



# Financial Report

**Q2  
2008**



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**Period ending June 30, 2008**

**CONPOREC INC.**  
**CONSOLIDATED BALANCE SHEETS**  
As at

	June 30 2008 (unaudited) \$	December 31 2007 (audited) \$
<b>ASSETS</b>		
<b>Currents assets</b>		
Cash	389,389	1,024,152
Temporary investments	328,574	311,742
Accounts receivable (note 8)	1,882,133	1,781,297
Work in progress (note 9)	667,183	785,197
Prepaid expenses	483,687	449,115
<b>Total currents assets</b>	<b>3,750,966</b>	<b>4,351,503</b>
Property, plant and equipment	15,352,751	15,116,500
Intangible assets	634,374	681,897
	<b>19,738,091</b>	<b>20,149,900</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	5,978,822	4,879,359
Future income tax liabilities	50,000	50,000
Current portion of long-term debt (note 5)	1,379,173	1,375,201
Current portion of debentures (note 5)	32,856	65,712
<b>Total current liabilities</b>	<b>7,440,851</b>	<b>6,370,272</b>
Long-term debt (note 5)	190,163	281,611
Long-term debentures (note 5)	98,567	98,567
<b>Shareholder's equity</b>		
Share capital (note 6)	24,130,837	24,130,837
Contributed surplus (note 6)	488,822	460,370
Warrants (note 6)	6,775,000	6,775,000
Deficit	(19,113,865)	(17,764,404)
Cumulative translation adjustment	(272,283)	(202,353)
	<b>12,008,511</b>	<b>13,399,450</b>
	<b>19,738,091</b>	<b>20,149,900</b>

See accompanying notes

**The consolidated financial statements included in this report have not been reviewed by the Company's external auditors.**

**On behalf of the Board of Directors:**

(signed)  
\_\_\_\_\_  
Normand Ricard

(signed)  
\_\_\_\_\_  
Jean Beaudoin

**CONPOREC INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the periods ended June 30,

	Three-month period		Six-month period	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
	\$	\$	\$	\$
Revenues	<b>2,358,385</b>	1,841,156	<b>5,358,373</b>	3,643,937
Direct operating expenses	<b>2,077,119</b>	1,457,203	<b>4,603,857</b>	2,851,024
Income before sales and administrative expenses and other items	<b>281,266</b>	383,953	<b>754,515</b>	792,913
Sales and administration costs	<b>825,154</b>	1,209,249	<b>1,725,654</b>	2,272,586
Loss before the following items	<b>(543,888)</b>	(825,296)	<b>(971,139)</b>	(1,479,673)
Depreciation of property, plant and equipment	<b>145,432</b>	147,333	<b>290,168</b>	288,992
Amortization of intangible assets	<b>23,761</b>	23,761	<b>47,523</b>	47,523
Interest on long-term debt and debentures	<b>20,776</b>	7,081	<b>29,710</b>	183,485
Interest and bank charges	<b>10,280</b>	18,747	<b>10,921</b>	33,381
Profit from write-off of debts and debentures	-	-	-	(6,924,155)
	<b>200,248</b>	196,922	<b>378,323</b>	(6,370,774)
Profit (loss) before income taxes	<b>(744,136)</b>	(1,022,218)	<b>(1,349,461)</b>	4,891,101
Current income taxes	-	-	-	-
Future income taxes	-	-	-	-
<b>Net profit (loss)</b>	<b>(744,136)</b>	(1,022,218)	<b>(1,349,461)</b>	4,891,101
Deficit at the beginning of the period	<b>(18,369,729)</b>	(14,421,964)	<b>(17,764,404)</b>	(19,814,528)
Share issue costs	-	-	-	-
Deficit at the end of the period	<b>(19,113,865)</b>	(15,444,182)	<b>(19,113,865)</b>	(14,923,427)
Net profit (loss) per share				
Basic	<b>(0.06)</b>	(0.08)	<b>(0.11)</b>	0.43
Diluted	<b>(0.06)</b>	(0.08)	<b>(0.11)</b>	0.38
Weighted average common shares outstanding				
Basic	<b>12,692,413</b>	12,651,204	<b>12,692,413</b>	11,248,032
Diluted	<b>12,692,413</b>	12,651,204	<b>12,692,413</b>	12,969,033

**CONPOREC INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the periods ended June 30,

	Three-month period		Six-month period	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Net profit (loss)	<b>(744,136)</b>	(1,022,218)	<b>(1,349,461)</b>	4,891,101
Other items of the comprehensive income, net of income taxes:				
Net change in non realized profits (losses) resulting from the translation of the financial statements of self-sustaining foreign operations.	<b>(61,419)</b>	(93,479)	<b>(69,930)</b>	(124,220)
<b>Comprehensive income</b>	<b>(805,554)</b>	(1,115,697)	<b>(1,419,392)</b>	4,766,881

See accompanying notes

*The consolidated financial statements included in this report have not been reviewed by the Company's external auditors.*

**CONPOREC INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the periods ended June 30,

	Three-month period		Six-month period	
	2008 (unaudited) \$	2007 (unaudited) \$	2008 (unaudited) \$	2007 (unaudited) \$
<b>OPERATING ACTIVITIES</b>				
Net loss for the quarter	(744,137)	(1,022,218)	(1,349,461)	4,891,101
Adjustments for				
Depreciation of property, plant and equipment	145,432	147,333	290,168	288,992
Gain on sell off of property, plant and equipment	-	-	-	-
Amortization of intangible assets	23,761	23,761	47,523	47,523
Stock-based compensation	14,226	17,562	28,452	35,124
Profit from write-off of debts and debentures (note 3)	-	-	-	(6,924,155)
	<b>(560,718)</b>	<b>(833,562)</b>	<b>(983,317)</b>	<b>(1,661,415)</b>
Net change in non-cash working capital items	439,980	(15,151)	1,082,067	(794,222)
<b>Cash flows related to operating activities</b>	<b>(120,738)</b>	<b>(848,713)</b>	<b>98,750</b>	<b>(2,455,637)</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plan and equipment	(95,758)	(3,117,399)	(526,419)	(4,014,202)
<b>Cash flows related to investing activities</b>	<b>(95,758)</b>	<b>(3,117,399)</b>	<b>(526,419)</b>	<b>(4,014,202)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares and warrants issued	-	-	-	7,500,000
Common share and warrant issue costs	-	-	-	(520,755)
Increase in long-term debt	-	1,262,680	-	1,429,617
Repayment of long-term debt	(76,787)	(35,007)	(120,332)	(3,892,888)
<b>Cash flows related to financing activities</b>	<b>(76,787)</b>	<b>1,227,673</b>	<b>(120,332)</b>	<b>4,515,974</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(61,419)</b>	<b>(93,479)</b>	<b>(69,930)</b>	<b>(124,220)</b>
<b>Net increase on cash and cash equivalents</b>	<b>(354,702)</b>	<b>(2,831,918)</b>	<b>(617,931)</b>	<b>(2,078,085)</b>
Cash and cash equivalents, beginning of the quarter	1,072,665	5,010,990	1,335,894	4,257,157
<b>Cash and cash equivalents, end of the quarter</b>	<b>717,963</b>	<b>2,179,072</b>	<b>717,963</b>	<b>2,179,072</b>
<b>Supplementary information</b>				
Interest paid	31,057	27,568	40,631	216,866
Income taxes paid	-	-	-	-

See accompanying notes

*The consolidated financial statements included in this report have not been reviewed by the Company's external auditors.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. NATURE OF THE ACTIVITIES AND GOING CONCERN

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.

The Company's interim unaudited consolidated financial statements have been prepared according to the Generally Accepted Accounting Principles of Canada (GAAP) and in conformity to the 2007 audited consolidated financial statements.

Some corresponding figures have been reclassified in order to be in conformity with the reporting methodology adopted during the current period.

#### 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.

In March 2007, following a repayment \$3,750,000 and the issuance of 831,963 common shares, the Company had redeemed debt totalling \$12,904,000 from its liabilities, resulting in a gain on debt redemption of \$6,924,000. On December 22, 2006 and February 21, 2007, Amsterdams 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 continued as a going concern throughout 2007 and throughout the first two quarters of 2008.

The Company has incurred recurring operating losses and its accumulated deficit amounts to \$19,113,865 as at June 30, 2008

Conporec Inc. has announced that the Company requested and obtained on August 8, 2008 an initial ordinance from the Court under the terms of the Companies' Creditors Arrangement Act (CCAA). Until this initial 30 days period or until any other delay decided by the Court, this ordinance aims the Canadian activities of Conporec but do not affect its subsidiary companies Conporec SAS (France) and Conporec PTY (Australia).

The hypothesis of the exploitation continuity of the Company is based on its ability to obtain a temporary financing followed by an additional financing that is necessary to support its reorganization as per the CCAA Act. The management is currently looking on various financing scenarios and financing plan that would ensure the exploitation continuity beyond December 31, 2008. The current financial statements do not include any rectification, reclassification of assets and liability that could be necessary if the Company is unable to pursue its activities (see also not 10 – Subsequent Events of the Financial Report).

### 2. SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies of the Company are indicated in "notes 2 and 3" of the 2007 audited consolidated financial statements. The Company adopted the following changes in 2008.

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation", and Section 1535, "Capital Disclosures". All three Sections are applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company adopted 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.

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. These sections are establishing 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.

### **3. CAPITAL MANAGEMENT**

The Company objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to:

- provide a good return for shareholders
- preserve its availability to meet financial obligations
- maintain a capital structure that allows to choose between many financing options to realize its development projects.

The Company defines capital as shareholders' equity, long term debts and long term debentures. To maintain or optimize the capital structure, the Company may attempt to issue new shares or new debts, acquire or dispose assets, and optimize the amount of cash and short term investments.

### **4. FINANCIAL INSTRUMENTS**

#### **CREDIT RISK**

The Company is exposed to credit risks regarding its accounts receivable. Substantially all of the Company's revenues are coming from municipal or supra-municipal agencies. Provisions are established and maintained regarding potential losses.

#### **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 \$6,198 (US\$6,267) as at June 30, 2008. Accounts receivable denominated in euros amounted to \$218,774 (€136,956) as at June 30, 2008. Accounts receivable denominated in Australian dollars amounted to \$607,621 (AUD\$624,996).

Accounts payable denominated in U.S. dollars amounted to \$6,393 (US\$6,464) as at June 30, 2008. Accounts payable denominated in euros amounted to \$735,074 (€460,169) as at June 30, 2008. Accounts payable denominated in Australian dollars amounted to \$118,853 (AUD\$122,252) as at June 30, 2008. The Company does not actively manage this risk.

#### **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.

## LIQUIDITY RISK

The Company's going concern assumption is based on its ability to obtain an additional financing to support its working capital needs and its development. The management is currently looking at various financing scenario and financial plans that would ensure continuity to its operation beyond December 31, 2008.

The Company is exposed to a liquidity risk since June 30, 2008, the cash availability is only \$389,389 compared to \$1,024,152 as per December 31, 2007.

## 5. LONG TERM DEBT AND PROFIT ON WRITE-OFF OF DEBTS AND DEBENTURES

The following table summarizes the evolution of the long term debts and debentures since the end of the 2007 fiscal year:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Obligations relating to rental-purchases contracts, repayable by monthly instalments until 2012	\$ 369,336	\$ 456,812
Debentures Canada Economic Development repayable by five (5) equal payments from 2007 to 2011	\$ 131,423	\$ 164,279
Debt on the acquisition of the La Prade Industrial Park	\$1,200,000	\$1,200,000
	\$1,700,759	\$1,821,091
Short term portion of debts and debentures	(\$1,412,029)	(\$1,440,913)
	<u>\$ 288,730</u>	<u>\$ 380,178</u>

## 6. SHARE CAPITAL

### a) AUTHORIZED

An unlimited number of common shares without per value.

As per March 31, 2008, 12,692,413 common shares were issued for a total book value of \$24,130,837 and there have been no changes during the quarter in the share capital.

### b) STOCK OPTIONS

Concurrent with the reverse takeover in 2005, the Company adopted a stock options plan to grant administrators, officers, employees and consultants of the Company options to purchase common shares. The maximum number of common shares that can be issued under the plan cannot exceed 488,250. No options may be granted for a period exceeding five years.

On June 4, 2008, 75,000 options were granted at an officer. No options were exercised and 40,000 options were cancelled during the quarter. The Company had 229,000 options in circulation as of June 30, 2008.

June 30, 2008		
	Number of shares	Weighted average exercise price \$
Outstanding options		
beginning of 2008	144,000	4.80
Granted (1)	125,000	1.09
Cancelled	40,000 -	1.30
Exercised	-	-
Outstanding options		
end of period	229,000	3.39
Exercisable options		
end of period	119,400	4.02

(1) The fair value of stock options granted during the period was estimated using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate:	3.14%	Expected life:	5 years
Dividend yield:	0.00%	Expected volatility:	75.00%

The fair value of each option granted was determined using the Black-Scholes pricing model and accounted for using a graduated vesting schedule. As such, the Company had a compensation expense of \$14,226 for the second quarter of 2008, offset by the contributed surplus.

#### c) CURRENT WARRANTS

Date granted	Number	Price \$	Expiry date
August 18, 2006	600,000	\$2.50	August 18, 2008
December 22, 2006	1,904,761	\$2.30	December 22, 2008
February 21, 2007	3,571,429	\$2.30	February 21, 2009
	6,076,190		

During the quarter, 839,518 warrants granted May 27, 2005 maturing three years after at an exercisable price of \$5.70 each, were cancelled.

## 7. SEGMENTED INFORMATION

The Company's activities fall into two distinct categories, the operations of waste processing facility and development projects which its revenues are coming from solicitation, sale of processes and construction of new facilities on national and international markets. The classification of these sectors of activity is established according to the origin of the sales and the structure of the costs incurred for these two types of activities.

The EBITDA corresponds to the line entitled "Earnings before the following items" on the consolidated income statement.

## a) INFORMATIONS BY SECTOR OF ACTIVITY

	<b>Six-month period</b>	
	<b>June 30</b>	<b>June 30</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Waste processing facility</b>		
Sales	3,868,991	3,250,528
EBITDA	(747,174)	153,075
Depreciation of fixed assets	290,168	288,992
<b>Development projects and elimination</b>		
Sales	1,489,382	393,409
EBITDA	(223,965)	(1,632,748)
Depreciation of intangible assets	47,523	47,523
<b>Total</b>		
Sales	5,358,373	3,643,937
EBITDA	(971,139)	(1,479,673)
Depreciation of assets	337,691	336,515
Assets	19,738,091	21,321,596

## b) INFORMATIONS BY GEOGRAPHIC SECTOR

	<b>Six-month period</b>	
	<b>June 30</b>	<b>June 30</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Sales</b>		
Canada	3,928,354	3,491,505
United States	-	33,786
France	161,939	118,646
Australia	1,268,080	-

**8. RECEIVABLE**

The following table details accounts receivable for June 30, 2008 and December 31, 2007 respectively.

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable <sup>(1)</sup>	1,819,102	1,401,503
Joint ventures <sup>(2)</sup>	357	186,294
Tax credit <sup>(3)</sup>	54,847	186,095
Other <sup>(4)</sup>	7,827	7,406
	<u>1,882,133</u>	<u>1,781,297</u>

<sup>(1)</sup> Accounts receivable include the consolidation of receivables resulting from the normal course of operations of the Sorel-Tracy plant, Conporec SAS (Tournan-en-Brie), the consortium held by equal parts with Stearns & Wheler Services (New York), Conporec Pty (Mindarie) and the internal development team of Conporec.

<sup>(2)</sup> Following the consolidation of the joint venture activities, this amount represents the portion of intercompany accounts receivable owed by the project partner.

<sup>(3)</sup> This amount represents the different tax credits for research and development and other grants for which the Company expects to be reimbursed.

<sup>(4)</sup> This amount represents mainly the warranty deposits done for development contracts.

## **9. WORK IN PROGRESS**

This amount includes work performed by Conporec inc. for Conporec SAS as part of the Tournan-en-Brie project. These amounts are accounted for at cost and the client will be invoiced once work has resumed.

## **10. SUBSEQUENT EVENTS**

Conporec Inc. (“Conporec” or the “Company”), announced on August 11, 2008 that the Company requested and obtained an initial ordinance from the Court under the terms of the Companies’ Creditors Arrangement Act (CCAA). Until this initial 30 days period or until any other delay decided by the Court, this ordinance aims the Canadian activities of Conporec but do not affect its subsidiary companies Conporec SAS (France) and Conporec PTY (Australia).

The Board of Directors of Conporec, of which all the members remain in position, estimates that obtaining such an ordinance and the possible deposit of a Plan of Arrangement to the creditors are the only solutions to regain a viable financial health. Ernst &Young has been appointed as controller. In addition to the CCAA statutory responsibilities, Ernst &Young will also assist the management of Conporec to develop a Plan of Arrangement that could be acceptable for the creditors and to define the financial restructuring plan of the Company.

In addition, Conporec received notification from Hera Holdings SA about their intention not to pursue the contemplated private placement under the disclosed terms and conditions and for which the closing date was planned July 31<sup>st</sup> 2008. Conporec and Hera Holdings SA currently study other ways to team up in the development of projects. Consequently, Conporec definitively withdraws its intention to conclude a private placement according to the beforehand disclosed terms.

Consequently of the review of its operations under the terms of the LACC, Conporec also announces the temporary shut down of its Sorel-Tracy municipal solid waste facility. The resumption of the activities will be function of a new contractual agreement with the customers of this installation. However, Conporec continues its source separated organics composting activities at the La Prade Environmental Park (Bécancour, Ca) and also all of its engineering and construction activities, in particular for the Tournan-en-Brie plant (France) and for the Mindarie Regional Council plant (Australia).

In order to support the financial restructuring of Conporec, an arm’s length subscriber has the intention to subscribe to a CA\$1.5M mortgage. This mortgage is conditional to a due diligence and a negotiation between the parties, which have to be completed within the next fifteen days. Conporec will disclose the name of the aforementioned subscriber at the end of this period and will also disclose any new information about the current situation of the Company.