Annual Report

Year Ended December 31, 2006

Conporec

HIGHLIGHTS OF 2006

FINANCIAL CONSOLIDATION AND TECHNOLOGY DEPLOYMENT

FINANCIAL CONSOLIDATION

- Significant funding with an international financial partner, Amsterdams Effectenkantoor B.V. ("AEK").
- Writing off long-term debt, resulting in an exceptional $6.9 million gain.

TECHNOLOGY DEPLOYMENT

- Stepping up national and international market development efforts.
- The Conporec Inc. consortium was selected to carry out the *Mindarie Regional County* project in Australia, involving the construction of a residual waste recovery plant of $70 million (November 2006).
- Conporec's technologies (sorting-composting, Biomax composting) were selected for competitive bidding on three projects in Ontario and in about ten projects in Quebec.
- Winner of the 2006 *Technical Innovation Award* given by the New York chapter of the *American Public Works Association* (*APWA*) for the *Delaware County*, *New York* plant and finalist for the *APWA* national grand prize (June 2006).

TABLE OF CONTENTS

1. COMPANY PROFILE 7

1.1 GENERAL PROFILE 7
1.2 THE ADVANTAGES OF CONPOREC'S SORTING-COMPOSTING SOLUTION 7
1.3 HISTORY 7
1.4 THE TECHNOLOGY 8
1.5 THE BUSINESS MODEL 9
1.6 THE MARKET 9
1.7 INTERNATIONAL COMPETITION 10
1.8 GROWTH STRATEGY AND OPPORTUNITIES FOR DEVELOPMENT 11

2. FINANCIAL ANALYSIS OF THE MANAGEMENT (AS OF APRIL 27, 2007) 11

2.1 REVERSE TAKEOVER IN 2005 11
2.2 FORWARD-LOOKING STATEMENTS 11
2.3 ADDITIONAL INFORMATION 12
2.4 FINANCIAL INFORMATION 12
2.5 ANALYSIS OF OPERATING RESULTS 13
2.5.1 *Income* *13*
2.5.2 *Operating expenses and gross profit* *13*
2.5.3 *Sales and administration costs* *13*
2.5.4 *Earnings before interest, taxes, depreciation and amortization (EBITDA)* *13*
2.5.5 *Net loss* *13*
2.5.6 *Cash flow (cash assets)* *13*
2.5.7 *Financial situation and cash assets* *14*
2.6 COMMON SHARES AND SHARES IN CIRCULATION 15
2.7 STOCK OPTIONS AND WARRANTS 15
2.8 LONG TERM DEBTS AND DEBENTURES 16
ALMOST ALL THE DEBTS AND DEBENTURES WERE PAID DURING THE FIRST QUARTER OF 2007, AS EXPLAINED IN SECTION "2.12 SUBSEQUENT EVENTS". 16
2.9 DERIVATIVE FINANCIAL INSTRUMENTS 16
2.10 OFF-BALANCE SHEET ARRANGEMENTS 16
2.11 TRANSACTIONS BETWEEN RELATED PARTIES 16
2.12 SUBSEQUENT EVENTS 16
2.13 ACCOUNTING POLICIES 18
2.14 RECENT CHANGES TO PUBLISHED ACCOUNTING POLICIES 18
2.15 USE OF ESTIMATES 18
2.15.1 *fixed assets and intangible assets with limited-life* *18*
2.15.2 *Depreciation of long term assets* *19*
2.15.3 *Equity-based compensation and other payments* *19*
2.16 CONTROLS AND PROCEDURES 19
2.16.1 *Internal control over financial reporting* *19*
2.16.2 *Disclosure controls and procedures* *20*
2.17 RISK FACTORS 20
2.17.1 *Exclusive intellectual property rights* *20*
2.17.2 *Need for funds* *20*
2.17.3 *Competition and technical obsolescence* *21*
2.17.4 *Growth management and market development* *21*
2.17.5 *Conflicts of interest* *21*
2.17.6 *Dependence on the demand* *21*
2.17.7 *Pricing* *22*

2.17.8 *Dependence on key personnel* *22*
2.17.9 *Employee relations* *22*
2.17.10 *Acquisitions* *22*
2.17.11 *Product error* *22*
2.17.12 *Environment* *23*
2.17.13 *Uncertainty in the solid waste management market* *23*
2.17.14 *Exchange rate* *23*
2.17.15 *Technical obsolescence of the main asset* *23*
2.17.16 *Insurance* *23*

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS 25

4. BOARD OF DIRECTORS AND OTHER INFORMATION 67

MESSAGE TO THE SHAREHOLDERS

In early 2006, Conporec's management team set several ambitious goals regarding the company's financial and corporate structure as well as market development. Reaching these goals will allow Conporec to prepare its foundation as an international company and start the second phase of its life as a public corporation open onto the world.

FINANCIAL RESOURCES: DEBT RESTRUCTURING

The company underwent considerable financial restructuring in 2006, which will make it easier to follow its business plan over the next several fiscal years. The restructuring was carried out with the cooperation of Conporec's guaranteed creditors and resulted in the elimination of its long-term debt ($12.9 million total) through $3.75 million cash and the issuing of 7 519 631 common shares.

The net effect of this restructuring is the windfall profit of $6,859,000, to appear in the first quarter of the 2007 results.

FINANCIAL RESOURCES: GREATER FUNDING

The financial restructuring resulted in an increase of capital provided through the Amsterdams Effectenkantoor B.V. (AEK) group. Three fundraisers, two of which raised a total of $3 million and one which raised $11.5 million, were carried out during the year ($4 million was received in December 2006 and $7.5 million was received in February 2007), giving the company $17 million in pro forma shareholders' equity.

INTERNATIONAL MARKET RECOGNITION: BUILD/OPERATE CONTRACTS

The Conporec consortium's selection for the construction and operation of the brand new Mindarie Regional Council plant in Australia is the highlight of 2006 with regard to international development. Besides the new earnings generated by this contract, the international recognition of Conporec's technology must be highlighted.

It is in an international call for bids extended to the world's best teams at the time that the Conporec consortium was retained, mainly due to two fundamental criteria: the quality of its compost product and the effectiveness of its odour control systems. Conporec far outstripped the competition by proving the effectiveness of its technology as well as by the exceptional quality of its previous projects, namely Delaware County.

Moreover, Conporec stood out as the winner of the 2006 *Technical Innovation Award* given by the New York chapter of the *American Public Works Association (APWA)* for building the Delaware County sorting-composting plant.

The Mindarie build/operate contract, set to begin in the next few quarters, will become Conporec's fourth project after Sorel-Tracy (Canada), Delaware County (United States) and Tournan-en-Brie (France).

As the year drew to a close, Conporec was also placed on short lists for build/operate projects in Europe and the United States. These projects should lead to formal calls for bids over the next several quarters.

NATIONAL MARKET RECOGNITION: SERVICE CONTRACTS

Conporec continued to make significant national market development efforts in 2006. Thanks to these actions, we foresee very interesting developments in the near future. Whether in Ontario, where Conporec and its Biomax™ technologies are in the running for three projects, or in Quebec, where the Nicolet-Yamaska-Bécancour intermunicipal management board recently adopted Conporec's sorting-composting process (April 2007) and where a dozen projects are in various stages of development, it is obvious that the national market is preparing itself more and more actively to meet government residual waste recovery deadlines.

OUTLOOK

On a national level, the regulations forcing Quebec municipalities to keep at least 60% of their residual waste out of landfills by 2008 is sparking greater interest in Conporec's green technologies. As such, the company expects to sign several contracts to build plants in Quebec over the next several quarters, either through a Public-Private Partnership (PPP) or directly for the client (TK).

On the international front, the Tournan-en-Brie project in France should resume activities this fiscal year and as a consequence, considerably increase the profitability of the company's operations. The work is estimated to bring in over $5.7 M in revenues and despite an over one year delay, it should help free up an interesting profit margin. Further, the contract with the *Mindarie Regional Council*, set to begin shortly, should be spread out over the next 18 to 24 months.

With regard to international market development, the company's efforts in the target areas will remain intense over the next several quarters. We intend to namely take part in a dozen calls for bids in France alone in the next two or three quarters.

Strategically-speaking, Conporec will continue investing in the commercial deployment of its technologies while developing new concepts that integrate energy recovery in its process. The global market remains receptive to such performing and effective green technologies.

In 2006, Conporec prepared its foundation to become a world leader in the residual waste recovery industry, true to its mission. Its next development, financing and acquisition activities will remain dictated by the same mission.

(Signed)

Jean Beaudoin
President and CEO

(Signed)

Laurier Pedneault
Chairman of the Board of Directors

1. COMPANY PROFILE

1.1 GENERAL PROFILE

Conporec Inc. ("the Company") is a public corporation that specializes in urban waste reclamation. Its patented, odourless sorting-composting technology, developed and mastered over 10 years and $10 million in research and development, keeps over 75% of waste out of landfills. Moreover, thanks to its Biomax™ solutions, it also offers innovative and effective organic waste reclamation technologies. Conporec offers municipalities and amalgamations of municipalities around the world a solution to increasingly limited household waste (HW) and organic waste treatment options, in addition to a real alternative to landfills.

Conporec's sorting-composting plant in Sorel-Tracy (Quebec, Canada), its Biomax™ projects in Quebec and its brand new, leading-edge sorting-composting plant in Walton (*Delaware County, New York State,* U.S.A) are proof of its knowledge and expertise in the development of local, national and international markets.

1.2 THE ADVANTAGES OF CONPOREC'S SORTING-COMPOSTING SOLUTION

Conporec's sorting-composting technology offers an integrated waste management solution to communities in search of a responsible and cost-effective approach. It involves:

- recycling and keeping 75% to 90% of waste out of landfills thanks to its patented technology;
- controlling odours through malodorous gas collection and elimination systems;
- producing an end residual (25%) made up mainly of inert and stable matter that does not generate biogas or leachate, is environmentally safe and can even be used to reclaim energy;
- automated plant processes that provide safe working conditions for employees;
- producing compost, a reclaimed, marketable product stemming from the treatment of residual waste;
- technology that can be used anywhere in the world, in many climates.

1.3 HISTORY

Conporec was created in 1987 to offer a solution to the household waste disposal problem in the Bas-Richelieu region near Montréal, in the province of Quebec. Faced with the significant rise in household waste disposal costs and given the fact that no landfill existed in this region, business people in Sorel-Tracy, Quebec founded Conporec to assess the different technological alternatives to waste disposal. After extensive research on the different approaches, Conporec selected the bioreactor-based technology used to produce compost in Europe.

In 1990, Conporec signed a 20-year service contract with the MRC du Bas-Richelieu, generating the funds to build the first plant in Sorel-Tracy, Quebec using the Conporec process and technology. In 1993, Conporec started up the Sorel-Tracy plant, which has the capacity to treat 35 000 tons of household waste a year. In the years that followed, Conporec developed and refined its technology, focusing namely on the quality of the compost produced, its odour control system and the set of specialized equipment that are now part of Conporec's patented technology. Following these many developments, the company filed and obtained patents for its sorting-composting technology in several countries including Canada, the United States, Australia and several European countries.

In 2001, after several months of negotiations with Delaware County (NY), Conporec signed a joint venture agreement (50/50) with S&W Services, Inc. for the construction of a plant using Conporec's waste management technology in Walton (NY). The ultramodern plant, with a capacity to treat 41 500 tons of waste annually and valued at CAN$25 million, opened in

September 2005. Currently one of the most performing in the world, this plant demonstrates the quality and performance of Conporec's technology, as does the Sorel-Tracy plant.

Following this second commercial success, its first abroad, Conporec turned to France and won the contract to modernize the SIETOM plant in Tournan-en-Brie (suburb of Paris, France) in an international public call for bids in September 2004. Through its wholly-owned French subsidiary (Conporec SAS), Conporec signed a pool agreement with ATEIM SA (a French design-build company) and Atelier d'Architecture BW SA, for the construction of a new plant that will also be the flagship for the Conporec technology on the European continent. The plant will be able to treat 65 000 tons of household waste annually and will be worth CAN$27 million (Conporec's share is CAN$12.5 million). Construction should be completed by 2007 or 2008.

The technology's capacity for commercial deployment having successfully been proven three times, Conporec was ready to become a leader in the integrated household waste management industry. Also, having made a $5 million private placement in order to access the public market, Conporec transformed its corporate and financial structure and obtained a listing on the Venture Exchange (Toronto, Calgary, Vancouver) in June of 2005 through a reverse takeover with Capital SLC Inc start-up capital company. Conporec's shares have since been traded under CNP symbol.

Immediately upon entering the stock market, Conporec acquired Biomax Inc. in order to complete its technological offer. Over the years, Biomax had developed various organic waste composting technologies that complement Conporec's own. Armed with this set of technologies, Conporec can now offer management solutions for residual waste, as well as organic matter sorted at the source and other reclaimable organic matter.

1.4 THE TECHNOLOGY

Conporec offers two types of composting technologies depending on the municipality's waste collection method: no sorting or simple sorting at the source on the one hand and multiple sorting on the other.

Simple Sorting

In the first approach, the citizens only sort part of the waste. All sorting is done after the waste has been collected, at the sorting and composting plant. In the simple sorting approach, citizens sort glass, paper, plastic and metal in a blue bin. The rest of the household waste, including a mixture of organic matter that can be turned into compost, goes into garbage bags.

These two waste collection methods require in-plant mechanization of the putrescible organic matter separation process. The recovered organic matter will undergo composting treatment until a compost that meets the standards of the *Bureau de Normalisation du Québec* is produced. In this situation, the technological offer is the complete sorting-composting plant as developed by Conporec in Sorel-Tracy (Canada), Walton (USA), Tournan-en-Brie (France) and soon in Mindarie (Australia).

Multiple Sorting

In this approach, citizens do three-way sorting. They place glass, paper, plastic and metal in a bin provided for this purpose, putrescible organic waste in another bin or bag and the remaining non-recyclable waste in a garbage bag. Behind its socializing virtue, this type of waste collection is a real challenge since it rests in the hands of citizens whose effectiveness will depend on their awareness and organizational constraints (apartment buildings, etc.). In this technological approach, Conporec does not control the household waste reclamation goal since sorting is performed by the citizens rather than machines.

This collection method is a problem for municipalities, forcing them to find a technology that can compost efficiently at low cost given the already high costs associated with three-way waste collection (more bins, more trucks doing pickups and a greater communication budget).

That is why, in July 2005, Conporec acquired Biomax Inc., an engineering company with the greatest static composting experience in Canada. The solutions developed by Biomax focus on optimizing conditions favourable to the bacterial decomposition of organic matter. These technologies, from the simplest to the most complex, are MaxiPile, MaxiPile Plus, CompostAir™ and RobotCompost™.

By acquiring Biomax, Conporec can now offer municipal clients who have opted for three-way waste collection an adapted, very cost-effective technology to compost the organic waste from their selective collection. This technology allowed Conporec to sign an agreement with the City of Toronto for the large-scale treatment of organic matter sorted at the source.

Today, municipalities can benefit from Conporec's household waste treatment solutions regardless of their chosen collection method.

1.5 THE BUSINESS MODEL

Conporec has developed a business model that will generate both one-time and recurring income. Using its patented technology, Conporec offers three project approaches:

- Build-Own-Operate (BOO);
- Build-Own-Operate -Transfer (BOOT);
- turnkey/operation project: build and transfer (BT) immediately after construction and operation contract.

The company's income can be generated by plant operation, construction and project management fees, the sale of patented equipment or collection of royalties associated with the use of the technology. Conporec keeps the rights to the technology's intellectual property under all circumstances and has a veto right regarding its application. Conporec transfers part of the project realization risks through alliances (mainly with regard to construction and engineering) in order to concentrate on developing, applying and maintaining its technology.

1.6 THE MARKET

The household waste reclamation market has never been as dynamic. A global market that concerns all industrialized countries, it is propelled by the rising production of household waste worldwide (population growth, increased consumption in newly industrialized countries, etc.) which calls for the creation of new facilities that respect the new standards. The market is also driven by regulatory pressure exerted in all industrialized nations. We are currently seeing a radical shift in household waste management, backed by considerable non-pollution objectives.

Conporec's technologies and the processes used in its plants mainly target the household and organic waste management market. The target market is therefore very broad as it addresses all industrialized nations. To date, the solution to household waste management has been to collect and transport all consumer waste to landfills or incinerators.

The problem with landfills is that space quickly runs out. Moreover, the environmental risk remains high since these sites are likely to experience soil and water table contamination over time despite the use of geomembranes. Furthermore, biogas released during waste decomposition is still a problem. Finally, disposing of waste in landfills by no means allows residual waste reclamation and recycling goals to be reached, as a considerable portion of this matter is simply buried.

Waste incineration is another technological option that also presents serious environmental problems. For example, the still recent release of contaminants into the atmosphere (dioxin, furan, chlorine, etc.) during waste combustion. Moreover, the highly-contaminated ashes that are produced (namely high in heavy metals) cause another dilemma, what to do with the combustion residue. The only solution at this time is burial. Several countries and/or regions have even banned this approach for these reasons, even though incineration can be combined with steam production (to produce energy).

OCED countries are placing growing emphasis on the management of residual waste. In order to meet global initiatives such as the Kyoto Protocol, for example, or more regional or local concerns about the impact landfills or incinerators have on the environment, several cities and regions are implementing various more efficient residual waste management methods.

For example, the province of Quebec (Canada) adopted the *Politique québécoise de gestion des matières résiduelles* in 1998. This policy stipulates that 60% of residual matter must be diverted from landfills by 2008. This objective has forced every regional county municipality and community to adopt a strategy that will allow it to attain this diversion level. Ontario also adopted the same ratio, 60%, while the northeastern United States decided on 70%. Nova Scotia forbids all biomass burial while Europe set a 65% household waste goal in 1995. France has opted for the mechanical treatment of organic matter, an approach on which Conporec's technologies are based.

OCED countries produce 630 million tons of household waste annually. With various objectives promoting responsible household waste management in all of these jurisdictions, the stage is set for the application of Conporec's technology. The United States alone generated over 400 million tons of household waste in 2001, 32% of which was recycled, 7% incinerated and 61% disposed of in landfills. Moreover, more household waste is being produced each year due to the growth of the world's population and its steady industrialization.

Conporec's sorting-composting technology systematically separates organic matter from other waste, thus substantially reducing the need for landfills and/or incineration by increasing their service life, reducing household waste management costs, lessening environmental problems and creating a new product: compost. In so doing, Conporec helps reduce greenhouse gas (GHG) emissions.

1.7 INTERNATIONAL COMPETITION

Presently, there are very few companies that offer the same approach to sorting-composting as Conporec, which is based on the use of a bioreactor, a sorting area, a maturation building, primary and secondary refining areas and finally, a built-in odour control system.

Few companies are currently able to offer similar approaches. One company, based in Ireland, markets a bioreactor approach under the name of Bedminster, and another, Vinci Environnement, a large French construction group and subsidiary of Vinci SA, offers a similar technology however it is less sophisticated than that developed by Conporec.

The Bedminster technology marketed by Bedminster, Dublin (IR) also uses a bioreactor but is very complicated to operate, more expensive and less efficient than that of Conporec.

Vinci Environnement, a French group and subsidiary of Vinci SA, uses a technology similar to Conporec's and is one of its main European competitors, most especially in France. However, the system does not have the advantages of odour control or the high diversion rate as Conporec's process. Vinci Environnement was Conporec's main competitor during the awarding of the contract for the plant in Tournan-en-Brie.

Among the other competitors of the sorting-composting and composting approach, are groups such as Valorga International SA (Urbaser), Ross-Roca, etc, which are mainly present in Europe.

1.8 GROWTH STRATEGY AND OPPORTUNITIES FOR DEVELOPMENT

Conporec's strategy is to create strategic partnerships or joint ventures in the industrialized countries (OECD) to promote its technologies. Conporec chooses partners with financial capacity and experience in the field of waste without necessarily owning a technology for processing municipal solid waste. These partners would exclusively market Conporec's technologies. This development strategy would allow Conporec to keep marketing costs at a reasonable level while rapidly penetrating a significant number of key markets.

To this day, Conporec has been involved to different degrees in the development of more than 35 composting plant projects. Most of these projects are in Québec and Ontario however other plants in the United States, Asia and Europe are in the planning stages. Conporec's technologies are internationally recognized and for many years the Company has been able to take part in international calls for bids for public and private customers. The capacities of the proposed plants will range between 30,000 and 200,000 tons/year and thanks to the flexibility of Conporec's technologies it will be possible to process various flows of residual waste such as:

- Municipal solid waste
- Organic waste sorted at the source
- Municipal sludge
- Septic waste
- Agro-industry sludge

In Canada, Conporec seeks mainly projects that correspond to the Build, Own, Operate (BOO) method while internationally Conporec favours Turnkey projects with local or regional partners. For international projects, Conporec finds it particularly important to associate with companies that possess proven technical expertise as well as excellent financial health.

2. FINANCIAL ANALYSIS OF THE MANAGEMENT (AS OF APRIL 27, 2007)

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.

2.1 REVERSE TAKEOVER IN 2005

As defined in "note 1" of the attached audited financial statements, the Company was subject to a reverse takeover on June 23, 2005. Consequently, all references to the number of common shares contained in this financial analysis of the management refer to the number of common shares following this event.

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 in June 2005. 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.

Financial highlights:
(in thousand of dollars, except amount per share)

	Year 2006	Year 2005	Q4 - 2006	Q3 - 2006	Q2 - 2006	Q1 - 2006
	(audited)			(unaudited)		
Revenues	8 004 $	10 264 $	2 724 $	1 367 $	1 832 $	2 081 $
Direct operating costs	6 652 $	8 166 $	2 196 $	1 367 $	1 047 $	2 042 $
Gross margin	**1 352 $**	**2 097 $**	**528 $**	**- $**	**785 $**	**39 $**
Sale and general & administrative expenses	4 322 $	3 401 $	1 116 $	1 211 $	1 067 $	928 $
Ebitda	**(2 970) $**	**(1 304) $**	**(588) $**	**(1 211) $**	**(282) $**	**(889) $**
Interest on debts and bank fees	883 $	665 $	211 $	226 $	227 $	219 $
Amortization	692 $	544 $	183 $	163 $	174 $	172 $
Others expenses (1)	(19) $	354 $	(182) $	23 $	140 $	- $
Net loss	**(4 526) $**	**(2 867) $**	**(800) $**	**(1 623) $**	**(823) $**	**(1 280) $**
Loss per share	(0,08) $	(0,06) $	(0,01) $	(0,03) $	(0,01) $	(0,02) $
Weighted average number of shares outstanding (thousand)	58 618	44 625	65 226	60 178	57 343	52 884
Cash flows relating to operating activities	(3 064) $	(1 094) $	62 $	(1 318) $	110 $	(1 918) $
Total assets	20 089 $	17 608 $	20 089 $	17 264 $	16 199 $	19 234 $
Total debts and debentures (2)	13 258 $	12 672 $	13 258 $	13 158 $	13 547 $	13 737 $
Shareholder's equity	1 756 $	(714) $	1 756 $	(1 005) $	(1 004) $	(281) $

(1) Loss following a disaster and income taxes
(2) See section 2.12 Subsequents events for debts repayment

2.5 ANALYSIS OF OPERATING RESULTS

2.5.1 INCOME

The Company ended its fiscal year with an income of $8.0 million compared to $10.3 million for the previous year. This decrease was mainly due to the shutdown of the modernization work at the sorting-composting plant in Tournan-en-Brie, France, which is still on hold as a result of our client not obtaining his construction permit. For the moment, management has no information on when the work will resume. When the work does resume, the Company will realize more than $5.7 million in additional income, given that about 43% of the project has already been completed. In summary, most of the business income is from the plant in Sorel-Tracy resulting from its contracts with the MRC du Bas-Richelieu and the City of Toronto.

2.5.2 OPERATING EXPENSES AND GROSS PROFIT

The operating expenses for the fiscal year result mainly from operations at the Sorel-Tracy plant. The increases in transportation costs due to the price of power and gas explain the decrease of the gross profit margin that went from 20.4% in 2005 to 16.9% in 2006. As well, the support of the Tournan-en-Brie project employees despite the almost complete work shutdown is another reason for the reduction of the gross profit margin. This team of employees is presently devoted to resuming the project as well as other new projects in France.

2.5.3 SALES AND ADMINISTRATION COSTS

Sales and administration costs increased by 27.1% compared to the previous year. This increase of $920 K is mainly the result of costs associated with the Company's financial restructuring and development and marketing efforts. More specifically, the Company paid professional fees of more than $1.1 million in 2006, $650 K of which was spent for market development and $515 K for financial restructuring, matters relating to settlements and costs. It is likely that most of these costs, with the exception of the market development and stock costs, will not recur during the next fiscal year as a result of the Company's present good financial structure.

Moreover, management considers that these marketing efforts must be perceived as a long-term investment that should lead to several national and international contracts. Obtaining a contract such as the one in Australia is the result of marketing efforts of more than three years ago, providing the company with proven credibility in Quebec and internationally.

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

Based on the preceding comments, the Company had negative EBITDA of $2,970 K in 2006, a decrease of $1,666 K compared to 2005, which is due mainly to the increase in general sales and administration costs of $920 K and the decrease in sales due to the Tournan-en-Brie project.

2.5.5 NET LOSS

The Company therefore ends it fiscal year with a net loss of $4,526 K, or $0.08 per share based on a weighted average number of shares of 58,617,588. It is important to note that financial costs increased from $665 K in 2005 to $884 K in 2006, which emphasizes the Company's problem of debt overload in 2006, a situation that was corrected at the end of the first quarter of 2007.

2.5.6 CASH FLOW (CASH ASSETS)

Operating activities absorbed $3,429 K in 2006 before the net change of non cash items of the working capital, as compared to $1,579 K in 2005. The extraordinary costs related to financing and the financial restructuring of the company reflected in the increase in general sales and administration costs and the temporary shutdown of the Tournan-en-Brie project, mainly explain these results. In addition, the support of the investment activities for market development is also reflected.

The investment activities related to fixed assets cost $398 K in 2006 compared to $2,348 K in 2005. These assets were all realized at the Sorel-Tracy plant.

The financing activities were comprised of three successive rounds of capital stock and stock purchase warrants of $1.5 million in March, $1.5 million in August and $4.0 million in December 2006 (the latter $4.0 million was part of the total $11.5 million in financing finalized in February 2007). These investments were all realized by AEK at a total cost of $421 K. The three rounds of financing led to the allocation of 31,047,617 warrants. In the beginning of the year, the Company also obtained the balance owing on receivable financing in the amount of $1,652 K as part of its modernization project initiated in 2005. During this year, more than $1 million of debts were reimbursed.

In summary, the Company ends the year with cash in the amount of $4,257 K, which was mainly used for the settlement of debts with its principal secured creditors, namely Desjardins Group and Investissement Québec, in March 2007.

2.5.7 FINANCIAL SITUATION AND CASH ASSETS

Current assets totalled $8,452 K compared to $5,802 K at December 31, 2005, an improvement of $2,650 K over the previous year, which resulted mainly from AEK's last injection of $4 million. At December 31, 2006, the company's cash assets totalled $4,257 K.

Current liabilities amounted to $18,041 K as a result of the agreement with Desjardins Group and Investissement Québec planning for the total reimbursement of its debts for an amount of $3.8 million and the issuance of 7,519,631 common shares (see note 15 in the audited financial statements). This agreement, finalized in March 2007, made it possible to eliminate almost all the Company's long term debts, more than $12 million, and realize a profit on the debt write-off in the amount of $6.9 million before related expenses. Since almost all debts were reimbursed in 2007, they are almost entered in the current liabilities.

Moreover, the Company wrote-off its $25 K investment in Enviroval because of the uncertainty surrounding its recovery.

The fixed assets are essentially comprised of the assets of the Sorel-Tracy plant in the amount of $10.9 million.

The intangible assets are represented by the acquired technology of Biomax in July 2005.

Following the elimination of its principal long-term debts, the Company presents a pro forma balance sheet (note 15 in the audited consolidated financial statements) that achieves the objective of the agreement with its principal secured creditors, in such a manner that there is only $161 K remaining in long-term debts. The debenture of $131 K is the result of a repayable contribution from Canada Economic Development, made during the realization of the $2.9 million project in 2004 and 2005 following the collapse of the maturation building.

In summary, at December 31, 2006, the Company has shareholder's equity of $1,756 K and current and long-term debts and debentures of $13,257 K. As a result of the injection of funds realized in February 2007 and the elimination of its principal debts, the Company now has a very solid financial structure with more than $6.0 million in working capital, only $423 K of long-term debts and debentures and more than $17 million in shareholder equity. At December 31, 2006 assets totalled $20.1 million compared to $17.6 million one year earlier.

2.6 COMMON SHARES AND SHARES IN CIRCULATION

An unlimited number of common shares, with no face value can be issued. As of December 31, 2006, 82,390,214 common shares were in circulation. The following table shows the change in capital stock during the year 2006.

CHANGE IN COMMON CAPITAL STOCK IN 2006

	Number of shares	Amount received in $	Value of capital stock	Value assigned to warrants
Balance as at January 1, 06	50 648 128	13 977 589	13 977 589	
Shares issued to creditors	694 467	208 340	208 340	
Shares issued to AEK[1]	6 000 000	1 500 000	850 000	650 000
Shares issued to AEK[1]	6 000 000	1 500 000	850 000	650 000
Shares issued to AEK[1]	19 047 619	4 000 000[2]	2 100 000	1 900 000
	82 390 214	$21 185 929	$17 985 929	$3 200 000

[1] AEK (Amsterdams Effectenkantoor B.V.) holds shares for its investors.
[2] This amount is part of the total investment of $11.5 million completed in February 2007

2.7 STOCK OPTIONS AND WARRANTS

During 2006, 150,000 stock options were granted as part of stock option plan, while 109,500 were cancelled. The fair value of the options granted was estimated at $19,500 using the Black-Scholes pricing model.

For each of the three rounds of financing with AEK (see section 2.6 "Common shares and shares in circulation") warrants were issued for each common share issued. Therefore, 12,000,000 warrants exchangeable for 12,000,000 common shares and payment of $0.25 per share and 19, 047,619 warrants exchangeable for 19, 047, 619 common shares and payment of $0.23 per share, were issued. Using the Black-Scholes pricing model, an estimated total value of $3,200,000 was attributed to these warrants.

The following tables summarize the stock options and stock purchase warrants issued as at December 31, 2006.

TOTAL STOCK OPTIONS ISSUED

	Number
Stock options granted as part of the stock option plan	1 440 000
Other stock options in circulation	1 634 190
	3 074 190

TOTAL WARRANTS ISSUED

	Number
Warrants issued as part of the reverse takeover	14 597 300
Warrants issued as part of AEK's three (3) private investments	31 047 619
	45 644 919

2.8 LONG TERM DEBTS AND DEBENTURES

The following table summarizes the Company's debts and debentures as at December 31, 2006. A detailed table can be found in note 6 of the audited consolidated financial statements.

Loan from the Caisse Populaire Pierre-de-Saurel and Investissement Québec	$5 785 705
Debentures Caisse Populaire Pierre-de-Saurel and Investissement Québec, as well as accumulated interest on debentures	$6 702 934
Debentures Centre local de développement du Bas-Richelieu	$345 529
Obligations relating to rental-purchases contracts, repayable by monthly instalments	$259 257
Debenture Canada Economic Development	$164 279
	$13 257 705
Short term portion of debts and debentures	- $12 965 222
	$292 583

Almost all the debts and debentures were paid during the first quarter of 2007, as explained in section "2.12 Subsequent Events".

2.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

2.10 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no significant off-balance sheet arrangement if not for the leases defined in note 13 regarding the commitments of the audited consolidated financial statements.

2.11 TRANSACTIONS BETWEEN RELATED PARTIES

Transactions with administrator-controlled companies reached $53,213 in 2006 with $22,678 owed to creditors at the end of the year. These transactions took place during the normal course of business and are measured at the exchange value, which is the amount of consideration established and accepted by the related parties.

2.12 SUBSEQUENT EVENTS

On February 21, 2007, Conporec issued 35,714,286 units, in exchange for $7,500,000 ($7,000,000 net) from AEK, a cost of $0.21 per unit. Each unit is comprised of one common share from Conporec and a warrant giving the holder the right to purchase one common share from Conporec at a cost of $0.23 per share no later than February 21, 2009.

In March 2007, Conporec reimbursed its main creditors, Desjardins Group and Investissement Québec. The agreement allowed Conporec to eliminate $12,489,000 of long term debts and debentures from its balance sheet and enter a profit on write-off of $6,859,000 before taking into consideration any fees associated with the settlement, all in consideration of a payment of $3,750,000 in addition to fees and interest incurred, as well as the issuance of 7,519,631 common shares from its capital at a value of $0.25 each.

In March 2007, Conporec reimbursed the non-secured debenture of the Centre local de Développement du Bas-Richelieu by issuing 800,000 shares at a price of $0.25 each. The agreement allows Conporec to eliminate a debenture valued at $345,000 from its balance sheet and enter a profit of $145,000.

If all these events subsequent to the balance sheet date had taken place before December 31, 2006, it would have had a significant impact on the Company's balance sheet. Below is the Company's pro forma balance sheet that includes these significant events as if they had taken place before the end of the year 2006.

CONPOREC INC.
PRO FORMA BALANCE SHEET
as per December 31, 2006
(in thousand of canadien dollars)

	December 31, 2006 (Audited) $	Subsequent events		Pro forma Balance sheet 2006
ASSETS				
Currents assets				
Cash	306	7 000	a	**7 306**
Short term deposit	3 951	(3 750)	b	**201**
Accounts receivable	3 498			**3 498**
Work in progress	320			**320**
Prepaid expenses	377			**377**
Total currents assets	8 452	3 250		**11 702**
Property, plant and equipment	10 860			**10 860**
Goodwill	777			**777**
	20 089	3 250		**23 339**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	5 026	300	b	**5 326**
Future income tax liabilities	50			**50**
Current portion of long term debt	5 884	(5 786)	b	**98**
Current portion of long term debentures	7 081	(7 048)	bc	**33**
Total current liabilities	18 041	(12 534)		**5 507**
Long term debts	161			**161**
Long term debentures	131			**131**
Shareholder's equity				
Share capital	17 986	6 005	abc	**23 991**
Contributed surplus	390			**390**
Subscripton right	3 200	3 575	a	**6 775**
Deficit	(19 815)	6 204	abc	**(13 611)**
Currency adjustment	(5)			**(5)**
	1 756	15 784		**17 541**
	20 089	3 250		**23 340**

(a) 35,714,286 shares issued to AEK for $7,500K ($7,000K net). Value attributed to warrants, $3,575K.

(b) $12,489K elimination of debts and debentures for $3,750K cash and the issuance of 7,519,631 common shares at a price of $0.25 each (value of $1,880K). Profit on write-off of $6,859 before fees associated to the settlement estimated at $300K.

(c) $345K elimination of debentures by issuing 800,000 common shares at a price of $0.25 each (value of $200K), for a profit on write-off of $145K.

2.13 ACCOUNTING POLICIES

The principal policies adopted by the Company are indicated in "note 2" of the audited consolidated financial statements.

2.14 RECENT CHANGES TO PUBLISHED ACCOUNTING POLICIES

The CICA has recently published the following changes to the accounting principles. The Company is currently assessing the significance of these policies and their effect on the financial statements:

COMPREHENSIVE INCOME – In April 2005, the CICA issued section 1530 "Comprehensive Income" that specifies that comprehensive income and its components must be indicated in the consolidated financial statements with the same importance as the other statements that comprise the complete set of consolidated financial statements. Comprehensive income is the change in a company's net assets resulting from transactions, events or circumstances from sources other than shareholders. This section applies to the interim fiscal periods and the fiscal periods beginning October 1, 2006.

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT – Section 3855 "Financial instruments – recognition and measurement" describes the standards for recognizing and measuring financial assets, financial liabilities and derivatives. These financial instruments must be classified into defined categories. This classification determines how each instrument is measured as well as the method for presenting the related profits and losses. This section applies to the interim fiscal periods and the fiscal periods beginning October 1, 2006.

ACCOUNTING CHANGES – In July 2006, the CICA issued section 1506 "Accounting changes" which describes certain changes to the preceding standard. Entities may not make a change in their accounting methods unless it is required by a primary source of the GAAP or unless it provides a more reliable and relevant presentation in the financial statements. In addition, all changes to the accounting methods must be applied retroactively and certain additional information must be provided. This section applies to the interim fiscal periods and the fiscal periods beginning January 1, 2007.

HARMONISATION OF CANADIAN AND INTERNATIONAL STANDARDS – In March 2006, the Accounting Standards Board of the CICA released its new strategic plan which proposes to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards. The transition will take place over a five year period, at the end of which Canadian GAAP will cease to exist as a separate distinct basis for financial reporting for public companies. The Company will closely monitor all changes arising from this convergence.

2.15 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.

2.15.1 FIXED ASSETS AND INTANGIBLE ASSETS WITH LIMITED-LIFE

The fixed assets and intangible assets with a limited useful life from Biomax in 2005 were accounted 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.

2.15.2 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.

2.15.3 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.

2.16 CONTROLS AND PROCEDURES

2.16.1 INTERNAL CONTROL OVER FINANCIAL REPORTING

In the framework of Regulation 52-109 (certification of disclosure in issuers' annual and interim filings), the president and chief executive officer and the chief financial officer, along with the other members of management, have developed internal financial information controls in order to reasonably ensure the reliability of the financial information and prepare financial statements for external purposes in accordance with widely recognized accounting principles.

One must consider that a control system, regardless of how well it is designed and operated, can only provide reasonable (not absolute) assurance that its objectives will be reached. Due to the limits inherent to all control systems, it is impossible to assure in absolute terms that all cases subject to control, including eventual fraud cases, will be detected. These inherent limits include, among others, (i) hypotheses and judgments made by management that could later be deemed erroneous under different conditions and circumstances or (ii) the impact of isolated errors.

Moreover, the controls can be bypassed by individual, unauthorized acts, collusion involving two or more people or by a decision reached by management. Furthermore, all control systems are designed based in part on the occurrence of hypothetical events. It is therefore impossible to ensure that it will be able to take all future parameters and conditions into account.

In light of the work it has carried out, the Company has identified certain weaknesses in its internal controls. They concern:

- The Company has identified a weakness concerning the validation of data from its subsidiaries working in foreign countries. Due to this flaw, the financial statements for the first quarter of 2006 were reprocessed, then re-filed in early September of 2006. To strengthen and improve its control at this level, the Company has implemented an accountability procedure for each quarter.

- The Company has identified a weakness concerning a lack in segregation of duties. The limited amount of in-house resources makes it impossible to completely separate incompatible tasks. The Company believes that this weakness has not impacted its results since the involvement of senior management in current operations compensates for the lack in segregation of duties.

- The Company has identified a weakness concerning its board of directors and different committees over the last year. In fact, several administrators tendered their resignations, causing rotation in management. The Company now has six stable members, three in Québec and three in Europe. With the financial restructuring completed in the first quarter of 2007, the Company trusts that it will now be able to maintain stability within its board of directors.

2.16.2 DISCLOSURE CONTROLS AND PROCEDURES

The Company's information controls and procedures are designed to reasonably ensure that all relevant information is collected and reported to upper management, including the president and chief executive officer and the vice-president of finance, on a regular basis so that the appropriate decisions can be made regarding public disclosure. Effectiveness of the design and operation of the Company's information controls and procedures was assessed on December 31, 2006 by and under the supervision of the Company's management, including the president and chief executive officer and the vice-president of finance. Based on this assessment, the president and chief executive officer and the vice-president of finance concluded that our information controls and procedures, as defined in Regulation 52-109, effectively ensure that the required information is disclosed in the reports the Company files or submits under the Canadian Securities Administrators, and that it is registered, processed, synthesized and presented during precise periods under these regulations and in these forms.

2.17 RISK FACTORS

The text that follows describes certain factors having to do with the Company's activities. Current or future shareholders should read this section carefully. These risks and uncertainties are not the only ones the Company is facing or will face. Additional risks and uncertainties that the Company is unaware of or deems to be negligible at this time could also adversely affect its operations. If any of these risks became reality, the Company's activities, financial situation, liquid assets and operating results could be significantly affected.

2.17.1 EXCLUSIVE INTELLECTUAL PROPERTY RIGHTS

The Company uses technologies for which it holds certain Intellectual Properties. It is very possible that other commercial corporations will independently produce similar products, rendering the Company's products superfluous.

The Company's commercial success depends in part on its ability to protect its Works and Trademarks and carry out its activities without infringing on the Intellectual Property rights of third parties and without having its own rights infringed upon.

It is not certain that ownership and the exclusive use of its Works and Trademarks can be proven. There is no assurance that the Company's intellectual property is adequately protected from the products of its competition. In business practice, it is sometimes necessary to disclose certain trade secrets, as well as knowledge that makes up part of the Intellectual Property.

2.17.2 NEED FOR FUNDS

Although the Company, following the financial restructuring of the first quarter of 2007, has the funds needed for short-term growth, it must acquire the funds needed to carry out its development and business plans in their entirety, namely for equity participation in its projects. There is no guarantee that additional funds will be available under acceptable conditions and according to terms that will favour the Company's growth.

2.17.3 COMPETITION AND TECHNICAL OBSOLESCENCE

Besides the fact that the Company must compete with existing technology, its competition and new companies are continually launching new products on the market. In order to remain at the leading edge of technology, the Company must constantly update its integrated solid waste management technologies, as well as develop related products and services. Be it from new integrated solid waste management solution development or the merging or acquisition of existing companies or subsidiaries, competition within the solid waste management industry offering solutions similar to the Company's own is fierce and is expected to grow even more so. Most of the company's competitors have significantly better financial, technical, distribution and marketing resources. Technological advances and product development could reduce the value of the Company's technologies or even render them obsolete.

2.17.4 GROWTH MANAGEMENT AND MARKET DEVELOPMENT

There is no guarantee that the Company will be able to significantly develop its market, which will affect its profitability. The rapid growth of the Company's field of activity could place considerable pressure on management, operations and technical resources. The Company also foresees future increases in operating and personnel costs. In order to manage its growth, it may need to hire more technical and operational personnel and manage these personnel while effectively maintaining a number of relations with third parties. There is no guarantee that the Company will be able to manage its business growth. Its inability to implement coherent management systems, add economic resources or adequately manage its expansion would have a significant and unforeseeable effect on its activities and operating results.

2.17.5 CONFLICTS OF INTEREST

Some of the Company's administrators, directors, promoters and other members of management may one day be the administrator, director, promoter or member of another company's management. Consequently, a conflict of interest may arise between their duties as an administrator, director, promoter or member of the Company's management and their duties as administrator, director, promoter or member of the other company or companies' management.

There is no guarantee that in carrying out their duties for the Company, personnel will not find themselves in situations that could lead to a conflict of interest. Furthermore, there is no guarantee that these conflicts will be settled in the Company's favour.

The Company's administrators and directors are aware of existing laws that make provisions for an administrator's responsibility concerning business opportunities favourable to the company and require that directors disclose their conflicts of interest. They are also aware that the Company will invoke these laws in the event of conflicts of interest involving administrators and directors or in the event of any breach of duty by its administrators and directors. All conflicts of interest must be disclosed by the administrators and directors according to the provisions of the applicable legislation concerning commercial corporations and must act to the best of their skill and ability according to the obligations imposed on them by law.

2.17.6 DEPENDENCE ON THE DEMAND

The vast majority of the Company's income is generated by the sale of its integrated solid and organic waste management solutions, related products and services. It estimates that these products and services will continue to make up an important share of its income in the foreseeable future. Future sales of integrated solid waste management solutions will be largely dependent on new clients. As a result, the Company is especially vulnerable to fluctuations in demand for integrated solid waste management solutions. If demand for the Company's solutions, related products and services drops considerably, the Company and its operating results could be negatively impacted.

2.17.7 PRICING

The highly competitive market in which the Company plans to do business could force it to lower its prices. If its competitors offer large discounts on certain products and services in order to reclaim market shares, obtain new shares or sell other integrated solid waste management solutions, the Company may have to lower its prices and offer other favourable terms in order to compete successfully. These actions could reduce the profit margins and have a negative impact on the Company's operating results. Some of the Company's competitors could consolidate integrated solid waste management solutions that compete with its own for promotional purposes, in the framework of a long-term pricing strategy, to offer price guarantees or to market products. Over time, these practices could limit the price the Company can charge for its products. If the Company cannot offset the drop in prices by increasing sales or lowering expenses, the loss in income from the sale of integrated solid waste management solutions could negatively impact its profit margins and operating results.

2.17.8 DEPENDENCE ON KEY PERSONNEL

The Company relies on the services of its technical employees and key management personnel. The loss of any of these individuals could have a significant impact on the Company, its operating results and financial situation. The Company's success is largely dependent on its continued ability to identify, hire, train, motivate and retain highly competent management, technical, sales and marketing personnel. Competition for its employees may become fierce and the Company cannot ensure that it will be able to attract or retain highly competent technical and management personnel in the future. Inability to attract and retain the necessary technical, management, sales and marketing employees could have a negative impact on its future growth and profitability. The Company may be forced to raise the salary it offers to current employees or to new employees in such a way that its operating expenses could raise substantially.

2.17.9 EMPLOYEE RELATIONS

The Company's employees are not unionized and the Company feels that it has good relations with its personnel. Any deterioration of these relations could have a negative impact on its results.

2.17.10 ACQUISITIONS

In the future, the Company may selectively acquire products or businesses that it feels complete its offer. It is possible that the Company may not yet be able to identify appropriate acquisition possibilities at a reasonable price, be able to make an acquisition or successfully integrate an acquired product or business into its activities. What is more, the Company may face competition from the companies it is interested in acquiring, including other parties that may have resources greater than its own.

2.17.11 PRODUCT ERROR

Products manufactured and distributed by the Company are complex and may, as a result, contain errors that may be detected at any time during the product's life cycle. Such errors could have a significant impact on the Company's reputation, incur considerable costs, delay the launch of new products and affect the Company's ability to sell its products in the future. The cost of correcting an error in one of its products could be significant and negatively affect its operating margins. Although the Company intends to continue testing its products in order to detect errors and work with its clients by way of its support and maintenance services in an effort to detect and correct errors, it is possible that errors may occur in the future.

2.17.12 ENVIRONMENT

The Company's activities may be significantly affected by the constant evolution of environmental laws and regulations, which required that certain environmental standards be respected and impose the obligation to make reparation when these standards are not respected. The Company will also be exposed to inherent risks tied to the environmental conditions of the facilities the Company will own or operate and must respect the environmental laws through the companies it will acquire. Although the Company endeavours to respect the environmental laws and regulations in each of its facilities, there is no guarantee that its activities or the activities carried out previously on the premises occupied by the Company will not entail cleaning obligations imposed through civil or criminal enforcement procedures or by private lawsuits that could have a significant negative impact on the Company.

2.17.13 UNCERTAINTY IN THE SOLID WASTE MANAGEMENT MARKET

The market on which the Company produces and distributes its products is dependent on economic conditions that affect the broader solid waste management market. Market downturns may cause companies to delay or cancel integrated solid waste management solution purchases, reduce their overall solid waste management budgets or cancel product orders. In this context, clients could experience financial difficulties, decide not to purchase the Company's products, postpone the budgets for the purchase of the Company's products or stop doing business with the Company. This situation could lead to longer sales cycles, late payment, non-payment or non-collection as well as downward pressure on prices, which would cause the Company to generate less income and smaller margins.

2.17.14 EXCHANGE RATE

Part of the company's income is generated in American dollars and Euros, but a large portion of its operating expenses are in Canadian dollars. Fluctuations in the exchange rate between foreign currencies could have a considerable negative effect on the Company, its financial situation and operating results.

2.17.15 TECHNICAL OBSOLESCENCE OF THE MAIN ASSET

The Company’s Sorel-Tracy plant has been in intensive operation for over 14 years. Although a preventive maintenance program is strictly followed, significant, unplanned breakage could occur, which could lead to more or less significant production stoppages. In that event, the Company may not be able to maintain its income at the expected level, nor ensure the established profitability levels.

2.17.16 INSURANCE

The Company has contingent liability insurance, which covers theft, fire and fire damage, accidental loss of asset value and bodily injury in the amounts, provided by the insurance companies and according to the terms it deems appropriate, while taking all relevant factors into account. However, there are certain types of disasters (generally catastrophic) such as earthquakes and floods, that cannot be insured or are not economically insurable. The Company will rely on its judgment to determine the appropriate amounts, limits of liability and deductible provisions so that the insurance covering its assets is purchased at a reasonable cost and under suitable terms. As such, in the event of a disaster, the insurance may not be sufficient to cover the entire real market value or real replacement value of the investment the Company has lost. Moreover, certain factors could lessen interest in using the insurance proceeds to replace assets that have been damaged or destroyed. In that event, the insurance proceeds the Company receives may not be appropriate to regain its economic position with regard to these assets. There is no guarantee that the Company's insurance coverage will continue to be offered under reasonable terms and that the insurance company will not decline coverage regarding all future insurance claims. The Company's activities, financial situation, liquid assets and operating results could be negatively affected if any of the above-mentioned events should occur.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

Conporec Inc.

For the years ended December 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of
Conporec Inc.,

We have audited the consolidated balance sheets of Conporec Inc. (the "Company") as at December 31, 2006 and 2005 and the consolidated statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Québec City, Canada
April 20, 2007

Chartered Accountants

Conporec Inc.

CONSOLIDATED BALANCE SHEETS *[note 1]*

December 31

	2006 $	2005 $
ASSETS *[note 6]*		
Current assets		
Cash *[note 4]*	**306,101**	612,244
Temporary investments *[note 4]*	**3,951,056**	75,000
Accounts receivable *[note 11]*	**3,497,583**	3,760,141
Work in progress *[note 12]*	**319,715**	1,250,718
Prepaid expenses	**377,456**	103,924
Current assets	**8,451,911**	5,802,027
Investment, at cost	—	25,000
Property, plant and equipment *[note 5]*	**10,860,384**	10,909,404
Intangible assets *[note 3]*	**776,943**	871,989
	20,089,238	17,608,420
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Bank loan *[note 6]*	**—**	38,400
Accounts payable and accrued liabilities *[note 10]*	**5,025,630**	5,495,504
Deferred credits	**—**	45,880
Future income tax liabilities *[note 9]*	**50,000**	70,000
Current portion of long-term debt *[note 6]*	**5,883,902**	1,174,678
Current portion of debentures *[note 6]*	**7,081,319**	15,250
Long-term liabilities	**18,040,851**	6,839,712
Long-term debt *[note 6]*	**161,060**	4,597,878
Long-term debentures *[note 6]*	**131,423**	6,884,368
Shareholders' equity (deficiency)		
Share capital *[note 7]*	**17,985,929**	13,977,589
Contributed surplus *[note 7]*	**390,123**	250,015
Warrants *[note 7]*	**3,200,000**	—
Deficit	**(19,814,528)**	(14,867,322)
Cumulative translation adjustment	**(5,620)**	(73,820)
	1,755,904	(713,538)
	20,089,238	17,608,420

Commitments *[note 13]*

Contingencies *[note 14]*

Subsequent events *[note 15]*

See accompanying notes

On Behalf of the Board

[signed] Laurier Pedneault   [signed] Jean Beaudoin

Conporec Inc.

CONSOLIDATED STATEMENTS OF DEFICIT *[note 1]*

Years ended December 31

	2006	**2005**
	$	$
Balance, beginning of year	**(14,867,322)**	(11,252,797)
Add		
Net loss	**(4,526,398)**	(2,827,225)
Share issue costs	**(420,808)**	(787,300)
Balance, end of year	**(19,814,528)**	(14,867,322)

See accompanying notes

Conporec Inc.

CONSOLIDATED STATEMENTS OF INCOME *[note 1]*

Years ended December 31

	2006	2005
	$	$
Revenues	**8,003,307**	10,263,733
Direct operating costs	**6,651,659**	8,166,429
Income before selling and administrative expenses and other items	**1,351,648**	2,097,304
General, selling and administrative expenses	**4,321,491**	3,401,381
Loss before the undernoted items	**(2,969,843)**	(1,304,077)
Depreciation of property, plant and equipment	**597,084**	506,381
Amortization of intangible assets	**95,046**	37,900
Interest on long-term debt and debentures	**827,517**	579,064
Interest and bank charges	**56,473**	85,771
Loss resulting from a claim *[note 5]*	**—**	353,762
	1,576,120	1,562,878
Loss before income taxes	**(4,545,963)**	(2,866,955)
Income taxes *[note 9]*		
Current	**435**	1,270
Future (recovery)	**(20,000)**	(41,000)
	(19,565)	(39,730)
Net loss	**(4,526,398)**	(2,827,225)
Net loss per share – basic and diluted	**(0.08)**	(0.06)
Weighted average common shares outstanding	**58,617,588**	44,624,805

See accompanying notes

Conporec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS *[note 1]*

Years ended December 31

	2006	2005
	$	$
OPERATING ACTIVITIES		
Net loss	**(4,526,398)**	(2,827,225)
Adjustments for		
Depreciation of property, plant and equipment	**597,084**	506,381
Amortization of intangible assets	**95,046**	37,900
Accrued interest on long-term debt	**35,110**	—
Compounded interest on debentures	**225,095**	225,095
Stock-based compensation *[note 7]*	**140,108**	166,567
Write-down of the investment	**25,000**	—
Loss resulting from a claim	**—**	353,762
Future income taxes (recovery)	**(20,000)**	(41,000)
	(3,428,955)	(1,578,520)
Net change in non-cash working capital items	**365,134**	484,590
Cash flows related to operating activities	**(3,063,821)**	(1,093,930)
INVESTING ACTIVITIES		
Business acquisition *[note 3]*	**—**	(152,499)
Additions to property, plant and equipment	**(397,660)**	(2,348,306)
Cash flows related to investing activities	**(397,660)**	(2,500,805)

Conporec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS [Cont'd]

[note 1]

Years ended December 31

	2006 $	2005 $
FINANCING ACTIVITIES		
Reverse takeover and merger *[note 1]*	**—**	165,982
Decrease in bank loan	**(38,400)**	—
Increase in long-term debt	**1,298,080**	—
Repayment of long-term debt	**(1,084,018)**	(58,082)
Common shares issued	**4,008,340**	4,012,425
Warrants issued	**3,200,000**	—
Common share and warrant issue costs	**(420,808)**	(755,969)
Cash flows related to financing activities	**6,963,194**	3,364,356
Effect of exchange rates on cash and cash equivalents	**68,200**	(30,671)
Net increase (decrease) in cash and cash equivalents during the year	**3,569,913**	(261,050)
Cash and cash equivalents, beginning of year *[note 4]*	**687,244**	948,294
Cash and cash equivalents, end of year *[note 4]*	**4,257,157**	687,244
Supplementary information		
Interest paid	**560,589**	447,973
Income taxes paid	**187,688**	—
Unpaid additions to property, plant and equipment	**311,433**	272,292
Additions to property, plant and equipment under capital leases	**111,263**	13,250

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

1. INCORPORATION, NATURE OF BUSINESS, REVERSE TAKEOVER 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.

Reverse takeover in 2005

On June 23, 2005, Capital SLC Inc. (SLC), a capital pool company subject to common significant influence whose shares were listed on the TSX Venture Exchange acquired all of the outstanding Class A shares of the Company in consideration for the issuance of 45,699,980 common shares of SLC on the basis of 610 common shares of SLC for each Class A share of the Company. This acquisition constituted the qualifying transaction for SLC as set out in TSX Venture Exchange Policy 2.4. For accounting purposes, the transaction was a capital transaction in substance for the Company and resulted in the allocation by the Company of a value to the 3,125,000 shares of the Company issued on June 23, 2005 and to the 187,500 new stock options granted to replace the 187,500 stock options granted by SLC prior to the merger. The value of the shares and stock options issued represents the value of the net assets amounting to $158,385 acquired from SLC. The options were exercisable at $0.20 until August 25, 2005 and were valued at $43,000 at the grant date. The value of the issued shares was therefore established at $115,385. In light of the above-mentioned share exchanges, control of SLC passed to the shareholders of Conporec, Inc. (“Conporec”) resulting in a reverse takeover. Subsequent to this reverse takeover, the companies merged and the merged company was named Conporec Inc.

The fair value of the assets acquired and liabilities assumed of Capital SLC Inc. on the transaction date is summarized as follows:

	2005
	$
Cash	**165,982**
Accounts receivable	**6,671**
Accounts payable	**(14,268)**
Net assets acquired	**158,385**

1. INCORPORATION, NATURE OF BUSINESS, REVERSE TAKEOVER AND GOING-CONCERN [Cont'd]

Reverse takeover in 2005 [Cont'd]

		$
Consideration paid		
187,500	stock options granted	**43,000**
3,125,000	common shares issued	**115,385**
		158,385

This transaction is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The financial statements for the year ended December 31, 2005 represent a continuity of the operations of the Company since Conporec was deemed to be the purchaser. The number of shares of the Company issued prior to the reverse takeover was retroactively restated to the number of shares issued in the reverse takeover transaction. The computation of the loss per share also reflects the effect of this transaction for the current fiscal year and the comparative year.

The opening balances of the number of shares and purchase options disclosed in note 7 have been restated to reflect the reverse takeover.

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.

1. INCORPORATION, NATURE OF BUSINESS, REVERSE TAKEOVER AND GOING-CONCERN [Cont'd]

Going concern [Cont'd]

The Company has incurred recurring operating losses and its accumulated deficit amounts to $19,814,528 as at December 31, 2006. The Company and its creditors reached a standstill agreement regarding the financial ratio requirements until February 28, 2007 and debt settlement agreements were negotiated with its primary creditors.

In March 2007, the Company settled liabilities of $12,834,000 by paying $3,750,000 in cash and issuing 8,319,631 common shares, giving rise to a debt settlement gain of $7,004,000 before the applicable settlement costs *[note 15]*. On December 22, 2006 and February 21, 2007, Amsterdams Effectenkantoor B.V. ("AEK") subscribed to common shares of the Company by way of private placements totalling $11,500,000 *[note 15]*.

In management's opinion, this restructuring of the Company's debt and equity, the private placements of AEK and the revenues from current operations will ensure that the Company continues as a going concern beyond December 31, 2007. 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. SIGNIFICANT ACCOUNTING POLICIES

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.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 recognized through shareholders' equity under cumulative translation adjustment.

2. SIGNIFICANT 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 unvoiced.

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, 2006, 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.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

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

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

Intangible assets

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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:

	2006	**2005**
	$	$
Research and development credits	**268,330**	83,678

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

Financial instruments

Debt and equity instruments issued by the Company are classified as liabilities if they include a contractual obligation for the Company to deliver cash at maturity. If a financial instrument does not include this contractual obligation, it is classified as an equity instrument. Interest and dividends are charged to income or retained earnings according to the balance sheet classification of the corresponding principal amounts.

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.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 Class A 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 Company incurred a loss and inclusion of these items would have had an antidilutive effect.

3. BUSINESS ACQUISITION IN 2005

On July 27, 2005, the Company acquired all of the voting shares of Biomax Inc., which designs, manufactures and markets composting equipment and systems.

The allocation of the purchase price is based on the fair value of the assets acquired and the liabilities assumed as at July 27, 2005.

3. BUSINESS ACQUISITION IN 2005 [Cont'd]

	2005 $
Assets acquired	
Cash	**5,010**
Accounts receivable and advances	**291,582**
Ongoing contracts	**27,540**
Investment and advances	**25,000**
Property, plant and equipment	**10,722**
Intangible assets	**909,889**
	1,269,743
Liabilities assumed	
Bank loan	**38,400**
Accounts payable	**193,270**
Deferred credit	**39,278**
Long-term debt	**2,175**
Fair value of assets acquired and liabilities assumed	**996,620**
Consideration	
Cash	**157,509**
Common shares	**839,111**
Warrants	**—**
	996,620

This acquisition was recorded using the purchase method. The results of Biomax Inc. are included in the consolidated financial statements as of the acquisition date.

As part of the transaction, 500,000 warrants were issued under the following terms: 250,000 warrants entitling the holder to purchase, in the twelve months following their issue, one common share of the Company for $0.75 a share and 250,000 warrants entitling the holder to purchase, in the eighteen months following their issue, one common share of the Company for $1.00 a share. Management considers the value of these warrants to be negligible.

Amortization of intangible assets amounted to $95,046 during the year [$37,900 in 2005].

4. TEMPORARY INVESTMENTS AND CASH

	2006 Carrying amount $	2005 Carrying amount $
Term deposits, ranging from January 3, 2007 to June 29, 2007, rates ranging from 1.55% to 4.10%	**3,951,056**	—
Term deposit, matured on June 29, 2006, 2.25%	—	75,000
Temporary investments	**3,951,056**	75,000
Cash	**306,101**	612,244
Total cash and cash equivalents	**4,257,157**	687,244

Term deposits include a $25,000 demand term deposit maturing on June 29, 2007 that is pledged as security for standby letters of credit issued by the Company *[note 13]*.

5. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost $	Accumulated depreciation $	Cost $	Accumulated depreciation $
Land	**381,814**	—	381,814	—
Landscaping	**1,057,977**	**662,615**	1,025,224	610,536
Buildings	**4,723,760**	**819,774**	4,638,973	723,279
Machinery and equipment	**7,237,829**	**2,215,719**	7,051,919	2,010,338
Computer equipment	**190,470**	**129,736**	188,022	111,291
Carry forward	**13,591,850**	**3,827,844**	13,285,952	3,455,444

5. PROPERTY, PLANT AND EQUIPMENT [Cont'd]

	2006		2005	
	Cost $	Accumulated depreciation $	Cost $	Accumulated depreciation $
Carried forward	**13,591,850**	**3,827,844**	13,285,952	3,455,444
Bins and containers	**59,375**	**55,569**	59,883	55,708
Furniture and equipment	**234,704**	**163,122**	229,029	150,395
Rolling stock – Plant	**931,803**	**583,693**	832,143	515,403
Rolling stock – Other	**28,146**	**19,940**	28,146	16,423
Signs and equipment	**12,170**	**7,883**	12,170	6,811
Major projects	**278,813**	**95,842**	278,813	34,852
Technological equipment	**336,564**	**115,694**	336,564	42,070
Current projects	**256,546**	**—**	123,810	—
	15,729,971	**4,869,587**	15,186,510	4,277,106
Accumulated depreciation	**4,869,587**		4,277,106	
	10,860,384		10,909,404	

In fiscal 2005, during reconstruction work on the ripening building, the Company noted that the equipment had also suffered significant damage. This equipment whose carrying amount stood at $353,762 was written off. This charge was recorded as losses resulting from a claim in the consolidated statement of income for the year ended December 31, 2005.

6. LONG-TERM DEBT

	2006 $	2005 $
Long-term debt		
Term borrowings, Caisse Populaire Desjardins Pierre-de-Saurel and Investissement Québec, bearing interest at prime plus 1.5%, repaid in principal 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 addition, the Company obtained letters of agreement from Desjardins and Investissement Québec to obtain release from these borrowings as set out in note 15. The prime rate was 6.00% as at December 31, 2006 [5.00% as at December 31, 2005].	**4,750,000**	5,550,000
Term borrowing, 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 addition, the Company obtained letters of agreement from Desjardins and Investissement Québec for release from these loans as set out in note 15. The prime rate was 6.00% as at December 31, 2006 [5.00% as at December 31, 2005]. In connection with this financing, 694,467 common shares, valued at $208,340, were issued *[note 7]*. Interest amounting to $35,110 was compounded to the balance of the debt.	**1,035,705**	—
Carry forward	**5,785,705**	5,550,000

6. LONG-TERM DEBT [Cont’d]

	2006 $	2005 $
Carried forward	**5,785,705**	5,550,000
Long-term debt [Cont’d]		
Obligations under capital leases, rates ranging from 0.00% to 19.61% [weighted average rate of 10.08%], repayable in blended monthly instalments of $10,881, maturing on various dates through 2010.	**259,257**	222,556
	6,044,962	5,772,556
Current portion of long-term debt	**5,883,902**	1,174,678
	161,060	4,597,878
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%, redeemable annually on the basis of 50% of available cash flows, after consideration of the servicing of term borrowings, as of the fiscal year ended December 31, 2003, maturing on December 31, 2010. An annual premium, equal to 10% of pre-tax income, is payable on September 30 of each year as of 2008 until the second fiscal year following the fiscal year in which the debentures are totally redeemed. The effective rate of this debt stood at 3.54%, excluding the annual premium provided for, which cannot be determined. Furthermore, the Company obtained letters of agreement from Desjardins and Investissement Québec to obtain release from these borrowings as set out in note 15.	**5,871,320**	5,871,320
Carry forward	**5,871,320**	5,871,320

6. LONG-TERM DEBT [Cont'd]

	2006 $	**2005** $
Carried forward	**5,871,320**	5,871,320
Long-term debentures [Cont'd]		
Accrued interest on debentures, Caisse Populaire Desjardins Pierre-de-Saurel and Investissement Québec at 3.54% as defined above. Furthermore, the Company obtained letters of agreement for the release of this interest, as set out in note 15.	**831,614**	623,769
Unsecured debenture, Bas-Richelieu Local Development Centre, bearing interest at 5.75% which was compounded into the balance. The compounded interest as at December 31, 2006 amounted to $45,529 [$28,279 in 2005]. Furthermore, the Company obtained a letter of agreement from the Bas-Richelieu Local Development Centre for the release of this borrowing as set out in note 15.	**345,529**	328,279
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.	**164,279**	76,250
	7,212,742	6,899,618
Current portion of debentures	**7,081,319**	15,250
	131,423	6,884,368

6. LONG-TERM DEBT [Cont'd]

The term borrowings are encumbered by hypothecary bonds with a nominal value of $14,400,000 as at December 31, 2006 [$14,400,000 in 2005]. Under the terms of the trust indenture governing the issue of such bonds, a movable hypothec on the universality of the assets of the Company is pledged as security. Certain restrictions are stipulated in the agreement and the Company had undertaken to maintain certain financial ratios. The Company did not meet the requirements of the agreement regarding certain conditions and certain financial ratios for which it obtained a waiver from its creditors in connection with the accelerated repayment provisions of these borrowings and debentures. In addition, the Company obtained a standstill for the financial ratio requirements until February 28, 2007.

Accrued interest on the long-term debt and debentures, totalling $902,942 as at December 31, 2006 [$652,048 as at December 31, 2005], represents the cumulative excess of the interest expense related to the debentures calculated at an effective rate of 3.54% over the interest paid according to the rates stipulated under the debentures.

The required minimum payments on long-term debt for the next five years, except for the obligations under capital leases, taking into account the settlement described in note 15, are as follows: 2007 – $32,856; 2008 – $32,856; 2009 – $32,856; 2010 – $32,856 and 2011 – $32,856.

Capital lease obligations are as follows:

	$
2007	119,368
2008	101,526
2009	72,598
2010	2,468
	295,960
Less: imputed interest	36,703
	259,257

The bank loan with an authorized amount of $48,000 was repaid during the year.

7. SHARE CAPITAL

Authorized [after the reverse takeover described in note 1]

Unlimited number of common shares, without par value.

Authorized [before the reverse takeover described in note 1]

Unlimited number of shares, without par value:

Class A, voting and participating.

Class B, participating and convertible into Class A.

Class C, non-voting, non-participating, 7% cumulative preferential dividend, preferred upon dissolution, liquidation or winding-up regarding the payment of paid-up capital and accrued but unpaid dividends, redeemable at the holder's option at the paid-up capital amount plus accrued and unpaid dividends.

Issued and fully paid – 2006

	Class A		Common		Total
	Number	$	Number	$	$
Balance as at December 31, 2005	—	—	**50,648,128**	**13,977,589**	**13,977,589**
Common shares issued in connection with financing	—	—	**694,467**	**208,340**	**208,340**
Common shares issued	—	—	**31,047,619**	**3,800,000**	**3,800,000**
Balance as at December 31, 2006	—	—	**82,390,214**	**17,985,929**	**17,985,929**

Share and warrant issues totalled $7,000,000. Of that amount, $3,200,000 was allocated to warrants.

7. SHARE CAPITAL [Cont'd]

Issued and fully paid – 2005

	Class A		Common		Total
	Number	$	Number	$	$
Balance, beginning of year	**32,853,990**	**7,289,468**	—	—	**7,289,468**
Shares issued in connection with a private placement	**9,875,900**	**3,997,425**	—	—	**3,997,425**
Conversion of Class C shares into Class A shares [including accrued dividends of $504,000]	**2,970,090**	**1,704,000**	—	—	**1,704,000**
Balance before reverse takeover	**45,699,980**	**12,990,893**	—	—	**12,990,893**
Conversion upon reverse takeover *[note 1]*	**(45,699,980)**	**(12,990,893)**	**45,699,980**	**12,990,893**	—
Shares issued to shareholders of Capital SLC *[note 1]*	—	—	**3,125,000**	**115,385**	**115,385**
Shares issued in connection with the acquisition of Biomax Inc.	—	—	**1,748,148**	**839,111**	**839,111**
Stock options exercised	—	—	**75,000**	**15,000**	**15,000**
Reclassification of the fair value of exercised options	—	—	—	**17,200**	**17,200**
Balance as at December 31, 2005	—	—	**50,648,128**	**13,977,589**	**13,977,589**

	2006	**2005**
	$	$
Contributed surplus		
Balance, beginning of year	**250,015**	26,317
Stock-based compensation	**140,108**	197,898
Other stock options	—	43,000
Options exercised	—	(17,200)
	390,123	250,015

7. SHARE CAPITAL [Cont'd]

Year ended December 31, 2006

On January 26, 2006, the Company issued 694,467 common shares valued at $208,340 to its lenders in connection with $1,388,933 in financing granted by Desjardins Group and Investissement Québec.

On March 24, 2006, AEK made a $1,500,000 private placement in 6,000,000 common shares and 6,000,000 warrants each of which entitling it to purchase one common share of Conporec at $0.25 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 6,000,000 common shares and 6,000,000 warrants each of which entitling it to purchase one common share of Conporec at $0.25 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 19,047,619 common shares and 19,047,617 warrants each of which entitling it to purchase one common share of Conporec at $0.23 no later than 24 months followings the issue. The warrants were valued at $1,900,000.

Year ended December 31, 2005

The issue of common shares in connection with a private placement consisted of the issue of 9,875,900 units for net proceeds of $3,150,000, in addition to the release of 50% of the amounts held in escrow upon closing, on August 25, 2004, of the first phase of the private placement amounting to $847,425 for the issue of 1,971,520 units and the issue by way of penalty and without cash consideration of 584,380 units in connection with the first tranche of the private financing secured on August 25, 2004.

7. SHARE CAPITAL [Cont'd]

Year ended December 31, 2005 [Cont'd]

Warrants, on the basis of one warrant for each unit, were also issued. Each of the 9,875,900 warrants entitles the holder to purchase one Class A share [common share after the reverse takeover] for $0.57 for a 24-month period as of the Company's listing on a Canadian stock exchange, i.e. June 22, 2005. The value of these warrants was considered to be negligible.

The Company also granted 732,000 additional options to the broker for the conclusion of the second tranche of the private placement. These options entitle the broker to purchase units for $0.43 per unit for a 24-month period as of the Company's listing on a Canadian stock exchange. Each unit consists of one Class A share [one common share after the reverse takeover] and one warrant entitling the holder to purchase one Class A share [one common share are after the reverse takeover] for $0.57 for a 24-month period as of the Company's listing on a Canadian stock exchange. The fair value of the options granted to the broker was estimated at $31,331 and was recorded under share issue costs in the consolidated statement of deficit.

The conversion of Class C shares into Class A shares and the issue of shares in connection with the reverse takeover and the acquisition of Biomax Inc. did not have any cash impact and are not presented in the statement of cash flows.

Stock options

Concurrent with the 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 4,882,498. 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-year period.

Outstanding stock options of the Company as at December 31, 2006 and 2005 and changes thereto during the years then ended are summarized as follows:

7. SHARE CAPITAL [Cont'd]

Stock options [Cont'd]

	2006		2005	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Outstanding				options,
beginning of year	**3,033,690**	**0.33**	1,634,190	0.17
Granted	**150,000**	**0.48**	1,587,000	0.45
Cancelled	**(109,500)**	**0.48**	(112,500)	0.20
Exercised	—	—	(75,000)	0.20
Outstanding options, end of year	**3,074,190**	**0.31**	3,033,690	0.33
Exercisable options, end of year	**2,296,857**	**0.26**	1,882,190	0.21

The information regarding the outstanding stock options as at December 31, 2006 is summarized as follows:

	Outstanding options			Exercisable options	
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
0.16	536,800	1.00	0.16	536,800	0.16
0.17	1,097,390	1.00	0.17	1,097,390	0.17
0.48	1,440,000	5.68	0.48	662,667	0.48
	3,074,190	3.19	0.31	2,296,857	0.26

7. SHARE CAPITAL [Cont'd]

Stock options [Cont'd]

The fair value of 150,000 options granted during the year ended December 31, 2006 is estimated at $19,500 of which $7,280 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:

	2006	**2005**
Risk-free interest rate	**4.29%**	3.20%
Expected life	**5 years**	5 years
Expected stock price volatility	**75%**	75%
Expected dividend yield	**none**	none

Warrants

	2006		**2005**	
	Number	**Weighted average exercise price** $	**Number**	**Weighted average exercise price** $
Outstanding beginning of year	16,925,060	0.57	2,327,760	warrants, 0.57
Granted	31,047,619	0.24	14,597,300	0.57
Expired	(2,327,760)	0.57	—	—
Outstanding end of year	45,644,919	0.34	16,925,060	warrants, 0.57

7. SHARE CAPITAL [Cont'd]

Stock options [Cont'd]

Outstanding warrants

Date of grant	Number	Price $	Expiry
June 23,2005	14,597,300	0.57	June 23, 2007
March 24, 2006	6,000,000	0.25	March 24, 2008
August 18,2006	6,000,000	0.25	August 18, 2008
December 22, 2006	19,047,619	0.23	December 22, 2008
	45,644,919		

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

	2006	2005
Risk-free interest rate	**3.45%**	—
Expected life	**2 years**	—
Expected stock price volatility	**75%**	—
Expected dividend yield	**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.

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:

	2006	**2005**
	$	$
Current assets	**524,707**	763,442
Current liabilities	**524,707**	606,122
Net assets of the joint venture	**—**	157,320
STATEMENT OF INCOME		
Revenues	**208,844**	903,086
Direct operating costs	**246,836**	1,021,239
Selling and administrative expenses	**5,470**	(4,581)
	252,306	1,016,658
Net loss	**(43,462)**	(113,572)
STATEMENT OF CASH FLOWS		
Cash flows related to operating activities	**76,147**	689

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:

	2006	2005
	%	%
Statutory rates	**32.0**	31.0
	$	$
Recoverable income taxes computed using statutory rates	**1,445,000**	832,000
Increase (decrease) in recoverable income taxes resulting from:		
Foreign income taxes	**19,565**	39,730
Non-deductible expenses and other permanent differences	**(55,000)**	(181,000)
Unrecorded tax benefits related to operating losses and other	**(1,390,000)**	(651,000)
	19,565	39,730

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

	2006	2005
	$	$
Future income tax liabilities		
Future foreign income taxes	**50,000**	70,000
Future income tax assets		
Net operating loss carry-forward	**1,707,000**	878,000
Excess of tax basis of property, plant and equipment over their carrying amount	**699,000**	441,000
Non-deducted research and development expenses	**300,000**	320,000
Carry forward	**2,706,000**	1,639,000

9. INCOME TAXES[Cont'd]

	2006	2005
	$	$
Carried forward	**2,706,000**	1,639,000
Future income tax assets [Cont'd]		
Excess of tax basis of intangible assets over their carrying amount	**132,000**	141,000
Non-deductible provision	**30,000**	205,000
Non-deducted share issue costs	**441,000**	384,000
Total future income tax assets	**3,309,000**	2,369,000
Valuation allowance	**(3,309,000)**	(2,369,000)
	—	—
Net future income tax liabilities	**50,000**	70,000

The amount of losses that the Company may carry forward for income tax purposes as well as their expiry dates by which they must be used are as follows:

Year of loss	**Amount**		**Year of expiry**
	Federal	**Provincial**	
	$	$	
2001	276,000	276,000	2007
2002	260,000	260,000	2008
2004	357,000	350,000	2013
June 23, 2005	98,000	95,000	2014
2005	1,042,000	1,040,000	2015
2006	3,587,000	3,587,000	2026

The net operating loss carry-forward and non-deducted research and development expenses were recognized as future income tax assets before recording a valuation allowance.

10. RELATED PARTY TRANSACTIONS

	2006	2005
	$	$
Transactions with shareholders		
Direct operating costs	—	971,763
Interest on long-term debt	—	392,928
Additions to property, plant and equipment	—	160,744
Transactions with companies controlled by directors		
Direct operating costs	**52,213**	53,119
Transactions with the joint venture		
Revenues	**137,300**	129,199

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.

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

	2006	2005
	$	$
Shareholders	—	435,590
Companies controlled by directors	**22,678**	131
	22,678	435,721

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 $4,894 and $734,463, respectively, as at December 31, 2006 [$86,252 and $705,097 as at December 31, 2005].

10. RELATED PARTY TRANSACTIONS [Cont'd]

Accounts receivable include $120,990 [$108,425 as at December 31, 2005] 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, 2006, the Company had not been served with any claims. The unused funds will be returned to the Company upon project completion.

11. FINANCIAL INSTRUMENTS

(a) Fair value

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

The fair value of the term borrowings and debentures with the Caisse populaire Desjardins Pierre-de-Saurel and Investissement Québec and the debentures with the Bas-Richelieu Local Development Centre has not been estimated due to the debt settlement discussed in note 15.

The fair value of the debentures of the Caisse populaire Desjardins Pierre-de-Saurel and Investissement Québec has not been determined due to uncertainty regarding the repayment methods which are based on the future results of the Company.

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

(b) 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, 2006, four clients consisting of municipalities represented 96% of accounts receivable [four clients represented 96% as at December 31, 2005].

11. INSTRUMENTS FINANCIERS [Cont'd]

(c) Financial risk

Financial risk is the risk to which Company income is exposed which arises from interest rate and currency fluctuations and volatility. As at December 31, 2006, the Company was not using any derivative financial instruments to mitigate this risk.

(d) Foreign exchange risk

Accounts receivable denominated in U.S. dollars amounted to $414,499 [US$355,366] as at December 31, 2006 [$375,385 [US$321,832] as at December 31, 2005]. Accounts receivable denominated in euros amounted to $1,244,239 [€808,000] as at December 31, 2006 [$1,796,623 [€1,292,769] as at December 31, 2005].

Accounts payable denominated in U.S. dollars amounted to $197,501 [US$169,325] as at December 31, 2006 [$371,077 [US$319,619] as at December 31, 2005]. Accounts payable denominated in euros amounted to $1,222,277 [€793,738] as at December 31, 2006 [$1,679,789 [€1,221,195] as at December 31, 2005].

12. 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.

12. SEGMENTED INFORMATION [Cont'd]

(a) Information by reporting segment

	2006 $	2005 $
Waste treatment plants		
Revenues	**6,435,330**	4,814,754
EBITDA	**219,354**	33,406
Depreciation of property, plant and equipment	**597,084**	506,381
Development projects and eliminations		
Revenues	**1,567,977**	5,448,979
EBITDA	**(3,189,197)**	(1,337,483)
Amortization of intangible assets	**95,046**	37,900
Total		
Revenues	**8,003,307**	10,263,733
EBITDA	**(2,969,843)**	(1,304,077)
Depreciation and amortization of assets	**692,130**	544,281
Assets	**20,089,238**	17,608,420

(b) Information by geographic segment

	2006 $	2005 $
Revenues		
Canada	**6,975,825**	5,650,494
U.S.	**208,844**	903,086
France	**818,638**	3,710,153
	8,003,307	10,263,733

12. SEGMENTED INFORMATION [Cont'd]

(b) Information by geographic segment [Cont'd]

	2006 $	2005 $
Property, plant and equipment		
Canada	**10,860,384**	10,909,404

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.

13. COMMITMENTS

The Company is committed under leases expiring on various dates from 2007 to 2008 for the rental of its business premises. The minimum annual payments for the next two years are as follows: 2007 – $153,992 and 2008 – $73,399.

Standby letters of credit totalling $25,000, maturing on April 14, 2008, were issued in support of clients of the Company.

14. 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.

15. SUBSEQUENT EVENTS

The subsequent events are as follows:

(a) On February 21, 2007, Conporec issued 35,714,286 units in exchange for $7,500,000 [net $7,000,000] to AEK, that is, at $0.21 per unit. Each unit consists of one common share of Conporec and one warrant entitling the holder to purchase one common share of Conporec for $0.23 a share no later than February 21, 2009. These warrants were valued at $3,575,000.

(b) In March 2007, Conporec repaid its primary creditors, that is, Desjardins and Investissement Québec, eliminating $12,489,000 in long-term debt and debentures from its balance sheet and recognizing a settlement gain of $6,859,000 before taking into consideration the fees applicable to such a settlement, which are estimated at $300,000, the whole in consideration for a $3,750,000 payment from temporary investments plus fees and accrued interest, as well as the issue of a total of 7,519,631 common shares from treasury at $0.25 a share, for a value of $1,879,908.

(c) In March 2007, Conporec repaid the unsecured debenture of the Bas-Richelieu Local Development Centre, eliminating a $345,000 debenture from its balance sheet and recognizing a $145,000 gain, in consideration for the issue of 800,000 common shares from treasury at $0.25 a share for a value of $200,000.

If all these subsequent events had taken place on December 31, 2006, it would have had a very significant effect on the Company's balance sheet. The following is a pro forma balance sheet of the Company giving effect to these events as if they had taken place as at December 31, 2006.

15. SUBSEQUENT EVENTS [Cont'd]

PRO FORMA BALANCE SHEET
As at December 31, 2006
(in thousands of Canadian dollars)

	December 31, 2006 [Audited] $	Subsequent events		2006 Pro Forma Balance Sheet [Unaudited]
ASSETS				
Current assets				
Cash	306	7,000	(a)	**7,306**
Temporary investments	3,951	(3,750)	(b)	**201**
Accounts receivable	3,498			**3,498**
Work in progress	320			**320**
Prepaid expenses	377			**377**
Total current assets	8,452	3,250		**11,702**
Property, plant and equipment	10,860			**10,860**
Intangible assets	777			**777**
	20,089	3,250		**23,339**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	5,026	300	(b)	**5,326**
Future income tax liabilities	50	-		**50**
Current portion of long-term debt	5,884	(5,786)	(b)	**98**
Current portion of debentures	7,081	(7,048)	(b) (c)	**33**
Total current liabilities	18,041	(12,534)		**5,507**
Long-term debt	161			**161**
Long-term debentures	131			**131**
Shareholders' equity				
Share capital	17,986	6,005	(a) (b) (c)	**23,991**
Contributed surplus	390			**390**
Warrants	3,200	3,575	(a)	**6,775**
Deficit	(19,815)	6,204	(a) (b) ©	**(13,611)**
Cumulative translation adjustment	(5)			**(5)**
	1,756	15,784		**17,540**
	20,089	3,250		**23,339**

16. COMPARATIVE FIGURES

Certain comparative figures from the 2005 financial statements have been restated to conform to current year presentation.

4. BOARD OF DIRECTORS AND OTHER INFORMATION

BOARD OF DIRECTORS	OTHER INFORMATION
LAURIER PEDNEAULT Chairman of the Board of Directors President of Congébec Capital Ltée	AUDITORS ERNST & YOUNG, LLP
NORMAND RICARD Director of corporations	LEGAL ADVISORS DESJARDINS DUCHARME, S.E.N.C.R.L. AVOCATS
JACQUES PUTZEYS Board member of Théolia SA	REGISTRAR AND TRANSFER AGENT CIBC MELLON TRUST COMPANY
JEAN-MARIE SANTANDER President and CEO of Théolia SA	BANKERS FÉDÉRATION DES CAISSES POPULAIRES DESJARDINS
PIETER VISSER Director of public corporations	STOCK EXCHANGE: TSX VENTURE Ticker symbol: CNP
JEAN BEAUDOIN President and CEO Conporec Inc.	HEAD OFFICE 3125, Joseph-Simard Sorel-Tracy (Québec) J3P 5N3 Tel.: 450-746-9996 Fax: 450-746-7587