	2.50	March 24, 2008
August 18, 2006	600,000	2.50	August 18, 2008
December 27, 2006	1,904,761	2.30	December 27, 2008
February 21, 2007	3,571,429	2.30	February 21, 2009
	7,515,708		

⁽¹⁾ As of June 26, 2007, TSX venture stock market has accepted a one year maturing delay on these warrant to June 23, 2008.

The fair value of each warrant awarded was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.08%	3.45%
Expected life	2 years	2 years
Expected stock price volatility	75%	75 %
Expected dividend yield	none	none

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and warrants that have no vesting restrictions and are fully transferable. In addition, option and warrant pricing models require the use of highly subjective assumptions including the expected life of stock options and warrants. Because the stock options and warrants granted have characteristics significantly different from those of listed stock options and warrants, and because changes in the subjective assumptions can have a material effect on the fair value estimates, in management's opinion, the existing option and warrant pricing models do not necessarily provide a reliable single measure of the fair value of the stock options and warrants.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Share capital (cont'd)

Weighted averaged share – basic and fully diluted

The weighted average share in 2007 and 2006 in used for the calculation of net profit per fully diluted share are the following:

	2007	2006
Basic weighted average share circulating	11,976,157	5,681,759
Dilutive effect of options	47,893	-
Dilutive effect of warrants	122,804	-
Fully diluted weighted average outstanding shares	12,146,854	5,681,759

For comparative period, the basic weighted average outstanding shares and the diluted weighted average outstanding shares are the same due to the anti-dilutive effect of options and warrants when included with other common shares.

8. Interest in a joint venture

The Company, with S&W Services of Cazenovia, New York, is a 50% co-member of a consortium. This joint venture was contracted with the County of Delaware, New York, for the construction of a household waste and sludge composting plant in Walton, New York, using the Conporec technology.

The Company has joint control over this joint venture and its share of the assets and liabilities and of the statement of income and cash flow line items is summarized as follows:

	2007	2006
	\$	\$
Current assets	423,713	524,707
Current liabilities	423,713	524,707
Net assets of the joint venture	-	-

Statement of income

Revenues	120,078	208,844
Direct operating costs	110,759	246,836
Selling and administrative expenses	9,319	5,470
	120,078	252,306
Net loss	-	(43,462)

Statement of cash flows

Cash flows related to operating activities	250,638	76,147
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Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

9. Income taxes

Income taxes reported differ from the amount of the tax computed by applying statutory income tax rates to the loss before taxes. The reasons for the differences and the related tax effects are as follows:

	2007	2006
	%	%
Statutory rates	32.0	32.0
	2007	2006
	\$	\$
Recoverable income taxes (payable) computed using statutory rates	(822,681)	1,445,000
Increase (decrease) in recoverable income taxes resulting from:		
Foreign income taxes	-	19,565
Non-deductible expenses and other permanent differences	(55,000)	(55,000)
Unrecorded tax benefits related to operating losses and other	877,681	(1,390,000)
	-	19,565

The income tax effect of temporary differences and net operating losses that result in future income tax assets and liabilities are as follows:

	2007	2006
	\$	\$
Future income tax liabilities		
Future foreign income taxes	50,000	50,000
Future income tax assets		
Net operating loss carry-forward	1,004,300	1,707,000
Excess of tax basis of property, plant and equipment over their carrying amount	348,315	699,000
Non-deducted research and development expenses	319,784	300,000
Excess of tax basis of intangible assets over their carrying amount	117,108	132,000
Non-deductible provision	27,400	30,000
Non-deducted share issue costs	501,914	441,000
Total future income tax assets	2,318,921	3,309,000
Valuation allowance	(2,318,921)	(3,309,000)
	-	-
Net future income tax liabilities	50,000	50,000

Comporec inc.

Notes to the Consolidated Financial Statements December 31, 2007 and 2006

9. Income taxes (cont'd)

Potential tax benefits

As of December 31, 2007, the company has income tax losses of approximately of \$3,665,000, which may be used to reduce future years' taxable income. These carry forward losses expire in 2027. Furthermore, the Company has deductible temporary differences which may be used for indefinite period:

	Federal	Provincial
	\$	\$
Eligible capital property, plant and equipment	466,000	377,000
Undepreciated capital cost (UCC)	3,807,000	(2,031,000)
Research and development deductible expenses	1,635,000	557,000
Deductible financial fees	1,831,000	1,831,000
Deducted provision payment	100,000	100,000

10. Related party transactions

	2007	2006
	\$	\$
Transactions with companies controlled by directors		
Direct operating costs	21,510	52,213
Additions to property, plant and equipment *	445,000	-

* This amount was paid to Congebec Capital in connection with the acquisition of Parc Laprade located in Bécancour. This amount includes \$270,000 related to the purchase of Parc Laprade and reimbursements of \$175,000 of various expenses paid by Congebec Capital related to this project.

These transactions are in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

10. Related party transactions (cont'd)

At year-end, accounts payable and accrued liabilities included the following amounts due to related parties:

	2007	2006
	\$	\$
Shareholders	-	-
Companies controlled by directors	-	22,678
	-	22,678

Under Article 3-A of the New York State Lien Law, the amounts received and receivable by a contractor in respect of the development of real property are held in trust by the contractor for the designated payment of accounts payable, present and future, in respect of the development of said real property. Cash and accounts receivable that could be held in trust amounted to \$496,376 and \$219,348 respectively as at December 31, 2007 (\$4,894 and \$734,463, respectively, as at December 31, 2006).

Accounts receivable include \$0 (\$120,990 as at December 31, 2006) representing the amounts transferred to an entity created jointly with the other Tournan-en-Brie project partners with a view to earmarking funds to cover any potential claims. As at December 31, 2007, the Company had not been served with any claims. The unused funds will be returned to the Company upon project completion.

11. Financial instruments

Credit risk

The Company is exposed to credit risks regarding its accounts receivable. Substantially all of the Company's business is conducted with municipal or supra-municipal agencies. Provisions are established and maintained regarding potential losses. As at December 31, 2007, four clients consisting of municipalities represented 96% of accounts receivable. (four clients represented 96% as at December 31, 2006).

Interest rate risk

The long-term debt generally bears interest at fixed rates, except for the debenture which bears interest at a variable rate. Consequently, the cash flow exposure is not significant.

Foreign exchange risk

Accounts receivable denominated in U.S. dollars amounted to \$175,525 (US\$178,742) as at December 31, 2007 (\$414,499 (US\$355,366) as at December 31, 2006). Accounts receivable denominated in euros amounted to \$104,617 (€72,329) as at December 31, 2007 (\$1,244,239 (€808,800) as at December 31, 2006).

Accounts payable denominated in U.S. dollars amounted to \$237,576 (US\$241,931) as at December 31, 2007 (\$197,501 (US\$169,325) as at December 31, 2006). Accounts payable denominated in euros amounted to \$709,987 (€490,987) as at December 31, 2007 (\$1,222,277 (€793,738) as at December 31, 2006). Accounts payable denominated in Australian dollars amounted to \$603,299 (AUD\$700,695) as at December 31, 2007. The Company does not actively manage this risk.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

11. Financial instruments (cont'd)

Fair value

For certain financial instruments of the Company, including cash, investments held for trading, accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short-term maturities.

The fair value of borrowings from Canada Economic Development and other borrowings amounted to approximately \$125,000.

12. Additional information relating to the statement of cash flow

	2007	2006
	\$	\$
<i>Net changes in non cash working capital item</i>		
Bank loan	-	(38,400)
Deferred credit	-	(45,880)
Accounts receivable	1,716,286	261,817
Work in progress	(465,482)	931,003
Prepaid expenses	(71,659)	(273,532)
Accounts payable and accrued liabilities	(446,271)	(469,874)
	732,874	365,134

Cash and cash equivalents

Cash	1,024,152	306,101
Investments held for trading (Note 4)	311,742	3,951,056
	1,335,894	4,257,157

Other information

Interest paid	326,329	560,589
Income taxes paid	-	187,688

Non cash transactions

During the year, property, plant and equipment was acquired for an aggregate cost of \$440,000 of which \$300,000 by the increase of payables and \$140,000 by the issuance of common shares.

Acquisition of fixed assets under capital leases	349,683	111,263
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Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

13. Segmented information

The Company operates in two distinct segments: the operation of waste treatment plants and development projects including business solicitation, the sale of procedures and the construction of plants in national and international markets. The identification of reporting segments is determined based on the nature of revenues and the different cost structure of these two segments.

The Company assesses the performance of its reporting segments based on EBITDA which is defined as income before interest, income taxes, depreciation and amortization, adjusted to exclude the loss resulting from a claim. EBITDA is not a performance measure defined by Canadian generally accepted accounting principles; however, management uses this measure to assess the operating performance of its segments. The results of each reporting segment are presented on a basis consistent with the basis used to present the Company's results.

EBITDA corresponds to the line item "Loss before the undernoted items" in the statement of income.

a) Information by reporting segment

	2007	2006
	\$	\$
Waste treatment plants		
Revenues	6,782,310	6,435,330
EBITDA	(27,112)	219,354
Depreciation of property, plant and equipment	590,648	597,084
Development projects and eliminations		
Revenues	771,897	1,567,977
EBITDA	(3,314,144)	(3,189,197)
Amortization of intangible assets	95,046	95,046
Total		
Revenues	7,554,207	8,003,307
EBITDA	(3,341,255)	(2,969,843)
Depreciation and amortization of assets	685,694	692,130
Assets	20,149,900	20,089,238

b) Information by geographic segment

	2007	2006
	\$	\$
Revenues		
Canada	7,428,792	6,975,825
U.S.	120,078	208,844
France	5,005	818,638
Australie	332	-
	7,554,207	8,003,307

Comporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

13. Segmented information (cont'd)

b) Information by geographic segment (cont'd)

	2007	2006
	\$	\$
Property, plant and equipment		
Canada	15,116,500	10,860,384

Under a contract with the Regional County Municipality of Bas-Richelieu, the Company is responsible for the collection, transport, transformation and elimination of household waste in the Bas-Richelieu area. The contract has a 20-year term and expires on December 31, 2010.

14. Commitments

The Company is committed under leases expiring on various dates from 2008 to 2011 for the rental of its business premises and certain equipments. The minimum annual payments for the next years are as follows:

	\$
2008	79,449
2009 to 2011	3,406

Standby letters of credit totalling \$275,191, maturing between April 14, 2008 and April 26, 2011, were issued in support of clients of the Company.

15. Contingencies

The Company is party to some claims and lawsuits brought against it in the normal course of business, the outcome of which cannot be predicted. Based on the information currently available, management is of the opinion that the outcome of these claims and lawsuits will not have a significant impact on the Company.

Furthermore, one of the Company's subsidiary is subject to a claim from the French tax authorities related to added value tax totalling \$587,000. The management is in the opinion that this claim is not justified and has made no provision in the financial statement.

Conporec inc.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

16. Comparative figures

Certain comparative figures from the 2006 financial statements have been reclassified to conform to current year presentation.

17. Difference between international financial reporting standards and Canadian GAAP (IFRS)

The financial statements have been made according to the Canadian GAAP. In a number of occasions, the International Financial Reporting Standards ("IFRS") established by the International Accounting Standards Board vary from the Canadian GAAP.

If the IFRS were followed, no significant adjustment would be made to the net loss, to the earnings per share or to the consolidated shareholders' equity as at December 31, 2007.

The present consolidated financial statements do not show the differences between the IFRS and Canadian GAAP presentations. These differences have no impact on the shareholders' equity and the net loss shown here. IFRS would require that a number of other disclosures be made in the financial statements.