Consolidated Financial Statements of

E.W.M.C. INTERNATIONAL INC.

Years ended December 31, 1998 and 1997

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of E.W.M.C. International Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 1998 and 1997 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.

"FELDMAN & ASSOCIATES, LLP"

Toronto, Canada
May 19, 1999

Chartered Accountants

E.W.M.C. INTERNATIONAL INC.

Consolidated Balance Sheets

December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash	$ 11,787	$ 197,686
Prepaid expenses and sundry receivable	657,697	648,764
	669,484	846,450
Pilot plant and other equipment (note 2)	2,260,537	2,953,682
Equipment held for demonstration or resale (net of accumulated depreciation of $292,267; 1997 $146,133)	1,169,065	1,315,199
Patents and technology (net of accumulated amortization of $2,922,229; 1997 $1,908,669)	7,213,377	7,026,937
	$ 11,312,463	$ 12,142,268

Liabilities and Shareholders' Equity

	1998	1997
Current liabilities		
Accounts payable and accrued liabilities	$ 1,770,036	$ 1,510,500
Deferred revenue	443,750	443,750
Loans from Directors (non-interest bearing)	174,000	-
	2,387,786	1,954,250
Shareholders' equity:		
Share capital (note 3)	28,038,850	25,334,814
Deficit	(19,114,173)	(15,146,796)
	8,924,677	10,188,018
Commitments (notes 4 and 6)		
	$ 11,312,463	$ 12,142,268

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Stephen Simms" Director

"Garry Carruthers" Director

E.W.M.C. INTERNATIONAL INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 1998 and 1997

	1998	1997
Revenue:		
Licensing fees	$ -	$ 679,440
Interest income	2,420	4,421
	2,420	683,861
Expenses:		
Depreciation and amortization	1,844,720	1,819,288
Operations, general and administrative	1,414,393	2,536,384
Royalties	-	339,720
Research and development	710,684	834,883
	3,969,797	5,530,275
Loss for the year	3,967,377	4,846,414
Deficit, beginning of year	15,146,796	10,300,382
Deficit, end of year	$19,114,173	$15,146,796
Loss per share (note 5)	$ 0.14	$ 0.22

See accompanying notes to consolidated financial statements.

E.W.M.C. INTERNATIONAL INC.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Loss for the year	$(3,967,377)	$(4,846,414)
Depreciation and amortization which do not involve cash	1,844,720	1,819,288
Changes in non-cash operating working capital:		
Accounts receivable	-	560,123
Prepaid expenses	2,764	(190,679)
Accounts payable and accrued liabilities	259,536	(64,309)
Deferred revenue	-	137,750
Loans from Directors	174,000	-
	(1,686,357)	(2,584,241)
Financing:		
Issue of share capital:		
For cash	1,504,036	2,931,000
For acquisition of patents and technology (note 3)	1,200,000	-
	2,704,036	2,931,000
Investments:		
Expenditures on pilot plant and other equipment	(3,578)	(60,732)
Expenditures on equipment held for demonstration or resale	-	(257,343)
Patents and technology (note 3)	(1,200,000)	-
	(1,203,578)	(318,075)
Increase (decrease) in cash position	(185,899)	28,684
Cash, beginning of year	197,686	169,002
Cash, end of year	$ 11,787	$ 197,686

See accompanying notes to consolidated 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"), Jaguar Carbon Sales and EWMC America Inc.

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 four years during the start-up and testing of its technology. In addition, the Company has a working capital deficiency as at December 31, 1998. 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:

Assets	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 are stated at cost. Depreciation is provided on a straight-line basis at 10% per year. Equipment held for demonstration or resale did not become fully operational until the end of 1996 and accordingly, depreciation expense was not recorded prior to 1997.

(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 1997 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1998.

2. Pilot plant and other equipment:

1998	Cost	Accumulated depreciation	Net book value
Pilot plant	$3,191,519	$1,349,980	$1,841,539
Computer equipment	855,970	577,573	278,397
Equipment and furniture	423,301	285,290	138,011
Forklift	8,245	5,655	2,590
Leasehold improvements	1,323,518	1,323,518	-
	$5,802,553	$3,542,016	$2,260,537

1997	Cost	Accumulated depreciation	Net book value
Pilot plant	$3,191,519	$ 1,030,781	$2,160,738
Computer equipment	855,814	458,273	397,541
Equipment and furniture	423,211	250,492	172,719
Forklift	8,245	5,205	3,040
Vehicle	46,990	33,290	13,700
Leasehold improvements	1,320,186	1,114,242	205,944
	$5,845,965	$2,892,283	$2,953,682

3. Share capital:

(a) Issued and outstanding

	1998		1997	
	Number	Amount	Number	Amount
Authorized:				
Unlimited number of common shares				
Issued and outstanding:				
Balance, beginning of year	23,265,487	$25,334,814	19,772,153	$22,403,814
Issued in exchange for territory rights	6,000,000	1,200,000	-	-
Issued for cash:				
Private placements	1,655,556	726,668	1,000,000	750,000
Under option agreements	2,401,496	777,368	2,493,334	2,181,000
Balance, end of year	33,322,539	$28,038,850	23,265,487	$25,334,814

During 1998, the Company issued 6,000,000 shares at an assigned value of $1,200,000 in exchange for territory rights (note 6).

During 1998, the Company issued under a private placement offering 1,655,556 common shares for aggregate proceeds of $726,668.

During 1998, 2,401,496 options were exercised under the option plan for $777,368. At December 31, 1998, there were options outstanding to acquire 2,750,000 of the Company's common shares at varying prices from $0.50 to $1.80 per share. The weighted average option price per share approximated $0.61 as at December 31, 1998. These options expire on or before February 5, 2002.

Subsequent to December 31, 1998, the Company issued under private placement offerings 2,833,334 common shares at varying prices from $0.10 to 0.15 per share for aggregate proceeds of $290,000.

3. Share capital (continued):

(b) Stock purchase plan

In 1997, the Company established a stock purchase plan for employees, officers and directors. The total number of shares which may be reserved and set aside pursuant to this plan cannot exceed 1,000,000 common shares. The exercise price for purchasing shares cannot be less than the market price of the common shares on the last day on which the common shares traded prior to the date of the granted option.

During the year, no shares were issued under the plan.

4. Commitments:

(a) During the year, the Company entered into an agreement to acquire the building and land it currently rents at 283 Station Street, Ajax, Ontario for $1,650,000. The closing date is scheduled for July 30, 1999. If the Company is unable to close by reason of its own default, the vendor will retain the Company's deposit of $175,000 as amounts due under its current lease agreement.

(b) The Company is only committed to future minimum lease payments under an operating lease for premises, expiring July 31, 2000, in the amount of approximately $104,000 annually, if it does not close its agreement to purchase the building (see note 4a).

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. The weighted average number of common shares outstanding are as follows:

1998	28,263,480
1997	21,544,670

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.

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.

In 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, for 300,000 shares at $8.00 per share.

In 1998, the Company entered into a new agreement with Emery International whereby it obtained the Worldwide rights to medical waste technology, rubber reduction, plastic, soil remediation, solid municipal waste, auto shredder residue, coal and secure media disposal, in exchange for 6,000,000 common shares at an assigned value of $1,200,000.

7. Income taxes:

The Company and its subsidiaries have losses for income tax purposes of approximately $13,400,000 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
2004	3,000,000
2005	4,000,000
	$13,400,000

8. Segmented information:

Licensing fees by country are as follows:

	1998	1997
United States	$ -	$679,440
	$ -	$679,440

9. Financial instruments:

The carrying values of cash, prepaids, accounts payable and accrued liabilities and amounts due to Directors, approximate their fair values due to their relative short-term nature.