

ReWORKS Environmental Corp. (Formerly, "International Bioanalytics Systems, Inc.") UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Under National Instrument 51-102, Part 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ReWORKS Environmental Corp. (Formerly, "International Bioanalytics Systems, Inc.") UNAUDITED
CONSOLIDATED INTERIM UNAUDITED BALANCE SHEETS
AS AT SEPTEMBER 30, 2007 AND DECEMBER 31, 2006

| | September 30, 2007 | December 31, 2006 |
|---|--------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | 829,570 | 79,879 |
| Amounts receivable | 96,118 | 49,700 |
| Inventory | 2,401 | - |
| Prepaid expenses and deposits | 58,835 | 38,296 |
| TOTAL CURRENT ASSETS | 986,924 | 167,875 |
| EQUIPMENT (Note 2) | 133,651 | 1,710,000 |
| INTANGIBLE ASSETS (Note 3) | 10,000 | 1,507,985 |
| TOTAL ASSETS | 1,130,575 | 3,385,860 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Amounts payable and accrued liabilities (Note 9) | 424,653 | 1,122,414 |
| Related party advances (Note 4) | - | 158,992 |
| Current portion of loans payable (Note 5) | 259,000 | 434,075 |
| Current portion of capital lease payable (Note 6) | 3,080 | 3,080 |
| TOTAL CURRENT LIABILITIES | 686,733 | 1,718,561 |
| LOANS PAYABLE (Note 5) | 95,833 | 133,333 |
| CAPITAL LEASE PAYABLE (Note 6) | 4,909 | 6,641 |
| LEASEHOLD INDUCEMENT | 71,414 | 47,385 |
| TOTAL LIABILITIES | 858,889 | 1,905,920 |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (Note 7) | 7,298,466 | 4,771,517 |
| WARRANTS (Note 7) | 446,604 | - |
| CONTRIBUTED SURPLUS | 180,100 | 9,600 |
| (DEFICIT) | (7,653,484) | (3,301,177) |
| TOTAL SHAREHOLDERS' EQUITY | 271,686 | 1,479,940 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,130,575 | 3,385,860 |

On behalf of the Board:

signed "Don Green"

Don Green, Director

signed "David Woolford"

David Woolford, Director

See accompanying notes to the unaudited interim consolidated financial statements

ReWORKS Environmental Corp. (Formerly, "International Bioanalytics Systems, Inc.") UNAUDITED CONSOLIDATED INTERIM UNAUDITED STATEMENTS OF OPERATIONS AND DEFICIT FOR THE PERIODS ENDED SEPTEMBER 30, 2007 AND 2006

| | 3 Months ended September 30, 2007 \$ | 3 months ended September 30, 2006 \$ | 9 Months ended September 30, 2007 \$ | 9 Months ended September 30, 2006 \$ |
|---|---|---|---|---|
| SALES | 19,834 | - | 36,941 | - |
| COST OF GOODS SOLD | <u>2,347</u> | <u>-</u> | <u>9,557</u> | <u>-</u> |
| | 17,487 | - | 27,384 | - |
| EXPENSES | | | | |
| General and administrative | 385,621 | 226,060 | 676,580 | 617,275 |
| Stock compensation | 53,500 | - | 170,500 | - |
| Sales and marketing | 81,664 | 20,272 | 166,214 | 60,099 |
| Research and development | <u>90,272</u> | <u>82,072</u> | <u>477,783</u> | <u>288,114</u> |
| (LOSS) before other expenses | (593,570) | (328,404) | (1,463,693) | (965,488) |
| OTHER EXPENSES | | | | |
| Amortization equipment | 83,835 | 2,436 | 251,504 | 8,511 |
| Amortization intangibles | 21,252 | 21,197 | 63,756 | 63,591 |
| write down of equipment and intangibles | 2,426,332 | - | 2,426,332 | - |
| Interest Expense /(income) Net | <u>(6,342)</u> | <u>26,720</u> | <u>60,331</u> | <u>73,993</u> |
| NET (LOSS) FOR THE PERIOD | (3,118,647) | (378,757) | (4,265,616) | (1,111,583) |
| DEFICIT, beginning of period | (4,469,872) | (2,380,006) | (3,301,177) | (1,647,180) |
| Adjustment to beginning RTO deficit | (64,965) | - | (64,965) | - |
| DEFICIT pickup resulting from RTO | - | - | (21,726) | - |
| DEFICIT, end of period | <u>(7,653,484)</u> | <u>(2,758,763)</u> | <u>(7,653,484)</u> | <u>(2,758,763)</u> |
| Weighted Average Shares outstanding | 61,509,094 | 35,522,059 | 51,319,851 | 33,311,893 |
| Loss per share basic and fully diluted | \$ (0.05) | \$ (0.01) | \$ (0.08) | \$ (0.03) |

See accompanying notes to the unaudited interim consolidated financial statements

**ReWORKS Environmental Corp. (Formerly, "International Bioanalytics Systems, Inc.") UNAUDITED
CONSOLIDATED INTERIM UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2007 AND 2006**

| | 3 Months ended September 30, 2007 \$ | 3 months ended September 30, 2006 \$ | 9 Months ended September 30, 2007 \$ | 9 Months ended September 30, 2006 \$ |
|--|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net loss for the period | (3,118,647) | (378,757) | (4,265,616) | (1,111,583) |
| Changes to income not involving cash | | | | |
| Adjust beginning RTO Deficit | (64,965) | - | (64,965) | - |
| Amortization | 2,531,419 | 23,631 | 2,741,592 | 72,102 |
| Shares issued for services | - | 64,337 | - | 142,174 |
| Stock-based compensation | 53,500 | - | 170,500 | 600 |
| Leasehold inducement | 8,009 | 23,693 | 24,029 | 23,693 |
| Accrued interest on debt | - | 9,611 | (28,500) | 8,000 |
| Loss (gain) on foreign exchange | (36,575) | (21) | (36,575) | (19,768) |
| | <u>(627,259)</u> | <u>(257,506)</u> | <u>(1,459,535)</u> | <u>(884,782)</u> |
| Changes in non-cash working capital balances | | | | |
| (Increase) decrease in prepaid expenses | (20,539) | (11,872) | (20,539) | (15,221) |
| (Increase) decrease in amounts receivable | (25,071) | (12,897) | (46,418) | 27,786 |
| (Increase) decrease in inventory | - | - | (2,401) | - |
| Increase (decrease) in amounts payable | (33,016) | (45,280) | (314,782) | 99,496 |
| Cash flows from operating activities | <u>(705,885)</u> | <u>(327,555)</u> | <u>(1,843,675)</u> | <u>(772,721)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Loans payable | (12,499) | (12,500) | (152,500) | 162,500 |
| Shareholders' loans payable | - | 125,963 | (153,992) | 323,834 |
| Issuance of common shares | - | 177,500 | 3,951,546 | 594,500 |
| Share issue costs | - | (7,750) | (930,671) | (7,750) |
| Cash flow from financing activities | <u>(12,499)</u> | <u>283,213</u> | <u>2,714,383</u> | <u>1,073,084</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Additions to equipment | (39,243) | (65,087) | (121,017) | (431,946) |
| Additions to intangible assets | - | - | - | (3,300) |
| Deferred public offering costs | - | - | - | - |
| Cash flows from investing activities | <u>(39,243)</u> | <u>(65,087)</u> | <u>(121,017)</u> | <u>(435,246)</u> |
| (Decrease) increase in cash | (757,627) | (109,429) | 749,691 | (134,883) |
| Cash, Beginning of period | <u>1,587,197</u> | <u>112,964</u> | <u>79,879</u> | <u>138,418</u> |
| Cash, End of period | <u>829,570</u> | <u>3,535</u> | <u>829,570</u> | <u>3,535</u> |
| SUPPLEMENTAL INFORMATION | | | | |
| Interest paid | 4,388 | 41,225 | 76,561 | 46,275 |
| Income taxes paid | - | - | - | - |

See accompanying notes to the unaudited interim consolidated financial statements

ReWORKS Environmental Corp. (Formerly, "International Bioanalogs Systems, Inc.") UNAUDITED**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007****1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

ReWORKS Environmental Corp. (the "Company") is a development stage enterprise, involved in the research, development and marketing of worm castings and related products.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the preparation of interim financial information and follow the same accounting policies and methods of application as the audited financial statements of the Company's wholly-owned subsidiary – Reworks Inc. (subsequently renamed "Forterra Inc.") for the period ended December 31, 2006. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these interim unaudited consolidated financial statements.

The financial statements have been prepared on a going concern basis which presumes the realization of assets and the discharge of liabilities in the normal course of business. The Company is dependent upon obtaining additional financing sufficient for continued operations as well as the achievement of profitable operations. These 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.

Operating results for the period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2007. For further information, see the Company's audited financial statements including the notes thereto for the year ended April 30, 2007 and the audited financial statements of the Company's 100% owned subsidiary – Reworks Inc. (subsequently renamed "Forterra Inc.") for the year ended December 31, 2006.

Effective May 14, 2007 the Company effected a reverse take over of Forterra Inc. (formerly Reworks Inc.). The consolidated unaudited financial statements include the operations of Forterra Inc. from January 1 to September 30, 2007 and include the operations of ReWORKS Environmental Corp. (formerly International Bioanalogs, Systems Inc.) from May 14 to September 30, 2007.

2. EQUIPMENT

| | Cost | Accumulated | 30-Sep-07 |
|---|-------------------------|-------------------------|-----------------------|
| | \$ | Amortization | Net |
| | \$ | \$ | \$ |
| Computer equipment | 21,322 | 6,536 | 14,786 |
| Computer software | 16,703 | 11,887 | 4,816 |
| Office equipment and furnishings | 23,685 | 14,780 | 8,905 |
| Machinery and equipment | 1,660,876 | 1,650,876 | 10,000 |
| Warehouse equipment | 20,631 | 5,021 | 15,610 |
| Warehouse equipment - under capital lease | 10,416 | 1,823 | 8,593 |
| Reusable packaging | 1,566 | 597 | 969 |
| Leasehold improvements | 4,925 | 2,216 | 2,709 |
| Worms | 67,263 | - | 67,263 |
| | <u>1,827,387</u> | <u>1,693,736</u> | <u>133,651</u> |

The value of the production line was determined to be significantly impaired based on its imminent replacement with a more efficient line capable of handling larger volumes.

Net Book Value December 31, 2006 \$ 1,710,000

ReWORKS Environmental Corp. (Formerly, "International Bioanalytics Systems, Inc.") UNAUDITED

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

3. INTANGIBLE ASSETS

| | <u>Cost</u> \$ | <u>Accumulated Amortization</u> \$ | <u>30-Sep-07 Net</u> \$ |
|---------|-------------------|---|--------------------------------|
| Licence | 1,275,113 | 1,265,113 | 10,000 |
| | <u>1,275,113</u> | <u>1,265,113</u> | <u>10,000</u> |

Net Book Value December 31, 2006

\$ 1,507,985

The license agreement is an exclusive agreement between Worm World Inc. and Harry Windle (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 license will automatically convert to a patent which will be entirely owned by the Company upon the Company becoming publicly listed and the full repayment of the license fee payable (Note 5). It was determined that the value of these rights has been significantly impaired and hence they have been written down to a nominal amount.

4. RELATED PARTY TRANSACTIONS

Advances from related parties are due on demand. The advances were due from one director and three shareholders of the Company and attracted interest from 0 to 36 percent per annum. These advances were repaid during the nine months ended September 30, 2007.

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

5. LOANS PAYABLE

ReWORKS Environmental Corp. (Formerly, "International Bioanalogs Systems, Inc.") UNAUDITED
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30 2007

| | <u>30-Sep-07</u> \$ | <u>31-Dec-06</u> \$ |
|---|------------------------|------------------------|
| Licence fee payable repayable at a rate of US\$2 per ton of waste processed, due May 2008, unsecured | 209,000 | 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 property, plant and equipment | 145,833 | 183,333 |
| Short term convertible debenture (i) accrues interest 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 |
| | <u>354,833</u> | <u>567,408</u> |
| Less: Current portion | | |
| License fee payable | 209,000 | 245,575 |
| Bank loan payable | 50,000 | 50,000 |
| Convertible debenture | - | 138,500 |
| | <u>259,000</u> | <u>434,075</u> |
| | <u>95,833</u> | <u>133,333</u> |

- (i) The Company has 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 and is being accreted to the principal amount as additional interest over the term of the debenture. Accordingly, \$196,723 was allocated to debt and the residual of \$3,333 was allocated to the conversion feature and on September 29, 2006 \$85,000 of the debenture was converted in to 500,000 common shares.

6. CAPITAL LEASE PAYABLE

| | <u>30-Sep-07</u> \$ | <u>31-Dec-06</u> \$ |
|--|------------------------|------------------------|
| Payable in fixed monthly payments of \$348 including interest at 15.72% due October 2009. | 7,989 | 9,721 |
| Less: Current portion | 3,080 | 3,080 |
| | <u>4,909</u> | <u>6,641</u> |
| Lease payments remaining | | |
| 2007 | 1,044 | |
| 2008 | 4,176 | |
| 2009 | 3,480 | |
| | <u>8,700</u> | |

**ReWORKS Environmental Corp. (Formerly, "International Bioanalogs Systems, Inc.") UNAUDITED
 NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007**

7. CAPITAL STOCK

- a. Authorized:** Unlimited number of common shares
- b. Issued and outstanding September 30, 2007: 61,509,094**

On May 11, 2007 the Company satisfied certain debt obligations via the issuance of 3,340,628 common shares. Immediately thereafter the Company effected a consolidation of its common shares on the basis of one post-consolidation common share for each 2.9543557 pre-consolidation common shares. On May 14, 2007 the Company, pursuant to an amalgamation agreement dated September 29, 2006 caused its wholly-owned subsidiary to amalgamate with Reworks Inc. on the basis of one post-consolidation common share for each outstanding share of Reworks Inc.

| | <u>Shares</u> | <u>Amount</u> <u>\$</u> |
|--|-------------------|----------------------------|
| December 31, 2006 | <u>10,297,533</u> | |
| May 11, 2007 consolidation on the basis of 1 new for 2.9543557 old | 3,485,542 | |
| May 11, 2007 debt conversion | <u>1,130,756</u> | |
| Common Shares May 11, 2007 | 4,616,298 | |
| Private Placement, net of issue costs | 16,938,000 | 2,697,553 |
| Issuance of 39,954,796 common shares in exchange for all common shares of ReWorks Inc. one for one | <u>39,954,796</u> | <u>5,047,517</u> |
| | 61,509,094 | 7,745,070 |
| Value attributed to warrants issued in conjunction with the Private Placement | | <u>446,604</u> |
| Share capital | | 7,298,466 |

No value is attributed to the pre-amalgamation common shares as those values are eliminated upon consolidation.

Founders of ReWorks Inc. , the target company and other insiders have lodged 15,774,856 common shares into escrow pursuant to a Value Security Escrow Agreement. These shares are released from escrow in accordance with TSX Venture Exchange regulations.

On December 31, 2006 ReWorks Inc. (the target company for the reverse takeover) had 38,574,796 common shares outstanding

**ReWORKS Environmental Corp. (Formerly, "International Bioanalogs Systems, Inc.") UNAUDITED
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

WARRANTS

As a condition of the amalgamation and reverse take over effected during May 2007 the Company must honour all previously outstanding warrants of the target company - ReWorks Inc. (subsequently renamed Forterra Inc.) on a one for one basis. In addition the Company assigned a value to the warrants issued in conjunction with the Private Placement and RTO. Those warrants were valued using the Black-Scholes method.

| | <u>Exercise Price</u> \$ | <u>Shares</u> # | <u>Value</u> \$ | <u>Expiry Date</u> |
|-------------------------------------|-----------------------------|--------------------|--------------------|--------------------|
| Series 1 | 0.30 | 2,670,001 | - | December 31, 2007 |
| Series 2 | - | - | - | Expired |
| Series 3 | - | - | - | Expired |
| Series 4 | 0.50 | 333,331 | - | December 1, 2007 |
| Series 5 | 0.30 | 5,984,172 | - | October 31, 2007 |
| Series 6 | 0.30 | 500,000 | - | May 15, 2008 |
| Series 7 | 0.25 | 150,000 | - | October 31, 2007 |
| Series 8 | 0.20 | 1,000,000 | - | December 31, 2007 |
| Series 9 | 0.40 | 5,417,000 | 77,922 | May 2, 2009 |
| Series 10 | 0.40 | 11,521,000 | 165,726 | May 2, 2009 |
| Series 11 | 0.22 | 3,382,600 | 202,956 | May 2, 2009 |
| Total Warrants and Attributed Value | | <u>30,958,104</u> | <u>\$ 446,604</u> | |
| Weighted average exercise price | <u>\$ 0.34</u> | | | |

During August 2007 the Board of Directors approved the extension of Series 6 warrants from December 31, 2007 to May 15, 2008. The extension was also approved by the TSX Venture Exchange in accordance with regulation.

STOCK OPTION PLAN

As part of the reverse take over shareholders approved a stock option plan in November, 2006. The purpose of the plan is to attract, retain, and motivate employees, consultants, and directors 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 amalgamation and reverse take over, the Company must honour all options which were issued and outstanding as of the date of the RTO on a one for one basis.

As of September 30, 2007 the following options have been issued and/or expired:

| | Number of Options | Vesting Date | Exercise Price \$ | Expiry Date |
|-------------------------|----------------------|--------------|----------------------|-------------|
| | 150,000 | 4-Jul-06 | 0.20 | 24-Jul-11 |
| | 90,000 | 4-Jul-06 | N/A | 28-Sep-07 |
| | (90,000) | | | Expired |
| | 150,000 | 1-Jan-07 | 0.30 | 24-Jul-11 |
| | 90,000 | 1-Jan-07 | N/A | 28-Sep-07 |
| | (90,000) | | | Expired |
| | 150,000 | 1-Jul-07 | 0.50 | 24-Jul-11 |
| | 90,000 | 1-Jul-07 | N/A | 28-Sep-07 |
| | (90,000) | | | Expired |
| | 1,300,000 | 28-Jun-07 | 0.217 | 25-Jun-12 |
| | 1,300,000 | 28-Jun-08 | 0.217 | 25-Jun-12 |
| | 1,300,000 | 28-Jun-09 | 0.217 | 25-Jun-12 |
| | 100,000 | 9-Aug-07 | 0.217 | 9-Aug-12 |
| | 100,000 | 9-Aug-08 | 0.217 | 9-Aug-12 |
| | 100,000 | 9-Aug-09 | 0.217 | 9-Aug-12 |
| | <u>4,650,000</u> | | <u>\$ 0.228</u> | |
| Unassigned options | 1,500,860 | | | |
| Total Options available | <u>6,150,860</u> | | | |

Options issued have been valued using the Black-Scholes method of valuing stock options. The options are being amortized over the vesting period. The Company recognized stock option expense of \$170,500 in the nine months ended September 30, 2007. There remains \$201,500 in stock option expense to be amortized into income over the vesting period of these options.

8. 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 amounts receivable, advances from related parties, amounts payable and accrued liabilities and loans payable on the balance sheet approximate fair value because of the limited term of these instruments.

Foreign Exchange Risk

The license fee as described in Note 5 is repayable in United States Dollars and is therefore subject to gains or losses due to fluctuations in USD versus CAD.

Interest Rate risk

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

9. OTHER PAYABLE

One shareholder of the Company exercised his right, in accordance with Section 190 of the Canada Business Corporations Act, to dissent to the reverse takeover transaction effected May 14, 2007. Due to the dissention, the Company is required to buy back the shares of the Company held by this shareholder at their fair value. Management has estimated that, based on recent private placements, the fair value of each common share is approximately \$0.20. The dissenting shareholder was the owner of 1,000,000 common shares of the Company. The Company has taken possession of these common shares and has accrued for this matter as stated below:

- Increase in accounts payable and accrued liabilities of \$200,000 (1,000,000 common shares with an estimated 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 date of dissention).
- Decrease in contributed surplus of \$1,666
- Increase in deficit of \$68,334
- 1,000,000 common shares returned to treasury and cancelled

10. RECENT ACCOUNTING PRONOUNCEMENTS

CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2007, the company adopted the Canadian Institute of Chartered Accountants (“CICA”) section 3855, “Financial Instruments – Recognition and Measurement,” section 3865, “Hedges,” section 1530, “Comprehensive Income”. These standards have been adopted prospectively. The Company has determined that the adoptions of these new policies had no material impact on its financial statements and determined that no adjustments are required for the period ended September 30, 2007

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, and is irrevocable.

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 Company had no derivative instruments or hedges as at September 30, 2007.

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.

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 income when the related gains or losses are realized. For the period ended September 30, 2007, the Company did not have other comprehensive income or loss.

Accounting Changes

Effective April 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.

11. RECLASSIFICATIONS

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