

ReWORKS ENVIRONMENTAL CORP.
(Subsequently renamed “Forterra Environmental Corp.”)
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

ReWORKS ENVIRONMENTAL CORP.
(Subsequently renamed “Forterra Environmental Corp.”)
(A Development Stage Company)

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
ReWORKS Environmental Corp.
(Subsequently renamed "Forterra Environmental Corp.")
(A *Development Stage Company*)

We have audited the balance sheets of ReWORKS Environmental Corp. (Subsequently renamed "Forterra Environmental Corp.") (A *Development Stage Company*) as at December 31, 2007 and 2006 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. 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 audits.

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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

**Chartered Accountants
Licensed Public Accountants**

TORONTO, Canada
February 12, 2008
except for Note 15
which is at April 25, 2008

ReWORKS Environmental Corp.
 (Subsequently renamed "Forterra Environmental Corp")
 (A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
 AS AT DECEMBER 31,

	2007	2006
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	341,192	79,879
Amounts receivable	66,648	49,700
Inventory	12,263	-
Prepaid expenses and deposits	53,167	38,296
TOTAL CURRENT ASSETS	473,270	167,875
PROPERTY AND EQUIPMENT (Note 5)	205,589	1,710,000
INTANGIBLE ASSETS (Note 6)	1	1,507,985
TOTAL ASSETS	678,860	3,385,860
LIABILITIES		
CURRENT LIABILITIES		
Amounts payable and accrued liabilities (Note 10)	476,622	1,122,414
Related party advances (Note 7)	-	158,992
Current portion of loans payable (Note 8)	50,000	434,075
Current portion of capital lease payable (Note 9)	3,080	3,080
TOTAL CURRENT LIABILITIES	529,702	1,718,561
LOANS PAYABLE (Note 8)	83,333	133,333
CAPITAL LEASE PAYABLE (Note 9)	4,155	6,641
LEASEHOLD INDUCEMENT	24,362	47,385
TOTAL LIABILITIES	641,552	1,905,920
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 11(b))	6,675,842	4,771,517
WARRANTS (Note 11(c))	965,850	-
CONTRIBUTED SURPLUS (Note 11(e))	494,662	9,600
(DEFICIT)	(8,099,046)	(3,301,177)
TOTAL SHAREHOLDERS' EQUITY	37,308	1,479,940
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	678,860	3,385,860

COMMITMENTS AND CONTINGENCIES (NOTES 1, 9, 10 and 12)

APPROVED ON BEHALF OF THE BOARD:

Signed "Don Green"
 Don Green, Director

Signed "Bruce Bent"
 Bruce Bent, Director

ReWORKS Environmental Corp.
 (Subsequently renamed "Forterra Environmental Corp.")
 (A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31,

	2007	2006
	\$	\$
EXPENSES		
General and administrative	1,564,805	1,168,645
Sales and marketing	173,154	100,527
Research and development	94,983	98,266
Loss before other expenses	1,832,942	1,367,438
OTHER EXPENSES		
Stock based compensation	382,556	9,600
Amortization of property and equipment	23,400	15,720
Amortization of intangible assets	63,755	85,008
Write down of property and equipment	1,631,786	-
Write down of intangible assets	1,035,978	-
(Gain) on forgiveness of debt	(218,412)	-
Foreign exchange (gain)	(33,525)	(8,273)
Loss on asset disposal	4,980	-
Interest on long-term debt	16,079	-
Interest (net)	36,604	116,170
NET LOSS FOR THE YEAR	4,776,143	1,585,663
DEFICIT , beginning of year	3,301,177	1,647,180
Working capital deficiency assumed on reverse takeover transaction (Note 4)	21,726	-
Effect of shareholder dissention (Note 10)	-	68,334
DEFICIT , end of year	8,099,046	3,301,177
Weighted average shares outstanding	53,817,614	34,309,352
Loss per share basic and diluted	(0.09)	(0.05)

ReWORKS Environmental Corp.
(Subsequently renamed “Forterra Environmental Corp.”)
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(4,776,143)	(1,585,663)
Changes to income not involving cash:		
Amortization	87,155	100,728
Write down of property and equipment	1,631,786	-
Write down of intangible assets	1,035,978	-
Shares issued for services	-	175,786
Stock-based compensation	382,556	11,800
Leasehold inducement	(23,023)	47,385
Accrued interest on debt	-	42,000
(Gain) on forgiveness of debt	(218,412)	-
Loss on asset disposal	4,980	-
(Gain) on foreign exchange	(36,575)	(8,273)
	<u>(1,911,698)</u>	<u>(1,216,237)</u>
Changes in non-cash working capital balances		
(Increase) in prepaid expenses and deposits	(14,871)	(11,875)
(Increase) decrease in amounts receivable	(16,948)	4,638
(Increase) in inventory	(12,263)	-
(Decrease) increase in amounts payable and accrued liabilities	(222,829)	255,756
Cash flows from operating activities	<u>(2,178,609)</u>	<u>(967,718)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans payable (net)	(190,986)	340,113
Shareholders' loans payable	(158,992)	144,863
Issuance of common shares	3,951,547	939,114
Share issue costs	(951,724)	(2,750)
Cash flow from financing activities	<u>2,649,845</u>	<u>1,421,340</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(209,923)	(489,992)
Additions to intangible assets	-	(22,169)
Cash flows from investing activities	<u>(209,923)</u>	<u>(512,161)</u>
Increase (decrease) in cash and cash equivalents	261,313	(58,539)
Cash and cash equivalents, beginning of year	79,879	138,418
Cash and cash equivalents, end of year	<u>341,192</u>	<u>79,879</u>
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	91,192	79,879
Cash equivalents	250,000	-
	<u>341,192</u>	<u>79,879</u>
SUPPLEMENTAL INFORMATION		
Interest paid	65,437	83,949
Income taxes paid	-	-
Broker warrants issued for share issue costs	202,956	-
Issuance of shares for share issue costs	-	33,000
Issuance of shares for acquisition of equipment	-	72,769
Issuance of shares for settlement of debt	-	281,721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

1. NATURE OF OPERATIONS AND GOING CONCERN

ReWORKS Environmental Corp., subsequently renamed "Forterra Environmental Corp.", (the "Company") is a development stage enterprise as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 and is involved in the research, development and marketing of worm castings and related products.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and the discharge of liabilities in the normal course of operations. The Company is dependent upon obtaining additional financing sufficient for continued operations as well as the achievement of profitable operations. These consolidated financial statements have been prepared on the basis that the Company will receive additional financing and will be able to achieve profitable operations. However, there is no assurance that these conditions will be achieved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

Principles of Consolidation:

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiary Forterra Inc.

Property and Equipment and Amortization:

Property and equipment is stated at acquisition cost. Amortization is provided on the diminishing balance basis at the following rates:

Computer equipment	30%
Computer software	50%
Office equipment and furnishings	20%
Machinery and equipment	20%
Warehouse equipment	20%
Reusable packaging	30%

Leasehold improvements are amortized on a straight-line basis over 5 years.

Worms utilized in the production process have an unlimited life as a result of ongoing reproduction and are not amortized.

Leases:

Leases have been classified as either capital or operating. A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to earnings as incurred. Assets recorded under the capital leases are amortized on a diminishing balance basis over their estimated useful lives. The Company expenses rent on a straight line basis over the life of the lease. Any cumulative expense recognized in excess of cumulative payments is reflected on the balance sheet as leasehold inducement.

Inventory:

Inventory consists of worm castings and is valued at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates:

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets and impact decisions as to when development costs should be capitalized or expensed. Other significant estimates made by the Company include factors affecting valuations of stock based compensation, inventory, and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

Intangible Assets:

Licences are recorded at cost and are amortized on a straight-line basis over their estimated useful lives.

Foreign Currency Translation:

Monetary assets and monetary liabilities in foreign currencies have been translated at exchange rates in effect at the balance sheet date; income and expenses at specific exchange rates during the year. Non-monetary assets and liabilities have been translated at historical exchange rates. Exchange gains or losses from translation practices are reflected in operations.

Stock-based Compensation:

The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

Research and Development:

Research expenses are charged against operations in the period in which they are incurred. Development expenses are charged against operations in the period in which they are incurred unless the criteria for capitalization under Canadian generally accepted accounting principles are met. The Company has not deferred any such costs to date. Related investment tax credits reduce research and development expenses in the period when they become more likely than not to be recovered.

Income Taxes:

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks and short-term investments with original maturities of three months or less. Cash and cash equivalents are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Loss per Share:

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Comparative figures:

Certain comparative amounts have been reclassified to conform to the current year's presentation.

3. CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

Effective January 1, 2007, the Company adopted CICA section 3855, "Financial Instruments – Recognition and Measurement," section 3865, "Hedges," section 1530, "Comprehensive Income". These standards have been adopted retrospectively.

i) Financial Instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with Section 3855, the Company has classified each financial instrument into the five categories set out in the standard: Financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale and other liabilities. Measurement of each of these items is contingent upon initial classification. Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on assets available for sale are recognized in other comprehensive income, and are charged to earnings when the asset is derecognized. The effective interest rate method using amortized cost is applied to the remaining categories of financial instruments. The classification of financial instruments occurred upon adoption of the standard.

ii) Derivative Instruments and Hedging

Hedge accounting ensures that all gains, losses, revenue and expenses from the derivative, and the item it hedges, are recorded in the statement of operations in the same period. The impact of the adoption of this new section on the financial statements is not material.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Financial Instruments (continued)

iii) Embedded Derivatives

An embedded derivative is a component of a financial instrument or other contract that has a feature similar to a derivative. New accounting section 3855 requires these instruments to be identified and recorded separately from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract, the terms of the embedded derivatives are the same as the terms of a freestanding derivative, and the hybrid instrument is not re-measured at fair value. The impact of the adoption of this new section on the financial statements is not material.

iv) Comprehensive income

Comprehensive income is the change in equity of the Company from net earnings and other comprehensive income ("OCI"). OCI consists of the change in the fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be reclassified to operations when the related gains or losses are realized. For the year ended December 31, 2007, the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the year is equal to the net loss for the year.

(b) Accounting Changes

Effective January 1, 2007, the Company adopted the revised CICA section 1506, "Accounting Changes." Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect of financial statement line items.

The Company has determined that the adoptions of these new policies had no material impact on its consolidated financial statements and determined that no adjustments are required for the year ended December 31, 2007.

(c) Recent Accounting Pronouncements

Effective January 1, 2008, the Company will adopt the following accounting standards recently issued by the CICA:

(i) Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

(ii) Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Company.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(c) *Recent Accounting Pronouncements (continued)*

(iii) *Inventory*

In June 2007, the CICA issued Section 3031, "Inventories", which replaces Section 3030, "Inventories" and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. Effective for interim and annual financial statements beginning on or after January 1, 2008, this section provides more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. The Company does not anticipate that the adoption of this standard will significantly impact its financial results.

(d) *International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA Accounting Standards Board ("ACSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

4. REVERSE TAKE-OVER

On September 29, 2006, International Bioanalogics Systems, Inc. ("IBO") entered into a share exchange agreement (the "Reverse Takeover Transaction") with ReWorks Inc. Pursuant to the terms and conditions of such agreement, on May 14, 2007, ReWorks Inc. was amalgamated with IBO's wholly owned subsidiary to form a wholly owned subsidiary of IBO.

Each former shareholder of IBO received 1 new IBO common share for each 2.9543557 common shares issued and outstanding prior to the amalgamation. Upon completion of the amalgamation, each shareholder of ReWorks Inc. received 1 common share of IBO for each share currently held in ReWorks Inc. All outstanding warrants of ReWorks Inc. were converted on substantially the same terms into warrants of IBO.

On May 14, 2007, the Reverse Takeover Transaction was completed and IBO changed its name to ReWORKS Environmental Corp.

After the completion of the transaction, the security holders of ReWorks Inc. held more than 50% of the issued and outstanding common shares of the combined entity. In accordance with CICA EIC-10, the substance of the transaction was a capital transaction and was accounted for as a reverse take-over with ReWorks Inc. being identified as the acquirer. In accordance with reverse-takeover accounting, the consolidated balance sheet and the consolidated statements of operations and deficit, are a continuation of ReWorks Inc., the capital structure reflects that of IBO and the stated value of the share capital is that of ReWorks Inc. Comparative figures presented in the consolidated financial statements after the reverse take-over are those of ReWorks Inc.

Immediately following the amalgamation, 15,747,286 common shares and 240,000 stock options of the Company were subject to escrow. These escrowed common shares and stock options are to be released over a period of 36 months on the basis of 10% to be released on May 28, 2007, and 15% to be released every 6 months thereafter for the next 36 months. As at December 31, 2007, 12,081,144 common shares and 180,000 stock options of the Company were held in escrow.

At the time of the transaction, IBO had a net working capital deficiency of \$21,726, which has been charged to deficit.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

5. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	2007 Net \$
Computer equipment	22,630	7,162	15,468
Computer software	16,703	12,730	3,973
Office equipment and furnishings	30,219	15,304	14,915
Warehouse equipment	20,631	4,924	15,707
Warehouse equipment - under capital lease	10,416	2,917	7,499
Reusable packaging	2,156	690	1,466
Leasehold improvements	4,925	2,462	2,463
Worms	98,390	-	98,390
Construction in progress	45,708	-	45,708
	251,778	46,189	205,589

The value of the machinery and equipment and construction in progress was determined to be significantly impaired during the year ended December 31, 2007 and as a result, \$1,631,786 was written off.

	Cost \$	Accumulated Amortization \$	2006 Net \$
Computer equipment	13,017	4,654	8,363
Computer software	16,104	9,357	6,747
Office equipment and furnishings	23,685	13,209	10,476
Machinery and equipment	19,090	9,013	10,077
Warehouse equipment	13,368	2,812	10,556
Warehouse equipment - under capital lease	10,416	1,042	9,374
Reusable packaging	1,566	315	1,251
Leasehold improvements	4,925	1,477	3,448
Worms	35,927	-	35,927
Construction in progress	1,613,781	-	1,613,781
	1,751,879	41,879	1,710,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

6. INTANGIBLE ASSETS

	Cost \$	Accumulated Amortization \$	2007 Net \$
Licence (i)	1	-	1

	Cost \$	Accumulated Amortization \$	2006 Net \$
Licence (i)	1,275,113	175,379	1,099,734
Deferred transaction costs (ii)	408,251	-	408,251
	1,683,364	175,379	1,507,985

(i) The license agreement was an exclusive agreement between Worm World Inc. and Harry Windle (together the "Licensor") and the Company for a period of 20 years for the use of the worm gin rights and rotaries in Canada, the United States and Europe. Under the terms of the agreement, the licence automatically converted to a patent which was entirely owned by the Company. During the year ended December 31, 2007, it was determined that the value of the patent had been significantly impaired and a write down to a nominal amount was recorded. On December 17, 2007, each of the parties in the agreement signed a new agreement which terminated the U.S. patent agreement and resulted in the related loan (Note 8) being forgiven.

(ii) At December 31, 2006, \$408,251 of costs incurred related to the Company's efforts in obtaining a public listing were deferred on the balance sheet. These costs were recorded against capital stock when the Reverse Takeover Transaction was completed (Note 4) and the listing on the TSX Venture Exchange was obtained in May 2007.

7. RELATED PARTY TRANSACTIONS

Advances from related parties were due on demand, unsecured and non-interest bearing. The advances for the year ended December 31, 2006 were due to one director and three shareholders of the Company. All advances from related parties were repaid during the year ended December 31, 2007.

The above transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

8. LOANS PAYABLE

	2007 \$	2006 \$
Licence fee payable		
USD\$209,000 repayable at a rate of US\$2 per ton of waste processed, interest at 8%, due the earlier of November 2007 and the Company becoming publicly listed, unsecured. On December 17, 2007, the U.S. patent agreement (Note 6) was terminated and the loan was forgiven.	-	245,575
Bank loan payable		
Repayable in fixed monthly principal payments of \$4,167, plus interest at prime plus 3%, due November 17, 2009, partially guaranteed by the Government of Canada and partially guaranteed by a shareholder of the Company, secured by certain equipment	133,333	183,333
Short-term convertible debenture (i)		
Interest accrual at a rate of 36% (3% per month), due on demand, secured by a general security agreement covering all of the assets of the Company	-	138,500
	133,333	567,408
Less: Current portion		
License fee payable	-	245,575
Bank loan payable	50,000	50,000
Convertible debenture	-	138,500
	50,000	434,075
	83,333	133,333

(i) The Company determined the value of the equity conversion feature by calculating the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued. This amount was accreted to the principal amount as additional interest over the term of the debenture. Accordingly, \$196,723 was initially allocated to loans payable and the residual of \$3,333 was allocated to the conversion feature. During 2006, \$85,000 of the short-term convertible debenture was converted in to 500,000 common shares.

9. CAPITAL LEASE PAYABLE

	2007 \$	2006 \$
Payable in fixed monthly payments of \$348 including interest at 15.72% due October 2009. Leasecor holds security on the equipment until paid in full.	7,235	9,721

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Less: Current portion	3,080	3,080
	4,155	6,641
Lease payments remaining		
2008	3,080	
2009	4,155	
	7,235	

10. OTHER PAYABLE

During the year ended December 31, 2006, one shareholder of the Company exercised his right, in accordance with Section 190 of the Canada Business Corporations Act ("CBCA"), to dissent to the Reverse Takeover Transaction (Note 4). Due to the dissent, the Company was required by the CBCA to buy back the shares of the Company held by this shareholder at their fair value. The fair value, as determined for each common share, was \$0.20. The dissenting shareholder was the owner of 1,000,000 common shares of the Company. The Company has cancelled these common shares and has accounted for this matter as detailed below:

- Increase in amounts payable and accrued liabilities of \$200,000 (1,000,000 common shares with a fair value of \$0.20 per common share).
- Decrease in capital stock of \$130,000 (1,000,000 common shares at the average price per common share of \$0.13 on the date of dissent).
- Decrease in contributed surplus of \$1,666.
- Increase in deficit of \$68,334.
- 1,000,000 common shares returned to treasury and cancelled.

The principal shall become due and be paid on April 1, 2008. No interest shall be paid upon the principal except in case of default in which case such principal shall bear interest at the rate of twelve (12%) percent per annum, calculated and payable monthly from and after the date of such default.

ReWORKS Environmental Corp.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

11. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares

(b) Issued

61,509,094 common shares \$ 6,675,842

Transactions are as follows:

	<u>Shares</u>	<u>Amount</u>
	#	\$
Balance December 31, 2005	31,141,802	3,432,678
Employee stock-based compensation (i)	10,000	2,200
Private placements (ii)	4,645,570	939,114
Common shares issued for services	853,932	180,786
Common shares issued for debt settlement and interest	1,483,603	281,721
Common shares issued for equipment	299,889	72,768
Common shares issued for share issue costs	140,000	28,000
Going public commitment (ii)	1,000,000	-
Share issue costs	-	(35,750)
	<u>39,574,796</u>	<u>4,901,517</u>
Common shares repurchased and cancelled (Note 10)	(1,000,000)	(130,000)
Balance December 31, 2006	38,574,796	4,771,517
Private placements (iii)	1,380,000	276,000
Private placement (iv)	16,938,000	3,675,547
Warrants valuation (iv)	-	(753,362)
Common shares issued in reverse takeover (Note 4)	4,616,298	-
Share issue costs and public offering costs	-	(1,293,860)
Balance December 31, 2007	<u>61,509,094</u>	<u>6,675,842</u>

- (i) In May and November 2006 the Company issued 10,000 common shares to employees with an estimated value of \$2,200 based on the approximate fair value of these shares on the date of issue.
- (ii) In January, February and March 2006, the Company, as part of a private placement, issued 100,000 units at \$0.30 per unit for gross proceeds of \$30,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until January 1, 2007. On November 23, 2006 the Company extended these warrants to expire on December 31, 2007. No value has been allocated to these warrants.

In April, May and June 2006, the Company, as part of various private placements, issued 935,000 units at \$0.20 per unit for gross proceeds of \$187,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until June 30, 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

11. CAPITAL STOCK (Continued)

(b) Issued (continued)

In June 2006 the Company, as part of a private placement, issued 1,000,000 units at \$0.20 per unit for gross proceeds of \$200,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until December 31, 2007. Included in this private placement the Company made a commitment that if the Company's shares were not listed or approved for trading on the TSX Venture Exchange by December 1, 2006 the Company would issue 1,000,000 additional common shares of the Company for no additional consideration and that 1,000,000 common share warrants initially issued as part of each original unit will be exchanged for 1,000,000 common share warrants exercisable at \$0.20 until December 31, 2007. As the TSX Ventures Exchange listing had not been completed by December 1, 2006, the additional shares were granted and warrants were exchanged.

In July, August and September 2006, the Company, as part of a private placement, issued 1,357,500 units at \$0.20 per unit for gross proceeds of \$271,500. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until June 30, 2007.

In October, November and December 2006, the Company, as part of a private placement, issued 753,070 units at \$0.20 per unit for gross proceeds of \$150,614. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until June 30, 2007.

In November 2006, the Company, as part of a private placement, issued 500,000 units at \$0.20 per unit for gross proceeds of \$100,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until December 31, 2007.

(iii) In January, February and March 2007, the Company, as part of various private placements, issued 1,380,000 units at \$0.20 per unit for gross proceeds of \$276,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.30 per share until June 30, 2007.

(iv) In May 2007, the Company completed a brokered private placement with the issuance of 16,938,000 units of the Company at \$0.217 per unit for gross proceeds of \$3,675,547. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 per share until May 2, 2009. In connection with the private placement, the underwriters received a cash commission equal to 8% of the gross proceeds. In addition, 1,691,300 broker warrants were issued. Each broker warrant entitles the holder to acquire one unit of the Company for \$0.217 per share until May 2, 2009. Each unit consists of one common share and one common share purchase warrant with the same terms as those included in the private placement.

The fair value of the warrants, an amount of \$753,362, was estimated on the date of grant using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free interest rate of 4.18% and an expected life of 2 years.

The fair value of broker warrants, an amount of \$202,956, was estimated on the date of grant using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk free interest rate of 4.18% and an expected life of 2 years.

ReWORKS Environmental Corp.
 (Subsequently renamed "Forterra Environmental Corp.")
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

11. CAPITAL STOCK (Continued)

(c) **Warrants**

Summary of warrant activity:

	2007		2006	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	10,757,505	\$0.300	4,403,335	\$ 0.330
Granted or re-issued	18,629,300	0.383	7,354,170	0.286
Expired or cancelled	(10,257,505)	0.303	(1,000,000)	0.300
Balance, end of year	19,129,300	\$0.380	10,757,505	\$ 0.300

Summary of warrants and broker warrants outstanding at December 31, 2007:

	Exercise Price	Warrants	Grant Date Fair Value	Expiry Date
	\$	#	of Warrants	
			\$	
Series 6 (i)	0.300	500,000	9,532	May 15, 2008
Series 9 (Note 11(b)(iv))	0.400	5,417,000	512,427	May 2, 2009
Series 10 (Note 11(b)(iv))	0.400	11,521,000	240,935	May 2, 2009
Series 11 (Note 11(ii)(b)(iv))	0.217	1,691,300	202,956	May 2, 2009
		19,129,300	965,850	

Warrant Extensions:

- (i) In August 2007, the Company extended the expiry date of these warrants from December 31, 2007 to May 15, 2008.
- (ii) Broker warrants for units of the Company. See Note 11(b).
- (iii) In June 2007, the Company extended the expiry date of 5,984,172 warrants exercisable at \$0.30 per share and 150,000 warrants exercisable at \$0.25 from June 30, 2007 to December 31, 2007.

The value of these extensions was estimated at \$112,038 using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk free interest rate of 4.73% and an expected life of 0.38 to 0.76 years. The value of these warrant extensions have been recorded as share issue costs at the time of the extensions being granted.

(d) **Stock-Based Compensation**

Summary of stock option activity:

	2007		2006	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Balance, beginning of year	720,000	\$ 0.333	-	\$ -
Granted	4,200,000	0.217	720,000	0.333
Expired or cancelled	(370,000)	0.302	-	-
Balance, end of year	4,550,000	\$ 0.229	720,000	\$ 0.333

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. CAPITAL STOCK (Continued)

(d) Stock-Based Compensation (Continued)

As of December 31, 2007 the following options have been issued:

Number of Options	Exercise Price \$	Vesting Date	Expiry Date
150,000	0.200	July 4, 2006	July 24, 2011
150,000	0.300	January 1, 2007	July 24, 2011
150,000	0.500	July 1, 2007	July 24, 2011
1,300,000	0.217	June 25, 2007	June 25, 2012
1,300,000	0.217	June 25, 2008	June 25, 2012
1,300,000	0.217	June 25, 2009	June 25, 2012
66,666	0.217	August 9, 2007	August 9, 2012
66,666	0.217	August 9, 2008	August 9, 2012
66,668	0.217	August 9, 2009	August 9, 2012
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4,550,000			

As part of the reverse take-over (Note 4), shareholders approved a stock option plan in November 2006. The purpose of the plan is to attract, retain, and motivate employees, contractors, and directors and other persons who perform services on behalf of the Company. The maximum number of common shares reserved for issuance under the stock option plan cannot exceed 10% of the total number of common shares issued and outstanding prior to such issuance.

As a condition of the Reverse Take-over Transaction, the Company must honour all options which were issued and outstanding as of the date of the Reverse Take-over Transaction on a one for one basis.

The weighted average grant date fair value of stock options issued during the year ended December 31, 2007 was \$0.158 (2006 – \$0.013). The fair value of options granted during the year ended December 31, 2007 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0% (2006 – 0%), expected volatility of 100% (2006 – 0.001%), risk-free interest rate of 4.52% and 4.63% (2006 – 4.42%), and expected life of 5 years (2006 – 5 years).

(e) Contributed Surplus

Balance, December 31, 2005	\$ -
Employee stock options granted and/or vested	9,600
Conversion of debt	1,667
Effect of shareholder dissention	(1,667)
<hr/>	
Balance, December 31, 2006	9,600
Expiry of warrants	102,506
Employee stock options granted and/or vested	382,556
<hr/>	
Balance, December 31, 2007	\$ 494,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

12. COMMITMENTS AND CONTINGENCIES

- a) The Company is committed to minimum amount rentals under leases for premises which expire at various dates to November 2012. Minimum rental commitments remaining under these leases approximate \$605,000 including \$116,000 due within one year. Minimum lease commitments for successive years approximate the following:

2008	\$ 116,000
2009	132,000
2010	154,000
2011	170,000
2012	<u>33,000</u>
	<u>\$ 605,000</u>

- b) The Company is party to certain management contracts. Minimum contract commitments remaining under the agreements are approximately \$238,000 all due within one year.

13. INCOME TAXES

The provision for income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of 36% (2006 –36%).

	<u>2007</u>	<u>2006</u>
	\$	\$
Loss before income taxes	4,776,143	1,585,663
Expected income tax benefit based on statutory rates	1,719,400	570,800
Adjustments to benefit resulting from:		
Share issue costs	284,000	12,600
Stock based compensation	(110,000)	(9,600)
Difference in tax rates	(339,000)	-
Change in tax rates	(233,000)	-
Unrealized foreign exchange	9,000	(6,000)
Other	(45,700)	(15,956)
Valuation allowance	(1,284,700)	(551,844)
	<u>-</u>	<u>-</u>

The tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2007 are as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Future income tax assets (liabilities)		
Non-capital losses	2,203,600	1,085,400
Property, plant and equipment	17,700	75,200
Share issue costs	243,900	31,600
Unrealized foreign exchange gains	-	(11,700)
Valuation allowance	(2,465,200)	(1,180,500)
	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

13. INCOME TAXES (Continued)

The Company has non-capital loss carry-forwards for Canadian income tax purposes of approximately \$7,599,000, which expire as follows:

2009	25,000
2010	119,000
2014	345,000
2015	1,664,000
2026	1,308,000
2027	4,138,000
	<u>7,599,000</u>

14. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, amounts receivable, amounts payable and accrued liabilities, loans payable and capital lease payable on the balance sheet approximate fair value because of the limited terms of these instruments.

Interest Rate risk

The Company has interest-bearing borrowings for which general rate fluctuations apply.

15. SUBSEQUENT EVENTS

- a) In February 2008, the Company changed its name to Forterra Environmental Corp. The Company's new name became effective February 22, 2008.
- b) On April 1, 2008, the Company did not make the required payment to the dissenting shareholder as described in Note 10.
- c) On April 16, 2008, 100,000 options exercisable at \$0.217 per share with an expiry date of August 9, 2012 were cancelled.
- d) On April 25, 2008, the Company raised \$260,000 through the issuance of debentures, together with 1,040,000 of bonus common shares, by way of a non-brokered private placement. The debentures are secured by a general security agreement covering all assets of the Company. The principal and interest on the debenture will become due and payable on September 30, 2008, with interest calculated monthly at 16% per annum. Four bonus shares were issued to the debenture holders for every \$1 of debenture principal. Subscribers for all but \$10,000 of the debentures are members of the Company's board of directors.