**ENVIRONMENTAL WASTE INTERNATIONAL INC.**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2008**

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Unaudited Interim Financial Statements**
**For The Three Month Period Ended March 31, 2008**


| | Page |
|---|---|
| Responsibility for Financial Statements | 3 |
| FINANCIAL STATEMENTS | |
| Consolidated Balance Sheet | 4 |
| Consolidated Statement of Operations | 5 |
| Consolidated Statement of Deficit | 6 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to Consolidated Financial Statements | 8 - 18 |

## Responsibility for consolidated unaudited interim financial statements

The accompanying financial statements for Environmental Waste International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2007 audited financial statements.

## Auditor involvement

The auditor of Environmental Waste International Inc. has not performed a review of these unaudited interim financial statements.

Ajax, Ontario
May 28 , 2008

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Balance Sheet**
**As At March 31, 2008 and December 31, 2007**

| | As at March 31 2008 (Unaudited) | As at December 31 2007 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | **$ 109,236** | $ - |
| Accounts receivable | **16,040** | 19,673 |
| Prepaid expenses and sundry | **32,279** | 33,186 |
| Notes receivable - current portion (Note 13) | **766,081** | 905,542 |
| Interest receivable (Note 13) | **147,570** | 556 |
| | **1,071,206** | 958,957 |
| **Property and equipment** (Note 5) | **4,282** | 4,630 |
| **Technology Rights** (Note 6) | **1** | 1 |
| **Notes receivable** (Note 13) | **11,308,747** | 10,328,458 |
| **Total Assets** | **$ 12,384,236** | $ 11,292,046 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Bank indebtedness | **$ -** | $ 5,847 |
| Accounts payable and accrued liabilities | **195,637** | 184,431 |
| Loans payable (Note 7) | **424,767** | 469,500 |
| Deferred income - current (Note 8) | **43,307** | 43,307 |
| | **663,711** | 703,085 |
| **Long-term Liabilities** | | |
| Deferred income (Note 8) | **117,788** | 128,615 |
| **Total Liabilities** | **781,499** | 831,700 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| Capital Stock (Note 10) | **35,816,645** | 35,816,645 |
| Contributed surplus (Note 10) | **1,450,992** | 1,450,992 |
| Warrants | **358,762** | 358,763 |
| Convertible debt (Note 7) | **176,900** | 180,500 |
| Deficit | **(26,200,562)** | (27,346,554) |
| | **11,602,737** | 10,460,346 |
| **Total Liabilities and Shareholders' Equity (Deficiency)** | **$ 12,384,236** | $ 11,292,046 |

**ON BEHALF OF THE BOARD**

"William Bateman", Director

"Stephen Simms", Director

Please refer to notes 12 and 13 for a full understanding of these financial statements.
The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Statement of Operations**
**For The Three Months Ended March 31, 2008 and 2007**

| | Three months ended March 31 | |
|---|---|---|
| | **2008** | **2007** |
| | **(Unaudited)** | **(Unaudited)** |
| **REVENUE** | | |
| Management fees | **$ 1,180,000** | $ - |
| Interest Income | **147,015** | - |
| Sales | **22,461** | 5,794 |
| Amortization of deferred income (Note 8) | **10,827** | 10,827 |
| Other | **10,000** | 892 |
| | **1,370,303** | 17,513 |
| **EXPENSES** | | |
| Manufacturing expenses | **14,878** | 1,088 |
| Research & development | **85,264** | 107,602 |
| Salaries, wages & benefits | **21,862** | 30,423 |
| Operations, general and administration | **84,797** | 94,318 |
| Foreign exchange | **(1,109)** | 218 |
| Interest on long term debt | **18,272** | 15,900 |
| Amortization of property, equipment and technology rights | **347** | 12,798 |
| | **224,311** | 262,347 |
| **NET INCOME (LOSS)** | **$ 1,145,992** | $ (244,834) |
| Income (loss per share) | **$ 0.016** | $ (0.004) |
| **Weighted average number of common shares outstanding** | **71,248,324** | 69,248,324 |

Please refer to notes 12 and 13 for a full understanding of these financial statements.
The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Statement of Deficit**
**For The Three Month Period Ended March 31, 2008 and 2007**

| | Three months ended | |
|---|---|---|
| | **March 31 2008 (Unaudited)** | **March 31 2007 (Unaudited)** |
| **DEFICIT - BEGINNING OF PERIOD** | **$ (27,346,554)** | $ (37,467,369) |
| Net income (Loss) for the period | **1,145,992** | (244,834) |
| **DEFICIT - END OF PERIOD** | **$ (26,200,562)** | $ (37,712,203) |

Please refer to notes 12 and 13 for a full understanding of these financial statements.
The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Statement of Cash Flows**
**For The Three Month Period Ended March 31, 2008 and 2007**

| | Three months ended March 31 | |
|---|---|---|
| | **2008** | **2007** |
| | **(Unaudited)** | **(Unaudited)** |
| **OPERATING ACTIVITIES** | | |
| Net Income (loss) for the period | **$ 1,145,992** | $ (244,834) |
| Items not affecting cash: | | |
| Amortization of plant and equipment | **347** | 12,799 |
| Convertible Debt | **(3,600)** | - |
| Amortization of deferred income | **(10,827)** | (10,827) |
| | **1,131,912** | (242,862) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | **3,633** | (520) |
| Prepaid expenses and sundry | **907** | 22,477 |
| Notes receivable - current portion | **139,461** | - |
| Interest receivable | **(147,014)** | - |
| Accounts payable & accrued liabilities | **11,204** | 25,813 |
| Inventory | **-** | (59,236) |
| | **8,191** | (11,466) |
| CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES | **1,140,103** | (254,328) |
| **INVESTING ACTIVITIES** | | |
| Notes receivable | **(980,289)** | - |
| **FINANCING ACTIVITIES** | | |
| Repayment of loans | **(44,733)** | - |
| **NET INCREASE (DECREASE) IN CASH** | **115,081** | (254,328) |
| **(BANK INDEBTEDNESS) CASH - BEGINNING OF PERIOD** | **(5,845)** | 420,430 |
| **CASH - END OF PERIOD** | **$ 109,236** | $ 166,102 |

Please refer to notes 12 and 13 for a full understanding of these financial statements.
The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

## 1 NATURE OF BUSINESS

Environmental Waste International Inc. ("EWI") is incorporated under the Ontario Business Corporations Act. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization Process for dealing with waste disposal, including the development, advancing, licensing and sale of its technology and related machines throughout the world.

## 2 GOING CONCERN

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets, including the ultimate collection of its long-term notes receivable (note 13), and discharge its liabilities in the normal course of business. Recurring sources of revenue have not yet proven to be sufficient. The Company needs to obtain additional financing to enable it to continue its business. In the absence of additional financing, the Company may not have sufficient funds to meet its obligations. Management continues to monitor the cash needs and consider various alternatives to raise additional financing. However, management is reasonably confident but can offer no guarantee that it will be able to secure the necessary financing to enable the Company to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. There is no assurance that this will be successful.

If the going-concern basis is not appropriate, material adjustments may be necessary in the carrying amounts and/or classification of assets and liabilities and the loss for the period reported in these financial statements.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Financial Statements and Use of Estimates

The accompanying financial statements for EWI for the quarters ended March 31, 2008 and 2007 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with Canadian generally accepted accounting principles(Canadian GAAP). These statements should be read in conjunction with the audited financial statements for the year ending December 31, 2007.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilites, at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property, plant and equipment and technology rights. Actual results could differ from these estimates.

### (b) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and it’s 100% owned subsidiaries, Environmental Waste Management Corporation "EWMC" and Jaguar Carbon Sales Limited. All inter-company transactions and balances have been eliminated on consolidation. The activities of the subsidiaries are currently immaterial.

### (c) Share Issue Costs

Direct costs associated with an issue of capital stock or warrants are deducted from the related proceeds at the time of issue.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Technology Rights

Technology represents the cost of acquired technology. The technology rights valuation is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In 2002, the Company incurred a charge of $2,659,587 representing recognition of impairment. Commencing January 1, 2003, the remaining unamortized technology rights balance is being amortized equally over a 10-year period, the estimated useful life of these rights.These rights, except for the tire and wastewater applications, were sold during the year.

### (e) Revenue Recognition

Revenue is recognized when all of the following criteria have been met: persuasive evidence of an arrangement exists; the services have been provided; the price is fixed or determinable; customer acceptance has been received or implied; collection of sales proceeds is reasonably assured.

During the period, the Company earned fees for the services provided to the Environmental Waste International Limited Partnership (the "EWILP) from a software license agreement and management and operating services agreements (representing software rights, management, personnel and facilities and equipment that the Company has agreed to provide to the EWILP)

For sales contracts involving production, customization and installation, revenues are recognized under the percentage-of-completion method using milestones or engineering approvals to determine the percentage complete. Provisions for estimated contract losses are recognized in the year the loss becomes probable and can be reasonably estimated. Service revenue such as maintenance and support is recognized when the services are performed. The timing of revenue recognition may differ from the contract payment schedules, resulting in revenues that have been earned but not billed.

Certain contracts require the customer to provide deposits. Deposits are deemed to be forfeited by the customer when certain contractual obligations are not met and are brought into revenue. Any other billings or cash received in advance of sales are being recorded as deferred revenue. Other revenue is recognized at the time ownership transfers or services are rendered to the customer.

Provision for the potential warranty claims, if any, is provided for at the time revenue is recognized, based on warranty terms and claims experience as a deduction from revenue.

### (f) Stock Based Compensation

The Company has a stock-based compensation plan. It maintains a stock-based compensation plan for employees, directors, officers and consultants of the Company. Effective January 1, 2003, the Company follows the fair-value method (using the Black-Scholes option pricing model) to record compensation expense with respect to stock options and warrants granted. The fair value of each option or warrant granted is estimated on the date of grant and provision for the cost is provided for as contributed surplus over the term of the vesting period of the respective options. The consideration received by the Company on the exercise of share options is recorded as an increase to the share capital together with corresponding amounts previously recognized in contributed surplus.

Estimates used in the fair value computation, including the expected lives of the options, risk free interest rate and volatility of the stock, were determined on the basis of available comparable market and historical data that EWI believes are reasonable.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Warrants**

The Company uses the fair value method of accounting for common share purchase and warrants issued as a part of a brokered and non-brokered private placement offering for common shares or as part of other compensation. Under the fair value method, warrants are measured at fair value at the date of the offering and segregated separately in shareholders' equity. When the warrants are exercised, the proceeds received by the Company together with the related amount segregated in shareholders' equity are credited to share capital. If the warrants expire without being exercised, the related amount segregated in shareholders' equity is credited to contributed surplus.

**(h) Basic and Diluted earnings (loss) per share**

Basic earnings (loss) per share have been computed by dividing net earnings (loss) by the weighted average shares outstanding during the year. Weighted average number of shares is determined by relating the portion of time within the year that common shares have been outstanding to the total time in the year.

The Canadian Institute of Chartered Accountants ("CICA") recommends the use of the treasury stock method in computing earnings/loss per share. Diluted per share amounts are calculated using the treasury stock method. Diluted earnings (loss) per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options or dilutive instruments. In computing the loss per share on a fully diluted basis, the treasury stock method assumes that proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate. The weighted average number of shares outstanding is then adjusted by the net change.

**(i) Segmented Information**

The Company has determined that it has two operating segments. During the fiscal period, all revenues from operations were derived from sources located in Canada and United States and all identifiable assets were located in Canada.

**(j) Government Assistance/Investment Tax Credits “ITCs”**

Governent assistance is available to the Company through income tax investment and innovation tax credits. ITCs and other governmental incentives relating to capital assets acquired for research and development, are deducted from the cost of the assets. ITCs and other incentives relating to current research and development expenditures are disclosed as government assistance on the statement of earnings. The Company recognizes ITCs and other incentives when earned, and when there is reasonable assurance of realization.

**(k) Research and Development Costs.**

Research costs are expensed as incurred. Development costs that meet the criteria for deferral under Canadian generally accepted accounting principles for products that are expected to provide future benefits, with reasonable certainty, are deferred and amortized over the anticipated periods of sales revenue of the products.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the appropriate rates of exchange ruling at the balance sheet date, while other assets and liabilites are converted at the rates of exchange applicable at the dates acquired or incurred. Revenues and expenses are translated into Canadian dollars at rates of exchange applicable during the periods in which they were earned or expensed. All gains and losses are included in the consolidated statements of operations and deficit as they arise.

### (m) Leases

Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is amortized on the same basis as described above. Rental payments under operating leases are expensed as incurred.

### (n) Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance are charged against income as incurred. Expenditures which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Company's ability to provide services, its carrying amount is written down to residual value. Amortization is provided annually on capital assets, other than land, at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

| | | |
|---|---|---|
| Computer equipment | 30-55% | declining balance |
| Equipment | 30% | declining balance |

One-half of annual depreciation and amortization is charged on net assets acuired during the fiscal year. Government assistance is recorded as a reduction of the related assets.

### (o) Impairment of Long-Lived Assets

Long-lived assets, including capital assets, are amortized over their useful lives. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the discounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At period end, no such impairment has occurred.

### (p) Income Taxes

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilites are recognized for 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 substantively enacted tax rates in effect in the year in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilites of a change in tax rates is recognized as part of the provision for income taxes in the year that includes the enactment date. A valuation allowance is recorded to the extent there is uncertaintly regarding realization of future tax assets.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Concentration of Credit Risk

The Company derived net sales and fees from two (2007 three) major customers amounting to approximately $1,212,461 (2007-$1,845,171). Accounts/notes receivable from the above significant customers at March 31, 2008 is $2,814,000 (December 31, 2007-$1,650,096).

### (r) Director/Officer Indemnification

Under its by-laws, the Company indemnifies its directors / officers, former directors / officers and individuals who have acted at the Company's request to be a director / officer of an entity in which the Company is a shareholder, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. Indemnification claims will be subject to any statutory or other legal limitation period. There are no indemnification claims known to the Company at this time. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in these financial statements with respect to any indemnifications.

## 4 CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the revised CICA Handbook Section 1506, Accounting Changes. Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior periods errors initiated in periods beginning on or after January 1, 2007. This new standard did not affect the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 1530, Comprehensive Income. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders and the company's net income and Other Comprehensive Income. Other Comprehensive Income includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. There were no such items recognized in comprehensive income for the year ended December 31, 2007.

The company also prospectively adopted CICA Handbook Section 3251, Equity which establishes standards for the presentation of equity and changes in equity during the reporting period, effective for fiscal years beginning October 2006. This standard had no impact on the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. In accordance with this new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. This new standard did not affect the Company's onsolidated financial statements for the year ended December 31, 2007.

## 4 CHANGES IN ACCOUNTING POLICIES (Continued)

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 3865, Hedges. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. Company has not designated any hedging relationships. This new standard did not affect the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2008, the Company prospectively adopted CICA Handbook Section 3031, Inventories. This new standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This new standard did not affect the Company's consolidated financial statements for the quarter ended March 31, 2008

On January 1, 2008, the Company prospectively adopted CICA Handbook Sections 3862, Financial Instruments – Disclosures; 3863, Financial Instruments – Presentation; 1535, Capital Disclosures and 1400, General Standards of Financial Statement Presentation. This new standard did not affect the Company's consolidated financial statements for the quarter ended March 31, 2008

### FUTURE CHANGE IN ACCOUNTING POLICIES

As of January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces CICA Handbook Sections 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The Company is assessing the impact of these new standards on its consolidated financial statements; however, the adoption is not expected to have a material impact on its consolidated financial statements.

## 5 PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | **March 31 2008 Net Book Value** | December 31 2007 **Net Book Value** |
|---|---|---|---|---|
| *Computer Equipment* | $ 14,133 | $ (9,851) | $ 4,282 | $ 4,630 |

## 6 TECHNOLOGY RIGHTS

| | **March 31, 2008** | December 31,2007 |
|---|---|---|
| 2002 Value | **$ 1** | $ 1 |

All rights to EWI's patents, proprietary software and system design portfolio, except for the tire and wastewater applications, were sold for $9,600,000 with EWI taking notes receivable as consideration. A gain of $9,320,833 was recognized on the sale of these rights. EWI has the right to re-acquire all assigned rights. The Company has atributed $1 of the 2002 value to the retained applications.

## 7 LOANS PAYABLE

All loans bear monthly interest at the rate of 12%. The interest is payable monthly. The loans consist of the following:

## 7 LOANS PAYABLE (Continued)

| | | March 31, 2008 | December 31,2007 |
|---|---|---|---|
| (a) | Loan from a relative of the president of the Company convertible for common shares at the rate of $0.25 per share and was due on November 1, 2007. The maturity date has been extended to September 30, 2008 | **$ 186,000** | $ 186,000 |
| (b) | Loan from relative of a director. The original maturity date was December 8, 2005. The maturity date has been extended to September 30, 2008 | **66,667** | 100,000 |
| (c) | Loans from directors convertible to common shares at the rate of $0.25 per share, was due on November 12, 2007. The maturity date has been extended to September 30, 2008 | **74,600** | 81,000 |
| (d) | Loans from directors convertible to common shares at the rate of $0.13 per share, was due on January 31, 2008. The maturity date has been extended to September 30, 2008. | **97,500** | **97,500** |
| (e) | Loan from a director, due on demand. | **-** | **5,000** |
| | | **97,500** | **97,500** |
| | Total long-term debt | **424,767** | 469,500 |
| | Less: current portion | **(424,767)** | (469,500) |
| | | **$ -** | $ - |

In 2004, as required by Canadian generally accepted accounting principles, the Company classified the convertible loans as having both a liability component and an equity component. The classification between debt and equity was determined using the relative fair value approach, with fair value determined by discounting estimated cash flows at a rate of 20%, for a debt instrument of comparable maturity and credit facility. The equity component, which consists of a conversion feature, was determined using the Black-Scholes option pricing model, and was based on a risk free annual interest rate of 3.68%, an expected life of approximately 2 years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the Company had allocated $267,000 of the gross proceeds received to debt and $163,000 to equity.

In 2007, the Company borrowed $115,000 from five directors of the Company. The loan is in the form of $55,200 as a 12% secured loan and a 12% convertible debentures for the balance of the principal amount of $59,800. The debenture will mature on December 31, 2008. The debentures are open to repayment from September 30, 2008 onward or can be converted into 460,000 common shares of the Company at $0.13 per share at the lender's option. As required by Canadian generally accepted accounting principles, the Company classified the convertible loans as having both a liability component and an equity component. The classification between debt and equity was determined using the relative fair value approach, with fair value determined by discounting estimated cash flows at a rate of 20%, for a debt instrument of comparable maturity and credit facility.

## 7 LOANS PAYABLE (Continued)

The equity component, which consists of a conversion feature, was determined using the Black-Scholes option pricing model, and was based on a risk free annual interest rate of 4.25%, an expected life of approximately 1 year, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company had allocated $97,500 of the gross proceeds received to debt and $17,500 to equity.

Interest payments in 2007 on the convertible loan were allocated between interest expense on the liability component, and the distributions paid on the equity component, by proportioning the liability component to the face value over the term of the convertible loans, based on an annual interest rate of 12%. During the year 2007, $20,464 interest paid on the equity portion was allocated to equity as a distribution on the equity component.

## 8 DEFERRED INCOME

The amortization is calculated on a straight line basis over the initial lease term of the Company's premises, being 60 months.

| | **March 31, 2008** | December 31,2007 |
|---|---|---|
| Opening Balance | $ 171,922 | $ 215,229 |
| Balance deferred during the period | - | - |
| Amortization during the period | (10,827) | (43,307) |
| | 161,095 | 171,922 |
| Less: current portion | (43,307) | (43,307) |
| Long-term portion | $ 117,788 | $ 128,615 |

## 9 DEFERRED REVENUE

Deferred revenue representing customer deposits are recognized as income in the period the units are delivered to the customer-none during the period.

## 10 SHARE CAPITAL

(a) The Company is authorized to issue an unlimited number of common shares.
(b) The following details the changes in the issued shares for the periods ended March 31, 2008 and December 31, 2007:

| | **March 31, 2008** | | December 31, 2007 | |
|---|---|---|---|---|
| | Number | $ | Number | $ |
| Issued and Outstanding: | | | | |
| Balance, beginning of period | **71,248,324** | **$ 35,816,645** | 69,248,324 | $ 35,657,624 |
| Issued for Cash: | | | | |
| Private placements | | | 2,000,000 | 300,000 |
| Employee stock options | **-** | **-** | - | - |
| Cost of equity financing | **-** | **-** | - | (140,979) |
| Stock based compensation related to exercise of options | **-** | **-** | - | - |
| **Balance, end of period** | **71,248,324** | **$ 35,816,645** | 71,248,324 | $ 35,816,645 |

The Company has placed a stop trade order on 1,000,000 of the issued and outstanding shares.

## 10 SHARE CAPITAL (Continued)

### (c) Stock Options:

The Board of Directors have established a stock option plan under which options to purchase shares are granted to directors, employees, officers and consultants of the Company. The number of options and exercise price therof is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the market price of the common shares on the day immediately preceding the grant of the options, on the stock exchange on which such shares are then traded. All new options issued have a 6 month vesting period and generally expire from one (1) to five (5) years from the date of Grant.

The weighted average fair value of the options granted for the period year was nil, and for the year ended December 31, 2007 was $0.22.

Stock option activity for the three months ended March 31, 2008 and year ended December 31, 2007 is presented below:

| | **Weighted average exercise price Three Months ended March 31,** | | Weighted average exercise price Year-ended December 31 2007 | |
|---|---|---|---|---|
| | **#** | **$** | # | $ |
| Balance, beginning of year | **5,170,000** | **0.22** | 5,085,000 | 0.23 |
| Granted | | | 1,485,000 | 0.22 |
| Cancelled and expired | | | (1,400,000) | (0.24) |
| Exercised | **-** | **-** | - | - |
| **Outstanding at end of period** | **5,170,000** | **0.22** | 5,170,000 | 0.22 |

The following table summarizes information about the outstanding exercisable options expiring up to June 20, 2011

| Range of Prices | # | Weighted Average Remaining Life in Years | Weighted Average Exercise Price |
|---|---|---|---|
| Less than .25 | 3,220,000 | 3.00 | 0.14 |
| 0.25 - 0.30 | 700,000 | 4.24 | 0.30 |
| 0.35 - 0.40 | 1,250,000 | 0.81 | 0.37 |
| | 5,170,000 | 2.64 | 0.22 |

The Company has recognized a compensation expense of $nil in the three months ended March 31, 2008 & $128,736 in the year ended December 31, 2007 using the Black Scholes method with estimated volatility at 100% (2007 – 100%) and an average risk free interest rate of 3.75% (2007 – 3.75%).

| **CONTRIBUTED SURPLUS** | March 31,2008 | December 31,2007 |
|---|---|---|
| Balance, beginning of period | $ 1,450,992 | $ 1,322,256 |
| Stock based compensation charge to earnings | | 128,736 |
| options exercised | - | - |
| Balance, end of period | $ 1,450,992 | $ 1,450,992 |

## 11 NON-CAPITAL TAX LOSSES CARRIED FORWARD

The Company has incurred losses for income tax purposes, which are available to reduce future taxable income. The potential benefits of these carry forward amounts, if any, are expected to approximate between 33 to 36%. The benefits will only be recognized in the tax provision in the year

## 11 NON-CAPITAL TAX LOSSES CARRIED FORWARD (Continued)

realized or when virtual certainty of application exists. The estimated losses and expiry dates are as follows:

| | |
|---|---|
| 2009 | 5,036,500 |
| 2010 | 794,000 |
| 2015 | 501,000 |
| 2026 | 536,500 |
| | $ 6,868,000 |

## 12 ENVIRONMENTAL WASTE INTERNATIONAL LIMITED PARTNERSHIP

On June 1, 2007, Environmental Waste International Inc. (EWI) entered into a Technology and Intellectual Property Purchase and Sale Agreement with a newly formed arms length Limited Partnership, Environmental Waste International Limited Partnership ("EWILP"). EWILP was formed as a Limited Partnership to commercially exploit EWI's product lines and expand market penetration. All rights to EWI's patents, proprietary software and system design portfolio, except for the tire and wastewater applications, were sold for $9,600,000 with EWI taking notes receivable as consideration.

EWILP has syndicated subscription of 8,474 units as of December 31, 2007. The units consist of cash and assumption of a portion of the notes payable to EWI. The individual limited partners of EWILP personally assumed a total of $4,095,738, or $483.33 per unit, of the limited partnership debt. Subsequent to year-end EWI received $339,151 with an additional $965,771 to be received over the period from June 2008 until June 30, 2009, for total cash proceeds to EWI of $1,304,922. EWILP continues to offer partnership units for sale. If fully subscribed this would result in further cash proceeds to EWI of up to $1,700,000 bringing the total to $3,000,000. The above arrangement between EWI and EWILP includes a Management Services Agreement that engages EWI to provide management, personnel, facilities and equipment for the continued operations of EWILP's business interests.

EWI has the right, but not the obligation, to re-acquire all assigned rights to the patents, proprietary software and system design portfolio through the purchase of all outstanding LP Units. This option can be exercised from January 10, 2010 through to December 1, 2014 by issuing up to $9,900,000 in EWI stock at its then fair market value, as long as EWI stock is trading at a minimum of $0.50 a share.

## 13 NOTES RECEIVABLE

| | **March 31, 2008** | 2007 |
|---|---|---|
| (a) On June 1, 2007, all rights to EWI's patents, proprietary software and system design portfolio, except for the tire and wastewater applications, were sold for $9,600,000 with EWI taking unsecured notes receivable as consideration (note 12); bearing effective interest at lesser of (i) 5% per annum and (ii) the rate prescribed by the Income Tax Act (Canada) for the purposes of section 143.2 calculated annually, due on December 31, 2014. | $9,600,000 | $9,600,000 |
| This represents the unsecured notes receivable on account of management fees receivable from the individual partners of the EWILP for the services provided to the EWILP, bearing interest at 5%, due on December 31, 2009. | 2,474,828 | 1,634,000 |

## 13 NOTES RECEIVABLE Continued)

| | March 31, 2008 | 2007 |
|---|---|---|
| Total Notes Receivable | $ 12,074,828 | $ 11,234,000 |
| Less: Current Portion | $ (766,081) | $ (905,542) |
| Long-Term Portion | $ 11,308,747 | $ 10,328,458 |

As part of the agreement for payment of interest and repayment of principal on the notes receivable the following was agreed: (a) 100% of the individual limited partner's share of any net profits of the business carried on by EWILP will be first allocated for payment to EWI for their portion of interest due and unpaid on the notes receivable and once fully paid then, (b) 55% of the individual limited partner's share of said profit will be allocated for payment to EWI for principal reduction, provided that, if any principal remains unpaid on December 31, 2014 with respect to an individual limited partner's proportionate share of their obligation to EWI, then such limited individual partner will repay their proportional share of the principal. (c) See last paragraph of note 12 above if notes remains unpaid.