



Management's discussion and analysis



**Q1
2007**

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Period ending March 31, 2007

1. MESSAGE FROM THE PRESIDENT

During the present quarter, the Company finalized its significant financial restructuring initiated in the spring of 2006. As a result of this restructuring, the Company now has a solid financial structure, essential to the realization of its business plan. As such, Conporec eliminated \$12.9 million in long term debt and is left with a current amount of \$563 K.

During the quarter, the Company announced it would soon be signing a new contract for its plant in Sorel-Tracy to bring in 12,000 tons per year from the Bécancour-Nicolet-Yamaska intermunicipal management board of integrated waste. This contract should contribute to an increase in profitability for the plant and generate additional income of \$1 million per year.

On a national level, several municipal organizations of Québec and Ontario are interested in Conporec's technology. The Company announced its project to acquire a section of Parc La Prade in the Bécancour region to build a new organic waste treatment plant with a capacity of 40,000 tons. The materialization of this \$9 million project is subject to securing financing under advantageous conditions. The realization of this project would result in a considerable improvement of the Company's results and make it possible once again to display the effectiveness of its technologies.

On an international level, the Tournan-en-Brie project in France remains on hold because of discussions relating to the issuance of a construction permit. Work is expected to resume sometime in the upcoming quarters. The project in Australia, signed in the fall of 2006, is still in the negotiation stage with the partners in order to finalize the financing, expected for the second quarter of 2007.

2. FINANCIAL ANALYSIS OF THE MANAGEMENT FOR THE QUARTER ENDING MARCH 31, 2007 (AS OF MAY 18, 2007)

2.1 INTRODUCTION

The following financial analysis of the management includes a review of the consolidated financial statements of Conporec inc. (the "Company"). It must be read together with the consolidated financial statements of the Company and the accompanying notes for the period ending December 31, 2006. The statements have been prepared according to the Generally Accepted Accounting Principles of Canada (Canadian GAAP), and are in Canadian dollars. The consolidated financial statements as at March 31, 2007 described in this report have not been audited by the Company's auditors.

2.2 FORWARD-LOOKING STATEMENTS

This financial analysis of the management contains forward-looking statements. All statements in the present financial analysis of the management, with the exception of those regarding historical facts, are forward-looking statements. Shareholders may retrieve many of these statements by using words such as "estimates", "plans", "could", "can", "may", "intends", "anticipates", "continues", other similar words or the negative of these words. There is nothing to guarantee that the plans, intentions or expectations on which the forward-looking statements are based will be realized. The forward-looking statements are subject to risks, uncertainties and hypotheses, including those dealt with elsewhere in the present financial analysis of the management. Although the Company believes that the predictions represented in these forward-looking statements are reasonable, there is no guarantee that they will prove accurate. The section "Risks and Uncertainties" presents the risks that could have an effect on future income and that could cause the actual income to differ greatly from that predicted in the forward-looking statements.

The information in the present financial analysis of the management reveals other factors that may have an effect on the operating income and performance of the Company. Please study these factors carefully.

The forward-looking statements presented are subject to the conditions of the present report. The forward-looking statements included in this financial analysis of the management are provided as of the date of the present financial analysis of the management and the Company will not update or publicly review these forward-looking statements to account for any new information, subsequent events, income, circumstances or other.

2.3 ADDITIONAL INFORMATION

All references to the "EBITDA" in this document are representative of the earnings before taking into account interest, income taxes and depreciation. The term "EBITDA" is not defined by the Canadian GAAP however the Company believes that the presentation of EBITDA makes it easier to understand the financial conditions, operating income and cash assets since EBITDA is used by the Company to meet its obligations regarding its bank debt, the purchase of capital assets and other operating needs as well as the financial needs for its development.

2.4 FINANCIAL INFORMATION

The following table presents the financial information relating to the financial performance of the Company since it became a public company. The annual data is taken from the detailed financial information contained in the audited consolidated financial statements of the Company and the accompanying notes, while the quarterly data was taken from the non-audited consolidated financial statements of the Company and the accompanying notes.

Comparative financial information

(in thousands of Canadian dollars, except for the amounts per share)

	Year 2006 (audited)	Year 2005 (audited)	T1 - 2007	T4 - 2006	T3 - 2006 (unaudited)	T2 - 2006	T1 - 2006
Income	8,004 \$	10,264 \$	1,803 \$	2,724 \$	1,367 \$	1,832 \$	2,081 \$
Direct operating expenses	6,652 \$	8,166 \$	1,394 \$	2,196 \$	1,367 \$	1,047 \$	2,042 \$
Gross profit	1,352 \$	2,097 \$	409 \$	528 \$	- \$	785 \$	39 \$
Sales and administration costs	4,322 \$	3,401 \$	1,063 \$	1,116 \$	1,211 \$	1,067 \$	928 \$
Ebitda	(2,970) \$	(1,304) \$	(654) \$	(588) \$	(1,211) \$	(282) \$	(889) \$
Financial expenses	883 \$	665 \$	191 \$	211 \$	226 \$	227 \$	219 \$
Depreciation and Amortization	692 \$	544 \$	165 \$	183 \$	163 \$	174 \$	172 \$
Profit from write-off of debts and debentures	- \$	- \$	(6,924) \$	- \$	- \$	- \$	- \$
Others items (1)	(19) \$	354 \$	- \$	(182) \$	23 \$	140 \$	- \$
Net profit (loss)	(4,526) \$	(2,867) \$	5,913 \$	(800) \$	(1,623) \$	(823) \$	(1,280) \$
Net profit (loss) per share	(0.08) \$	(0.06) \$	0.06 \$	(0.01) \$	(0.03) \$	(0.01) \$	(0.02) \$
Weighted average number of shares outstanding (thousands)	58,618	44,625	98,293	65,226	60,178	57,343	52,884
Cash flows related to operating activities	(3,064) \$	(1,094) \$	(1,607) \$	62 \$	(1,318) \$	110 \$	(1,918) \$
Total assets	20,089 \$	17,608 \$	21,758 \$	20,089 \$	17,264 \$	16,199 \$	19,234 \$
Total debts and debentures	13,258 \$	12,672 \$	563 \$	13,258 \$	13,158 \$	13,547 \$	13,737 \$
Shareholder's equity	1,756 \$	(714) \$	16,715 \$	1,756 \$	(1,005) \$	(1,004) \$	(281) \$

(1) Loss resulting from damage claim and income tax expense

2.5 ANALYSIS OF THE RESULTS OF THE 1ST QUARTER OF 2007

The following table presents the results of the 1st quarter of 2007 ending March 31, 2007 and a comparison with the results of the corresponding quarter in 2006.

Summary of quarterly results - Periods ending March 31, 2007 and 2006

	First quarter 2,007	2,006	Increase (Decrease)	%	Note
Income	1,802,781	2,081,717	(278,936)	-13.4%	2.5.1
Direct operating expenses	1,393,821	2,042,280	(648,459)	-31.8%	2.5.2
Gross profit	408,960	39,437	369,523	937.0%	2.5.3
Sales and administration costs	1,063,337	928,117	135,220	14.6%	2.5.4
Ebitda	(654,377)	(888,680)	234,303	26.4%	2.5.5
Net profit (loss)	5,913,319	(1,279,895)	7,193,214	562.0%	2.5.6
Net profit (loss) per share	0.06	(0.02)	0.08		

2.5.1 INCOME

The Company's income decreased by \$279 K compared to the same quarter of the previous year. This decrease was mainly due to the shutdown of the modernization work at the sorting-composting plant in Tournan-en-Brie in the suburbs of Paris, since February 2006. The other contracts with the MRC du Bas-Richelieu and the City of Toronto are following a normal course such that the income of the first quarter was based solely on the operations of the Sorel-Tracy plant.

2.5.2 DIRECT OPERATING EXPENSES

Direct operating expenses decreased by \$648 K or 31.8% compared to the corresponding quarter of the previous year. This improvement was due to the shutdown of the Tournan-en-Brie project,

improved performance of the Sorel-Tracy plant and lower maintenance and repair costs, despite the increase in the cost of energy. In addition, the Company purchased some of their equipment instead of renting, contributing to the decrease in operating expenses.

2.5.3 GROSS PROFIT

As a result of the previously mentioned items, the Company's gross profit increased by \$370 K during the first quarter of 2007, rising from 1.9% of revenues in 2006 to 22.7% of revenues in 2007. The Company's goal is to reach 30% during the coming months by increasing the volume of waste to be processed and by modernizing certain equipment, to be made possible by investments of more than \$500 K in the Sorel-Tracy plant expected in the coming months.

2.5.4 SALES AND ADMINISTRATION COSTS

The Company registered an increase in sales and administration costs of \$135 K or 14.6% during the first quarter of 2007 compared to that of 2006. This increase is due mainly to professional fees relating to business development on a national and international level as well as certain fees relating to the financial restructuring.

2.5.5 EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

The Company reduced operating losses considerably, by \$234 K or 26.4%, compared to the corresponding quarter of 2006. Nevertheless, the Company ended the first quarter with negative EBITDA of \$654 K. The slow improvement of the earnings is the result of downsizing efforts in relation to the production and operating expenses at the Sorel-Tracy plant. In addition, during the coming quarters, other projects such as those in Australia, Tournan-en-Brie and eventually that of Bécancour-Nicolet-Yamaska should help to improve the situation.

2.5.6 NET PROFIT (LOSS)

The Company ends the quarter with pre-tax profits of \$5.9 million, resulting mainly from the non-recurrent profit from the write-off of debts and debentures. "Note 3" of the non-audited consolidated financial statements of March 31, 2007, explains in detail the write-offs obtained for the Company's different debts and debentures. This major financial restructuring made it possible to eliminate almost all of the Company's debts, \$12.9 million, as well as considerable financial costs which totalled almost \$900 K in 2006. Furthermore, this considerable write-off does not require payment of income taxes because of the significant losses accumulated over the past few years. In summary, this write-off resulted in a net profit per basic share of \$0.06 and \$0.05 per share on a fully diluted basis.

2.5.7 CASH FLOW

2.5.7.1 OPERATING ACTIVITIES

Operating activities absorbed \$828 K during the first three months of the year before the net change of non cash items of the working capital, which can be favourably compared to the quarter of the previous fiscal year with negative results of \$1,015 K.

2.5.7.2 INVESTMENT ACTIVITIES

The Company realized nearly \$900 K of investments in capital assets, most of which was associated with the development work for the acquisition of Parc La Prade in the Bécancour region. The total acquisition cost of the park as well as the work to be performed was estimated at \$9 million, with almost \$3 million for the purchase of the park including the buildings already present.

2.5.7.3 FINANCING ACTIVITIES

During the present quarter, Comporec finalized an investment of \$11.5 million, initiated in the last quarter of 2006, with an injection of \$7.5 million in the Company's working capital through a private investment corresponding to 35,714,286 units, each unit being comprised of one common share at a price of \$0.21 and a stock purchase warrant giving the right to purchase capital stock for the following 24 months at \$0.23. The issuance costs related to this transaction amounted to \$521 K.

Moreover, it is during this quarter that the Company reimbursed almost all of its long term debts. The \$167 K increase in long term debts is a result of the financing obtained for the purchase of equipment required for the Sorel-Tracy plant. As a result, cash and cash equivalents at the end of the quarter amounted to \$5.0 million.

2.5.8 FINANCIAL SITUATION

As of March 31, 2007, the Company has \$5.0 million in cash compared to \$4.3 million at December 31, 2006. The working capital amounted to \$4,750 K, a ratio of 2.02 times the amount. Fixed assets increased by \$755 K during the quarter as a result of the work performed at the new plant in Bécancour. These fixed capital expenditures were entirely financed by the Company's working capital. Debts total only \$398 K, of which \$126 K will be reimbursed during the next twelve (12) months. As for debentures, only the one held by Canada Economic Development remains, in the amount of \$164 K, of which \$33 K will be reimbursed by December 31, 2007. Let's recall that as of December 31, 2006, debts and debentures totalled \$13.3 million.

As for equity capital, it increased by almost \$15.0 million during the first quarter of 2007, as a result of the \$6.9 million write-off of debts and the injection of \$7.5 million of new working capital. Hence, the Company currently presents a good financial structure with \$16.7 million in shareholder equity, only \$562 K in long term debts and debentures and \$4.8 million in working capital. Since January 1, 2007, total assets rose from \$20.1 million to \$21.8 million.

2.6 CAPITAL STOCK AUTHORIZED

An unlimited number of common shares with no face value is authorized.

	Number	Amount
Balance as at December 31, 2006	82,390,214	\$17,985,929
Common shares issued as part of a private investment	35,714,286	\$3,925,000
Common shares issued as part of the settlement of debts and debentures	8,319,631	2,079,908
Balance as at March 31, 2007	126,424,131	\$23,990,837

On February 21, 2007, Comporec issued 35,714,286 units in exchange for \$7,500,000, or \$0.21 per unit. Each unit is comprised of one common share from Comporec and a stock purchase warrant giving the holder the right to purchase one common share from Comporec at a cost of \$0.23 per share no later than February 21, 2009. The purchase warrants are valued at \$3,575,000.

On March 21, 2007, Comporec received a discharge from its main creditors, Desjardins and Investissement Québec, which allowed the Company to eliminate \$12,558,534 in debts and debentures from its balance sheet. In exchange, Comporec made a cash payment of \$3,750,000 plus accumulated interest and issued 7,519,631 common shares of its capital valued at \$0.25 per share, with a total value of \$1,879,908.

On March 23, 2007, Conporec received a discharge for the non-secured debenture of the Centre local de Développement du Bas-Richelieu, which allowed the Company to eliminate a debenture valued at \$345,529 from its balance sheet, in exchange for the issuance of 800,000 common shares of its capital valued at \$0.25 per share, with a total value of \$200,000.

2.7 DERIVATIVE FINANCIAL INSTRUMENTS

The Company has no access to hedging instruments for foreign exchange risks or risks of other nature.

2.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no significant off-balance sheet arrangement other than leases which will require disbursements in 2007: \$59,286 and in 2008: \$79,256.

2.9 TRANSACTIONS BETWEEN RELATED PARTIES

The following table presents the transactions between related parties.

	March 31, 2007	March 31, 2006
Transactions with shareholders		
Direct operating costs	7,500	118,910
Interest on long term debt	-	100,615
Fixed assets	445,000	-
Transactions with companies controlled by administrators		
Operating costs	-	531

These transactions took place during the normal course of business and are measure at the exchange rate, which is the amount of the exchange established and accepted by the related parties.

At the end of the period, the creditors and the costs incurred included amounts owed to related parties detailed as follows:

	March 31, 2007	December 31, 2006
Shareholders	-	-
Companies controlled by administrators	-	22,678
	-	22,678

2.10 ACCOUNTING POLICIES

The principal policies adopted by the Company are indicated in "note 2" of the audited consolidated financial statements of December 31, 2006. The Company adopted the following changes during the first quarter of 2007.

- a) Section 3855, *Financial instruments – recognition and measurement*, describes the standards for recognizing and measuring financial assets, financial liabilities and derivatives. All financial assets, with the exception of loans and investments that are classified as held-to-maturity, loans and receivables and all other derivative financial instruments must be measured at fair value. All financial liabilities classified as held for trading purposes must be measured at fair value. Otherwise, they are measured at cost.

The adoption of this new standard did not have a significant effect on the Company's consolidated financial statements.

- b) Section 1530, *Comprehensive income*, and section 3251, *Equity*. Comprehensive income represents the change, during a given period, in a company's net assets resulting from transactions or events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as changes in the currency translation adjustment relating to self-sustaining foreign operations or unrealized gains or losses on available-for-sale investments. This section describes how to report and disclose comprehensive income and its components. Section 3251, *Equity*, replaces section 3250, *Surplus*, and describes the standards regarding the reporting of equity and changes in equity as a result of the requirements of section 1530, *comprehensive income*. Upon the adoption of these standards, the consolidated financial statements now include the comprehensive income. The comparative statements are restated to reflect application of this section for changes in the balances of the foreign currency translation of self-sustaining foreign operations.
- c) Section 3865, *Hedges*, describes how and when hedge accounting can be used. Under hedge accounting, all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. The adoption of this new standard did not have a significant effect on the Company's consolidated financial statements.

2.11 USE OF ESTIMATES

The consolidated financial statements of the Company were prepared by management in accordance with the Canadian GAAP. During the preparation of these financial statements, management must make estimates and formulate hypotheses in regards to the amounts in the consolidated financial statements and accompanying notes. The actual results may differ from these estimates. According to management, the consolidated financial statements were adequately prepared and with good judgment within their relative importance and according to the accounting principles summarized hereunder.

2.11.1 LIMITED-LIFE FIXED ASSETS AND INTANGIBLE ASSETS

The fixed assets and intangible assets with a limited useful life from Biomax in 2005 were accounted for at cost and amortized according to their estimated life, the period during which we believe the assets will contribute to the future cash flow of the Company. The use of different hypotheses based on the useful life could result in different book values.

2.11.2 DEPRECIATION OF LONG TERM ASSETS

The long term assets were reviewed to determine whether they were subject to depreciation when events or changes in situation indicate that the book value of an asset may not be recoverable. The depreciation is evaluated by comparing the book value of an asset with the undiscounted future net cash flows anticipated with use in addition to its residual value. If we consider that the value of an asset was subject to depreciation, the amount of depreciation to be recorded would correspond to the surplus of the book value of the asset over its fair value.

2.11.3 EQUITY-BASED COMPENSATION AND OTHER PAYMENTS

Compensation related to the granting of stock options is calculated according to the Black-Scholes pricing model. The Company considers estimates and hypotheses concerning the risk-free interest rate, expected duration and expected volatility in order to establish the fair value of the stock options. The use of different hypotheses could result in different book values for compensation.

The Company's management must provide several hypotheses that could affect the results of the evaluation of the stock options, considering that the Company has little historical data. Consequently, the Company used hypotheses according to its best judgment based on comparisons on the market and other available sources of information.

2.12 SUBSEQUENT EVENTS

The Company will soon be finalizing the acquisition of the land and buildings located in the Parc industriel La Prade in Bécancour with the goal of transforming the buildings into an organic waster reclamation plant. It has obtained all regulatory authorizations to do so. The total cost to purchase the land and buildings is \$2,670,000.

2.13 CONTROLS AND PROCEDURES

No change has been made to the Company's internal controls and procedures during the first quarter ending March 31, 2007.

2.14 RISKS AND UNCERTAINTIES

The risk factors that the Company is facing are described in section 2.17 of the 2006 annual report.

2.15 CONTINGENCIES

From time to time, the Company may be party to a lawsuit during the normal course of its activities. As of March 31, 2007, the Company had no reason to expect that the current legal proceedings would result in significant unfavourable repercussions on its financial situation, the results of its operation or its ability to pursue one or another of its commercial activities.