

Forterra Environmental Corp.
(Formerly “reWorks Environmental Corp.”)
(A Development Stage Company)
THE CONSOLIDATED FINANCIAL STATEMENTS
Sept 30, 2008

Under National Instrument 51-102, Part 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, the financial statements 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.

CONSOLIDATED BALANCE SHEETS

	30-Sep-08	31-Dec-07
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,091,157	341,192
Amounts receivable	82,681	66,648
Inventory	83,783	12,263
Prepaid expenses and deposits	76,491	53,167
TOTAL CURRENT ASSETS	1,334,112	473,270
PROPERTY AND EQUIPMENT (Note 3)	295,275	205,589
INTANGIBLE ASSETS (Note 4)	1	1
TOTAL ASSETS	1,629,388	678,860
LIABILITIES		
CURRENT LIABILITIES		
Amounts payable and accrued liabilities (Note 7)	329,084	476,622
Current portion of loans payable (Note 5)	50,000	50,000
Current portion of capital lease payable (Note 6)	3,080	3,080
TOTAL CURRENT LIABILITIES	382,164	529,702
LOANS PAYABLE (Note5)	45,833	83,333
CAPITAL LEASE PAYABLE (Note6)	1,707	4,155
LEASEHOLD INDUCEMENT	43,902	24,362
TOTAL LIABILITIES	473,606	641,552
CONTINGENCIES (Note9)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8)	9,027,272	6,675,842
WARRANTS (Note 8)	688,521	965,850
CONTRIBUTED SURPLUS (Note8)	956,318	494,662
(DEFICIT)	(9,516,329)	(8,099,046)
TOTAL SHAREHOLDERS' EQUITY	1,155,782	37,308
EQUITY	1,629,388	678,860

APPROVED ON BEHALF OF THE BOARD:

Signed "Don Green"
Don Green, Director

Signed "John Gamble"
John Gamble, Director

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CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	3 Months ended Sept 30, 2008 \$	3 Months ended Sept 30, 2007 \$	9 Months ended Sept 30, 2008 \$	9 Months ended Sept 30, 2007 \$
SALES	28,136	19,834	80,344	36,941
COST OF GOODS SOLD	8,746	2,347	23,306	9,557
GROSS PROFIT	19,390	17,487	57,038	27,384
EXPENSES				
General and administrative	484,463	450,899	1,137,134	1,079,584
Sales and marketing	20,196	81,664	57,554	166,214
Research and development	3,314	24,994	54,754	74,779
(LOSS) before other expenses	(488,583)	(540,070)	(1,192,404)	(1,293,193)
OTHER EXPENSES				
Stock compensation	27,222	53,500	184,327	170,500
Amortization equipment	5,034	83,835	15,102	251,504
Writedown of equipment and intangibles	-	2,426,332	-	2,426,332
Amortization intangibles	-	21,252	-	63,756
Interest	10,465	(6,342)	25,450	60,331
NET (LOSS) FOR THE PERIOD	(531,304)	(3,118,647)	(1,417,283)	(4,265,616)
DEFICIT, beginning of period	(8,985,025)	(4,469,872)	(8,099,046)	(3,301,177)
adjustment to beginning RTO deficit	-	(64,965)	-	(64,965)
DEFICIT pickup resulting from RTO	-	-	-	(21,726)
DEFICIT, end of period	(9,516,329)	(7,653,484)	(9,516,329)	(7,653,484)

See accompanying notes to the unaudited interim consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	3 Months ended Sept 30, 2008 \$	3 Months ended Sept 30, 2007 \$	9 Months ended Sept 30, 2008 \$	9 Months ended Sept 30, 2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(531,304)	(3,118,647)	(1,417,283)	(4,265,616)
Changes to income not involving cash				
Adjust beginning RTO deficit	-	(64,965)		(64,965)
Amortization	5,037	2,531,419	15,105	2,741,592
Shares issued for services	6,500	-	6,500	-
Stock-based compensation	27,224	53,500	184,327	170,500
Leasehold inducement	6,513	8,009	19,539	24,029
Accrued interest on debt	5,164	-	20,202	(28,500)
Loss (gain) on foreign exchange	-	(36,575)	-	(36,575)
	<u>(480,866)</u>	<u>(627,259)</u>	<u>(1,171,610)</u>	<u>(1,459,535)</u>
Changes in non-cash working capital balances				
(Increase) decrease in prepaid expenses	(36,005)	(20,539)	(23,324)	(20,539)
(Increase) decrease in amounts receivable	(595)	(25,071)	(16,034)	(46,418)
(Increase) decrease in inventory	(33,385)		(71,520)	(2,401)
Increase (decrease) in amounts payable	(116,970)	(33,016)	52,179	(314,782)
Cash flows from operating activities	<u>(667,821)</u>	<u>(705,885)</u>	<u>(1,230,309)</u>	<u>(1,843,675)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans payable	(12,500)	(12,499)	(37,500)	(152,500)
Shareholders' loans payable	(321,594)	-	(11,594)	(153,992)
Issuance of common shares	2,502,000	-	2,502,000	3,951,546
Share issue costs	(150,570)	-	(150,570)	(930,671)
Notes payable	(208,263)		(208,263)	
Cash flow from financing activities	<u>1,809,073</u>	<u>(12,499)</u>	<u>2,094,073</u>	<u>2,714,383</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to equipment	(54,139)	(39,243)	(113,799)	(121,017)
Additions to intangible assets	-	-		-
Deferred public offering costs	-	-	-	-
Cash flows from investing activities	<u>(54,139)</u>	<u>(39,243)</u>	<u>(113,799)</u>	<u>(121,017)</u>
(Decrease) increase in cash	1,087,113	(757,627)	749,965	749,691
Cash, Beginning of period	4,044	1,587,197	341,192	79,879
Cash, End of period	<u>1,091,157</u>	<u>829,570</u>	<u>1,091,157</u>	<u>829,570</u>
SUPPLEMENTAL INFORMATION				
Interest paid	26,820	4,388	33,318	76,561
Income taxes paid		-	-	-

See accompanying notes to the unaudited interim consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Forterra Environmental Corp., (Formerly reWorks 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 the achievement of profitable operations. These consolidated financial statements have been prepared on the basis that the Company will be able to achieve profitable operations. However, there is no assurance that this condition will be achieved.

2. 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.

2. 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 period ended June 30, 2008, the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the period is equal to the net loss for the period.

(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 period ended Sept 30, 2008.

(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.

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2. 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.

3. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Sept 30, 2008 Net \$
Computer equipment	22,630	1,0643	11,987
Computer software	16,703	14,220	2,483
Office equipment and furnishings	30,789	17,541	13,248
Warehouse equipment	21,414	7,280	14,134
Warehouse equipment - under capital lease	10,416	4,041	6,375
Reusable packaging	2,156	910	1,246
Leasehold improvements	4,925	2,832	2,093
Worms	131,765	-	131,765
Construction in progress	115,770	3,826	111,944
	356,568	61,293	295,275

Net Book Value December 31, 2007 \$205,589

4. INTANGIBLE ASSETS

	Cost \$	Accumulated Amortization \$	Sept 30, 2008 Net \$
Licence	1	-	1

Net Book Value December 31, 2007 \$ 1.00

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5. LOANS PAYABLE

	Sept 30, 2008	2007
	\$	\$
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	95,833	133,333
	<u>95,833</u>	<u>133,333</u>
Less: Current portion		
License fee payable	-	-
Bank loan payable	50,000	50,000
Convertible debenture	-	-
	<u>50,000</u>	<u>50,000</u>
	<u>45.</u>	<u>83,333</u>

6. CAPITAL LEASE PAYABLE

	Sept 30, 2008	2007
	\$	\$
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.	4,787	7235
Less: Current portion	<u>3,080</u>	<u>3,080</u>
	<u>1,707</u>	<u>4155</u>

7. 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 dissention, 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:

- On August 5, 2008, the Company paid \$208,263 to the dissenting shareholder.
- 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 dissention).
- Decrease in contributed surplus of \$1,666.
- Increase in deficit of \$68,334.
- 1,000,000 common shares returned to treasury and cancelled.

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8. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares

(b) Issued

79,299,809 common shares

\$ 9,027,272

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	(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	4,616,298	-
Share issue costs and public offering costs	-	(1,293,860)
<u>Balance December 31, 2007</u>	<u>61,509,094</u>	<u>6,675,842</u>
Bonus shares to debenture holders and bridge-loan lender (Note 5)	1,110,715	-
Private placement (v)	16,680,000	2,502,000
Share issue costs (v)	-	(150,570)
<u>Balance Sept 30, 2008</u>	<u>79,299,809</u>	<u>9,027,272</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.

8. 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.

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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.

- (v) On July 28, 2008, the Company closed a private placement. In the private placement, the company issued 16,680,000 units at \$0.15 per unit. Each unit consists of one common shares and one half of one common share purchase warrant exercisable at \$0.25 per share. The gross proceeds of \$2,502,000 were raised and share issue cost was \$150,570 paid to Euroglobal Capital Partners Inc.

8. CAPITAL STOCK (Continued)

(c) Warrants

Summary of warrant activity:

	Sept 2008		2007	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	19,129,300	\$0.380	10,757,505	\$ 0.300
Granted or re-issued	9,343,800	\$0.239	18,629,300	0.383
Expired or cancelled	(500,000)	\$0.30	(10,257,505)	0.303
Balance, end of period	27,973,100	\$0.335	19,129,300	\$ 0.380

Summary of warrants and broker warrants outstanding at Sept 30, 2008:

	Exercise Price \$	Warrants #	Expiry Date
Series 9	0.400	5,417,000	May 2, 2009
Series 10	0.400	11,521,000	May 2, 2009
Series 11	0.217	1,691,300	May 2, 2009
Series 12	0.250	8,340,000	July 9, 2010
Series 12	0.150	1,003,800	July 9, 2010
		27,973,100	

(d) Stock-Based Compensation

Summary of stock option activity:

	Sept 2008		2007	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Balance, beginning of year	4,550,000	\$ 0.229	720,000	\$ 0.333
Granted	3,650,000	\$0.15	4,200,000	0.217
Expired or cancelled	(2,000,000)	\$0.217-0.50	(370,000)	0.302
Balance, end of period	6,200,000	\$ 0.194	4,550,000	\$ 0.229

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8. CAPITAL STOCK (Continued)
(d) Stock-Based Compensation (Continued)

As of Sept 30, 2008 the following options have been issued:

Number of Options	Exercise Price \$	Vesting Date	Expiry Date
850,000	0.217	June 25, 2007	June 25, 2012
850,000	0.217	June 25, 2008	June 25, 2012
850,000	0.217	June 25, 2009	June 25, 2012
100,000	0.150	June 22, 2008	June 22, 2013
250,000	0.150	June 4, 2008	June 4, 2013
1,650,000	0.150	Jan 9, 2009	July 9, 2013
<u>1,650,000</u>	0.150	July 9, 2009	July 9, 2013
<u>6,200,000</u>			

9. CONTINGENCIES

The Company is party to various legal actions and complaints arising in the ordinary course of business. It is the opinion of the Company that the ultimate resolutions of such matters will not materially affect the Company’s financial condition or earnings.