ANNUAL
REPORT
1996

EWMC
INTERNATIONAL INC.

E.W.M.C. International Inc.

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Dear Shareholder:

This past year has been one of strategic refocusing for EWMC. The last 12 months have reinforced the ever-present existence of twists, detours and unexpected opportunity when an organization operates at the leading edge of emerging technology.

Until last year, responding to existing marketplace interests, concerns and needs, disposal of tire waste was our principal consideration. However an increasing worldwide need for the safe disposal of medical waste has dictated that we include this ever-growing arena in our attentions. The tremendous flexibility of our system has enabled us to move quickly to this new forefront.

Headed by our expert technical staff and utilizing our state-of-the-art facilities we have advanced from prototype-stage to the first commercial *Reverse Polymerization* Medical Waste Reduction System this year. Testing of the *Reverse Polymerization* Medical Waste Reduction System has proved to be most successful, with positive results time and again -- meeting stringent expectations. It has been found to be a cost effective, environmentally friendly solution to a significant medical facility problem.

Independent testing by external regulatory testing facilities has also been positive -- giving the EWMC *Reverse Polymerization* Medical Waste Reduction System a clean bill of health and the go-ahead to enter these markets.

Negotiations are being completed for the installation and testing of the EWMC *Reverse Polymerization* Medical Waste Reduction System in a Canadian hospital. To expedite this on-site trial, additional capital is being raised.

Once testing is complete we anticipate increased interest from the global medical community, since the disposal of medical waste has become a growing concern -- and an ever-increasing expense. The capabilities of our system offer a most exciting solution.

The EWMC *Reverse Polymerization* Tire Reduction System continues to amaze everyone who comes to the Ajax facility for a demonstration. Dignitaries from around the world carry back glowing reports to their governments. Our technical engineers, however, are committed to on-going improvements.

Refinement has therefore been the watchword this year, for our *Reverse Polymerization* Tire Reduction System. Production techniques have been streamlined and maximized. Further testing has resulted in the production of a higher quality carbon black -- more valuable on the market. The window of opportunity here remains wide open.

With each day progress grows and our goals expand. With each day we move closer to our goals. We look forward to your continued support and interest in EWMC's achievements in this most exciting year of our growth and development. We look forward to your attendance at our annual meeting.

Yours sincerely,

Thomas Fairfull

Thomas Fairfull

Management Discussion and Analysis of Consolidated Financial Statements for the Years Ended December 31, 1996 and 1995

Summary

The year which ended December 31, 1996 was one of rapid change for the Company and one of significant advancement for its technology. The Company increased its revenue through licensing fees in both the United States and Brazil. Management expects substantial increases in revenue will be evidenced in the coming years from future equipment sales. That prognosis is made as the results of the Company's investments in research and marketing during 1996 are realized. The Company has incurred expenditures in the research and development of its technology and in advertising and promotional costs in order to begin the world-wide marketing campaign of its products.

Results of Operations

Revenues from licensing fees increased substantially from $835,000 in 1995 to $1,143,000 in 1996. This increase is the result of the sale of licensing arrangements for medical and rubber equipment in Brazil and the rest of South America.

The Company's *Reverse Polymerization* Medical Waste Reduction Systems have been ready for sale since March 1997, when exhaustive testing was completed. Revenue relating to the sale of these systems is expected to be recorded during 1997. The Company is finalizing an agreement with a Canadian hospital to install and use the Company's *Reverse Polymerization* Medical Waste Reduction System. A loss for the year of approximately $5 million or 27¢ per common share versus a loss of approximately $2.5 million in the prior year of 18¢ per common share was recorded.

To facilitate the expansion of its world-wide marketing efforts, the Company increased its advertising and promotion expenditures from $236,000 in 1995 to $845,000 in 1996. Increases in professional fees where incurred related to documentation and negotiation of agreements relating to royalty arrangements, licensing fees, equipment sales, third-party contractual agreements and partnership agreements.

The Company's research team developed a number of significant operational improvements to the *Reverse Polymerization* Tire Reduction System and the *Reverse Polymerization* Medical Waste Reduction System. Expenditures relating to research and development increased from $494,000 in 1995 to $1,230,000 in 1996. This increase was primarily attributed to the testing and refining of the *Reverse Polymerization* Medical Waste Reduction System equipment.

The Company increased expenditures relating to its computer and technology software from approximately $10,000 in 1995 to $174,000 in 1996, enabling revisions to its medical waste equipment. Depreciation and amortization increased from $977,000 in 1995 to $1,498,000 in 1996 as the Company began to amortize all of its patents, technology and equipment during 1995.

Financial Position

The Company's cash position at December 31, 1996 included cash on hand of $162,000 versus a balance at December 31, 1995 of $721,000. Subsequent to December 31, 1996, the Company announced that it had received additional licensing fees from its US distributor of $590,000 and has raised $750,000 via private placement to improve its cash position. The change in cash during 1996 is outlined on the consolidated statement of change in financial position. It was to a large measure caused by expenditures on plant and equipment patents and technology totaling $6.6 million. This investment was financed by share issuances totaling $9.7 million. The excess cash raised from financing activities was used to fund working capital for the year. Financing in 1997 will come from revenue from operations and additional equity financing for working capital growth, as is required.

Consolidated Financial Statements of

E.W.M.C. INTERNATIONAL INC.

(FORMERLY EXXADON TECHNOLOGY CORPORATION)

Years ended December 31, 1996 and 1995

KPMG
Chartered Accountants

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of E.W.M.C. International Inc. (formerly EXXADON Technology Corporation) as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

KPMG

Chartered Accountants

Toronto, Canada

February 18, 1997

EWMC INTERNATIONAL INC.

(FORMERLY EXXADON TECHNOLOGY CORPORATION)

Consolidated Balance Sheets

December 31, 1996 and 1995

		1996		1995
Assets				
Current assets:				
Cash	$	169,002	$	721,766
Accounts receivable		560,123		57,469
Prepaid expenses		458,085		197,936
		1,187,210		977,171
Pilot plant and other equipment (note 2)		3,785,334		3,992,509
Equipment held for demonstration or resale		1,203,989		–
Patents and technology (net of accumulated amortization of $1,127,892; 1995 - $465,000)		7,807,708		3,635,000
	$	13,984,241	$	8,604,680
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,559,366	$	1,052,465
Deferred revenue		306,000		124,880
Capital lease obligation - current portion		9,168		9,168
		1,874,534		1,186,513
Capital lease obligation		6,275		15,443
Shareholders' equity:				
Share capital (note 3)		22,403,814		12,693,276
Deficit		(10,300,382)		(5,290,552)
		12,103,432		7,402,724
Commitments (notes 4 and 6)				
	$	13,984,241	$	8,604,680

See accompanying notes to financial statements.

On behalf of the Board:

Gary Carruthers, Director

Stephen Simms, Director

E.W.M.C. INTERNATIONAL INC.

(FORMERLY EXXADON TECHNOLOGY CORPORATION)

Consolidated Statements of Operations and Deficit

Years ended December 31, 1996 and 1995

	1996	1995
Revenue:		
Licensing fees	$ 1,143,681	$ 835,760
Interest income	12,088	20,000
	1,155,769	855,760
Expenses:		
Depreciation and amortization	1,498,371	977,357
Wages, salaries and benefits	604,025	571,682
Advertising and promotion	845,191	236,939
Professional fees	728,740	182,034
Office and general	453,630	308,943
Royalties (note 6)	264,600	342,340
Research and development	1,230,239	494,439
Consulting	75,196	68,990
Security	10,798	26,182
Utilities	54,286	44,713
Automobile	47,362	29,483
Telephone	45,651	34,917
Registrar's fees	21,776	15,258
Insurance	17,047	14,597
Capital taxes	29,261	8,441
Repairs and maintenance	65,090	9,838
Software	174,336	10,145
	6,165,599	3,376,298
Loss for the year	5,009,830	2,520,538
Deficit, beginning of year	5,290,552	2,770,014
Deficit, end of year	$ 10,300,382	$ 5,290,552
Loss per share (note 5)	$ 0.27	$ 0.18

See accompanying notes to financial statements.

E.W.M.C. INTERNATIONAL INC.

(FORMERLY EXXADON TECHNOLOGY CORPORATION)

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1996 and 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Loss for the year	$ (5,009,830)	$ (2,520,538)
Depreciation and amortization which do not involve cash	1,498,371	977,357
Changes in non-cash operating working capital:		
Accounts receivable	(502,654)	(33,994)
Prepaid expenses	(260,149)	(168,675)
Accounts payable and accrued liabilities	506,901	516,156
Deferred revenue	181,120	124,880
	(3,586,241)	(1,104,814)
Financing:		
Capital lease obligation	(9,168)	24,611
Issue of share capital:		
For cash	4,874,938	2,712,489
For acquisition of patents and technology (note 6)	4,835,600	1,000,000
	9,701,370	3,737,100
Investments:		
Expenditures on pilot plant and other equipment	(628,304)	(1,419,190)
Expenditures on equipment held for demonstration or resale	(1,203,989)	–
Patents and technology (note 6)	(4,835,600)	(1,000,000)
	(6,667,893)	(2,419,190)
Increase (decrease) in cash position	(552,764)	213,096
Cash, beginning of year	721,766	508,670
Cash, end of year	$ 169,002	$ 721,766

See accompanying notes to financial statements.

The Company has long-term agreements that allow it to license and develop uses for certain technology that has application in the manufacture of machines which reduce various waste material to their original component state and/or carbon black. The Company's principal business is the licensing and sale of this technology and related machines throughout the world.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Environmental Waste Management Corporation ("EWMC") and Jaguar Carbon Sales.

These financial statements are prepared using generally accepted accounting principles applicable to a going concern which assumes realization of assets and the liquidation of liabilities in the normal course of business.

The Company has recorded significant operating losses in each of the last two years during the start-up and testing of its technology. In addition, the Company has a working capital deficiency at December 31, 1996. The ability of the Company to continue as a going concern depends on achievement of profitable operations and/or continued financing from shareholders or other sources.

These financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classification that would be necessary if the going concern assumption were not appropriate, as management believes the Company will continue as a going concern.

(b) Revenue recognition:

The Company records licensing fees upon cash receipt, unless a reasonable deposit is received and a history of cash collection has been established, in which case, licensing fees are recorded when due.

Revenue is recorded on the sale of machines when a machine is completed and shipped. Deposits received relating to machine purchases are recorded as deferred revenue.

1. Significant accounting policies (continued):

(c) Pilot plant and other equipment:

Pilot plant and other equipment are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
Pilot plant	Straight-line	10 years
Computer equipment	Declining balance	30%
Equipment and furniture	Declining balance	20%
Forklift	Declining balance	20%
Vehicle	Declining balance	30%
Leasehold improvements	Straight-line	5 years

(d) Equipment held for demonstration or resale:

Equipment held for demonstration or resale did not become fully operational in 1996 and accordingly, depreciation expense on it was not recorded.

(e) Patents and technology:

Patents and technology are recorded at cost and amortized over a ten-year period not to exceed the life of the patent.

(f) Research and development:

Research and development costs, including software, are expensed as incurred.

(g) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

1. Significant accounting policies (continued):

(h) Comparative figures:

Certain 1995 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1996.

2. Pilot plant and other equipment:

1996	Cost	Accumulated depreciation	Net book value
Pilot plant	$ 3,189,651	$ 711,629	$ 2,478,022
Computer equipment	844,461	287,900	556,561
Equipment and furniture	404,996	207,313	197,683
Forklift	8,245	4,445	3,800
Vehicle	46,990	27,418	19,572
Leasehold improvements	1,290,890	761,194	529,696
	$ 5,785,233	$ 1,999,899	$ 3,785,334

1995	Cost	Accumulated depreciation	Net book value
Pilot plant	$ 3,189,650	$ 379,935	$ 2,809,715
Computer equipment	396,211	145,427	250,784
Equipment and furniture	398,094	158,755	239,339
Forklift	8,245	3,496	4,749
Vehicle	46,990	19,031	27,959
Leasehold improvements	1,117,739	457,776	659,963
	$ 5,156,929	$ 1,164,420	$ 3,992,509

3. Share capital:

	1996			1995		
	Number		Amount	Number		Amount
Authorized:						
Unlimited number of common shares						
Issued and outstanding:						
Balance, beginning of year	15,952,181	$	12,693,276	14,043,605	$	8,980,787
Issued in exchange for territory rights	1,256,000		4,835,600	500,000		1,000,000
Issued for cash:						
Private placements	280,000		569,500	185,397		370,794
Under option agreements	2,260,162		4,219,722	1,223,179		2,341,695
Under warrant agreement	23,810		85,716	–		–
Balance, end of year	19,772,153	$	22,403,814	15,952,181	$	12,693,276

During 1996 and previous years, the Company granted options to Company directors and others to purchase 4,901,061 common shares. Of the options issued in 1996 and 1995 and prior years, 1,413,000 remain outstanding at December 31, 1996 at prices ranging from $1.70 to $3.00 per share. These options expire at varying dates during 1997.

The Company has assigned warrants to purchase 500,000 common shares at a price of $8.00 per share for a period of three years (note 6). The Company also assigned 23,810 warrants as part of a private placement to purchase common shares at a price of $3.60 per share.

During 1996, the Company issued 1,256,000 shares at an assigned value of $4,835,600 and a 5-year warrant for 300,000 shares at $8.00 per share in exchange for territory rights (note 6).

Subsequent to December 31, 1996, the Company rescinded all previous outstanding options and reissued at exercise prices ranging from $1.20 to $2.50.

4. Commitments:

The Company is committed to future minimum lease payments under an operating lease for premises, expiring July 31, 1998, with an option to renew up to July 31, 2003.

If the Company chooses to renew, its lease commitments would be as follows:

1997	$ 40,628
1998	43,528
1999	104,468
2000	104,468
Thereafter	269,875
	$ 562,967

5. Loss per share:

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. Stock options and warrants do not have a dilutive effect on loss per share.

6. Significant agreements:

The Company has entered into an agreement with an unrelated company, CLE Management Inc. ("CLE"), to use certain technology, patents and other information owned by CLE. The Company has agreed to make royalty payments to CLE totalling 50% of any licensing fees received and 20% on the net cost of each machine up to $250,000 per machine sold, 15% on the net cost of each machine between $250,000 and $500,000 and 10% on the net cost of each machine in excess of $500,000. This agreement runs in perpetuity, has no minimum performance requirement and covers North America, Europe, the Middle East countries and the former Soviet block of countries. The Company purchased its pilot plant from CLE to assist in the marketing of this technology and patents.

In 1994, the Company issued 1,000,000 common shares at an assigned value of $3,100,000 and assigned warrants to purchase 500,000 common shares at a price of $8.00 per share in exchange for a reduction in the royalty rates to those described above and to purchase the rights to Auto Shredder Residue (ASR) for North America.

6. Significant agreements (continued):

In 1995, the Company issued to Emery International 500,000 common shares at an assigned value of $1,000,000 to purchase the licensing rights for medical waste technology for Brazil.

During 1996, the Company finalized an agreement with Emery International whereby it obtained the rights to medical waste technology for the rest of South America, as well as rubber tires for South America, in exchange for 1,256,000 shares and a 5-year warrant, as disclosed in note 3.

7. Related party transactions:

During the year ended December 31, 1995, the Company purchased marketing and other materials for $35,650 (1996 - nil) from a company controlled by a person related to the president.

8. Income taxes:

The Company and its subsidiaries have losses for income tax purposes of approximately $6,400,000 available to offset future taxable income, the benefit of which has not been reflected in these financial statements and which expire approximately as follows:

2000	$ 800,000
2001	1,300,000
2002	1,300,000
2003	3,000,000
	$ 6,400,000

In addition, the Company has assets for which deductions available in future years exceed the recorded net book values by approximately $1,000,000.

9. Segmented information:

Licensing fees by country are as follows:

	1996	1995
Canada	$ –	$ 139,100
United States	529,600	545,580
Brazil	614,081	151,080
	$ 1,143,681	$ 835,760

10. Financial instruments:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and capital lease obligation approximate their fair values due to their relative short-term nature.