ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ENVIRONMENTAL WASTE INTERNATIONAL INC.

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DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Environmental Waste International Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ENVIRONMENTAL WASTE INTERNATIONAL INC., which comprise the consolidated balance sheets as at December 31, 2010, and 2009, and the consolidated statements of operations, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ENVIRONMENTAL WASTE INTERNATIONAL INC. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $2,042,913 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceeded its current assets by $782,757. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

Rich Rotstein LLP

RICH ROTSTEIN LLP
Chartered Accountants
Licensed Public Accountants
Toronto, Canada
April 27, 2011

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010 AND 2009

ASSETS

	2010 $	2009 $
Current Assets		
Cash and cash equivalents	463,313	1,189,585
Accounts receivable (note 8)	21,942	318,505
Prepaid expenses and sundry (note 9)	616,523	18,310
	1,101,778	1,526,400
Property and equipment (note 4)	1,312,908	8,590
Goodwill (note 10)	2,552,184	0
Technology Rights (note 5)	100,000	150,000
Long term investment (note 11)	0	588,724
Total Assets	**5,066,870**	**2,273,714**

Approved by the Board:

"Stephen Simms" Director "William Bateman" Director

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010 AND 2009

LIABILITIES

	2010 $	2009 $
Current Liabilities		
Accounts payable and accrued liabilities	1,773,291	765,845
Debt component of convertible loans (note 12)	0	345,873
Deferred income - current (note 6)	0	43,307
Deferred revenue (note 7)	0	522,324
Current portion of mortgages payable (note 14)	111,244	0
	1,884,535	1,677,349
Long-term Liabilities		
Deferred income (note 6)	0	42,001
Loan payable - Northern Ontario Heritage Fund (note 13)	2,000,000	0
Mortgages payable (note 14)	773,756	0
Debt component of convertible loans (note 12)	377,162	0
	3,150,918	42,001
Total Liabilities	5,035,453	1,719,350
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock (note 17(b))	36,316,381	36,178,267
Contributed surplus (note 17(f))	2,225,667	1,802,868
Warrants (note 17(d))	926,141	926,141
Equity component of convertible loans (note 12)	119,838	169,127
Deficit	(41,486,591)	(39,424,384)
Total shareholders' equity (deficiency)	(1,898,564)	(347,981)
Non-Controlling interests (note 10)	1,929,981	902,345
Total equity (deficiency)	31,417	554,364
Total Liabilities and Equity	**5,066,870**	**2,273,714**

Going Concern (note 2)

Commitments (note 23)

Contingent Liabilities (note 25)

Subsequent Events (note 27)

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010 $	2009 $
DEFICIT - BEGINNING OF YEAR	(39,424,384)	(38,549,812)
Net Loss	(2,042,913)	(851,998)
Dividends paid on equity component of debt	(19,294)	(22,574)
DEFICIT - END OF YEAR	**(41,486,591)**	**(39,424,384)**

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010 $	2009 $
REVENUE		
Sales and other	53,850	87,034
Amortization of deferred income (note 6)	85,309	43,307
Consulting fees (note 7)	2,426,569	677,676
Foreign exchange (loss) gain	(5,159)	(4,862)
	2,560,569	803,155
EXPENSES		
Operating, labour and manufacturing expenses (note 7)	3,392,950	1,844,761
Research and development costs	0	70,873
Stock based compensation (notes 12, 17(c))	253,672	273,197
Amortization of property, equipment and technology rights (notes 4, 5)	53,775	52,548
Interest - convertible debt (note 12)	39,497	46,631
Interest - mortgages payable (note 14)	14,704	0
Scientific research and investment tax credits (note 16)	(10,568)	(33,454)
	3,744,030	2,254,556
LOSS BEFORE THE UNDERNOTED:	(1,183,461)	(1,451,401)
OTHER ITEMS		
Interest income	13,635	3,639
Gain on sale of partnership units	74,994	729,169
Loss on equity investment (note 11)	(835,494)	(311,276)
Loss on repayment of convertible loans (note 12)	(169,127)	0
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	(2,099,453)	(1,029,869)
PROVISION FOR INCOME TAXES (note 24(a))	0	0
NON-CONTROLLING INTERESTS (note 10)	56,540	177,871
NET LOSS	**(2,042,913)**	**(851,998)**
BASIC AND DILUTED (LOSS) PER SHARE	(0.026)	(0.011)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	**77,960,598**	**74,074,077**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	**83,580,663**	**77,308,692**

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010 $	2009 $
OPERATING ACTIVITIES		
Net loss for the year	(2,042,913)	(851,998)
Items not affecting cash		
Amortization of property, equipment and technology rights	53,775	52,548
Amortization of deferred income	(85,309)	(43,307)
Loss on equity investment	835,494	311,276
Loss on repayment of convertible loans	169,127	0
Gain on sale of partnership units	(74,994)	(729,169)
Stock based compensation	253,672	273,197
Non-Controlling interests	(56,540)	(177,871)
	(947,688)	(1,165,324)
Changes in non-cash working capital items		
Accounts receivable	565,734	24,170
Prepaid expenses and sundry	(25,961)	4,906
Deferred revenue	(522,324)	522,324
Accounts payable and accrued charges	(36,221)	503,216
CASH USED IN OPERATING ACTIVITIES	(966,460)	(110,708)
INVESTING ACTIVITIES		
Purchase of capital assets	(2,684)	(8,359)
Long term investments (note 11)	0	(900,000)
CASH USED IN INVESTING ACTIVITIES	(2,684)	(908,359)
FINANCING ACTIVITIES		
Repayment of loans	(515,000)	(79,085)
Proceeds from debt component of convertible loans	377,162	0
Cash acquired on acquisition	1,457	0
Proceeds from issuance of common stock	138,114	906,500
Proceeds on the sale of partnership units	140,595	1,067,169
Increase (reduction) in the equity component of convertible loans	119,838	(7,582)
Distributions paid on equity component of convertible loans	(19,294)	(22,574)
CASH PROVIDED BY FINANCING ACTIVITIES	242,872	1,864,428
NET INCREASE (DECREASE) IN CASH	(726,272)	845,361
Cash - beginning of year	1,189,585	344,224
CASH AND TERM DEPOSITS - END OF YEAR	**463,313**	**1,189,585**
OTHER CASH FLOW INFORMATION:		
Interest paid	54,201	46,631
Distributions paid on convertible debt equity component	19,294	22,574

The accompanying notes are an integral part of these financial statements

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 and dealing with environmental waste disposal, including the development, advancement, 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 ("CGAAP") applicable to a going concern which assumes that the Company will be able to realize its assets, and discharge its liabilities in the normal course of business.These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company incurred a net loss of $2,042,913 during the year ended December 31, 2010 and, as of that date, has a working capital deficiency of $782,757 (2009 – $150,949) and a cumulative deficit of $41,486,591 (2009 - $39,424,384). As such, the Company’s ability to continue as a going concern is in significant doubt. 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.

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 years ended December 31, 2010 and 2009 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with CGAAP.

The preparation of financial statements in conformity with CGAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities, 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 of Subsidiaries and Variable Interest Entities ("VIEs")

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Environmental Waste Management Corporation "EWMC", Jaguar Carbon Sales Limited, EWI Rubber Inc. and 2228641 Ontario Limited and variable interest entities, Environmental Waste International Limited Partnership ("EWILP") and Ellsin Environmental Ltd. ("Ellsin"), for which the Company is the primary beneficiary. All inter-company transactions and balances have been eliminated on consolidation. The

activities of the subsidiaries are currently immaterial. Inter-company transactions for Ellsin for the period November 1, 2010 to December 31, 2010 have been eliminated on consolidation.

In general a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that lack the power to make significant decisions about activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

Accounting Guideline 15 (AcG-15) requires a VIE to be consolidated if a variable interest holder (a party with an ownership, contractual or other financial interest in the VIE) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became a primary beneficiary. Please refer to notes 10 and 15.

(c) Investments Subject to Significant Influence

Investment in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost plus the Company's share of income or loss to the date less dividends received.

Other investments, where the Company exercises neither significant influence nor control or joint control are carried at cost. If there is other than a temporary decline in value, investments carried at cost are written down to provide for the loss.

The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee (see note 11).

(d) Technology Rights

Technology represents the cost of acquired technology. The technology rights' valuation is tested for impairment annually, or 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 fiscal 2007. Amounts related to this transaction have been eliminated on consolidation

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(e) 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.

(f) Goodwill

Goodwill results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination. Goodwill is not amortized, but tested for impairment annually or if events or changes in circumstances indicate that the asset might be impaired.

(g) Revenue Recognition

Revenue is recognized when all of the following criteria have been met: persuasive evidence of an arrangement exits; 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.

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.

When there is uncertainty as to ultimate collection, the Company's policy is to recognize the revenue only as cash is received.

Any other billings or cash received in advance of sales are being recorded as deferred revenue.

Royalties are recognized as earned when received from the sub-licencee or their agent.

The Tire processing fees will be recognized as income on receipt of cash from the licencee or their agent.

Other revenue is recognized at the time ownership transfers or services are rendered to the customer.

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

(h) 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 granted. The fair value of each option 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.

(i) 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.

(j) Basic and Diluted Loss Per Share

Basic loss per share has been computed by dividing net loss by the weighted average shares outstanding during the year. The Canadian Institute of Chartered Accountants ("CICA") recommends the use of the treasury stock method in computing diluted earnings/loss per share. Diluted loss per share is calculated using the treasury stock method in which 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. The diluted loss per share calculation excludes any potential conversion of options and warrants if their effect is anti-dilutive.

(k) Segmented Information

The Company has determined that it has one geographic segment and one operating segment. During fiscal 2010, all revenues from operations were derived from sources located in Canada and United States and all identifiable assets were located in Canada (note 19).

(l) Government Assistance / Investment Tax Credits ("ITCs")

Government 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.

(m) 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.

(n) 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 liabilities are converted at the rates of exchange applicable at the dates acquired or incurred. Revenue 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.

(o) 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.

(p) 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 undiscounted 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 December 31, 2010, no such impairment has occurred.

(q) 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 property and equipment no longer contribute to the Company's ability to provide services, its carrying amount is written down to residual value.

Amortization is provided annually on property and equipment, 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
Building	-	4% declining balance
Equipment	-	30% declining balance

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

The building has not been amortized because it was not available for use during the year.

(r) Cash Equivalents

In the prior year, cash equivalents consists principally of highly liquid interest-bearing short-term deposits. The Company defines cash equivalents as highly liquid investments which are readily convertible into a known amount of cash, are subject to an insignificant risk of changes in value and have a maturity date of one year or less from the date of acquisition.

(s) Income Taxes

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilities 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 liabilities 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 uncertainty regarding realization of future tax assets.

(t) Product Warranty

The warranty period means:

Environmental Waste International Inc.

The warranty period for the products typically is one year. The product warranty accrual reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

EWI Rubber Inc.

The standard warranty for Tire Processing Systems covers all components for the first year except high wear items such as magnetrons which are covered only for the first two months. Optional warranties for all components, including high wear items, are available. Special warranty arrangements have been made for the TR900 Prototype System.

The product warranty accrual reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

No accrual was provided for the year ended December 31, 2010.

(u) Concentration of Credit Risk

The Company derived net sales and fees from two (2009 - 2) major customers amounting to approximately $2,473,812 representing 97% of total revenues (2009 - $735,444 representing 92% of total revenues).

FUTURE CHANGE IN ACCOUNTING POLICIES

On January 2009, CICA issued new Handbook Section 1582 “Business Combinations”, which provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company expects to adopt this standard on January 1, 2011.

In January 2009, the CICA issued the new handbook Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align CGAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in the parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in 2011 in connection with the conversion to IFRS.

In January 2006, the Canadian Accounting Standards Board (“AcSB”) announced its decision to replace CGAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The conversion to IFRS will impact the Company’s accounting policies, information technology and data systems, internal controls over financial reporting and disclosure controls and procedures.

The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations' implementation and post implementation. The scoping and planning phase (“Phase 1”) involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing an implementation plan and communication strategy. The detailed assessment phase (“Phase 2”) will result in the accounting policies and transitional exemptions' decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations' implementation phase (“Phase 3”) includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening

balance sheet at January 1, 2010, fiscal 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("Phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

The current focus of the project is identification of local level impacts for the opening balance sheet in each of the Company's operations, and finalization of the IFRS 1 transition exemptions to be taken. The following summary of opening balance sheet transitional provisions to be adopted and their likely impacts indicates the progress of our work in each topic area identified as having a potential high impact. It is not an exhaustive list; if further transitional elections are found to be beneficial to the transition process as the opening balance sheet preparation progresses, then such exemptions may be taken.

Property and equipment: No transitional elections will be taken. The Company will retain assets at historical costs upon transition rather than taking the allowed election to recognize assets at fair value.

The technical analysis completed by the Company has indicated that the transition to IFRS will not have a material impact on the Company's fixed asset or associated accumulated amortization balance upon transition.

4. PROPERTY AND EQUIPMENT

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	68,260	0	68,260
Building	1,237,147	0	1,237,147
Computer equipment	18,837	15,109	3,728
Equipment	12,235	8,462	3,773
	1,336,479	23,571	1,312,908

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computer equipment	16,151	12,951	3,200
Equipment	12,235	6,845	5,390
	28,386	19,796	8,590

5. TECHNOLOGY RIGHTS

	2010	2009
	$	$
2002 Value	500,000	500,000
Accumulated amortization	(400,000)	(350,000)
	100,000	150,000

6. **DEFERRED INCOME**

The amortization is calculated on a straight line basis over the initial lease term of the Company's premises, being 60 months. During the year the Company moved to a new location resulting in the termination of the previous lease. Accordingly the Company has recognized the full remaining unamortized balance as income in the current year.

	2010 $	2009 $
Opening balance (note 22(a))	85,308	128,615
Amortization during the year	(85,308)	(43,307)
	0	85,308
Less current portion	0	(43,307)
	0	42,001

7. **DEFERRED REVENUE**

The Company, through its subsidiary EWI Rubber Inc., is building a Prototype tire processing system based on the Reverse Polymerization Process developed by EWI. Deferred Revenue has been recognized based on the percentage of completion method. An amount of $2,426,569 for the year ended December 31, 2010 (2009 - $677,676) is reflected as Revenue, $nil (2009 - $522,324) as Deferred Revenue and manufacturing costs of $1,995,776 (2009 - $423,407) reflected in operating, labour and manufacturing expenses. These transactions reflect activity related to Ellsin prior to November 1, 2010 (note 10).

8. **ACCOUNTS RECEIVABLE**

Accounts receivable are recorded at cost less provision for doubtful accounts.

9. **PREPAID EXPENSES AND SUNDRY**

The balance predominately consists of deposits on a large piece of machinery delivered to the company subsequent to the year end.

10. **VARIABLE INTEREST ENTITIES AND NON-CONTROLLING INTERESTS**

The Company is the primary beneficiary of two variable interest entities ("VIEs") as defined under Accounting Guideline 15 (AcG-15).

Ellsin

The Company holds a 37.5% interest in Ellsin Environmental Ltd ("Ellsin"). On January 27, 2011, the Company completed the acquisition of Ellsin. As of November 1, 2010, the Company entered into negotiations to acquire the remaining 62.5% ownership of Ellsin and commenced providing financing for the completion of the TR900 pilot plant tire system. In addition, the Company began providing operational and advisory services to Ellsin from that day. As a result of the Company's equity interest, financing and other advisory services, the Company has determined that it is the primary beneficiary as defined by the CICA's handbook Accounting Guideline 15, Consolidation of Variable Interest Entities, and accordingly, the Company has consolidated the results of Ellsin from November 1, 2010 to December 31, 2010. Goodwill recognized in the transaction amounted to $2,552,184 and the non-controlling interest in the entity is presented separately.

EWILP

The Company holds an indirect 46.66% interest in the EWILP. The assets, liabilities, revenues and expenses of EWILP have been consolidated into these financial statements. The interest in the current period loss and net equity of EWILP not owned by the Company, is disclosed as non-controlling interests on the statement of operations and in liabilities on the balance sheet. The proceeds on sale of partnership units represents the Company's share of gain on sale of partnership units to arm's length investors in the partnership. The 53.34% non-controlling interest in the EWILP is presented separately.

(a)

Reconciliation of Non-Controlling Interest:

	2010 $	2009 $
EWILP		
Opening balance	902,345	442,364
Share of proceeds on sale of partnership units	65,601	637,852
Share of loss	(56,540)	(177,871)
	911,406	902,345
Ellsin		
Consideration owing for the acquisition of 62.5% interest subsequent to year end.	1,018,575	0
Total non-controlling interest	1,929,981	902,345

(b)

A summary of financial information relating to EWILP included in these consolidated financial statements is as follows:

	2010 $	2009 $
Assets		
Cash	2,050	0
Accounts receivable	9,113	311,577
Total Assets	11,163	311,577
Liabilities		
Bank overdraft	0	50,043
Accounts payable	8,550	9,289
Total Liabilities	8,550	59,332
Expenses		
Bank charges	97	50
Marketing expense	135,099	337,146
Office and general	730	534
Professional fees	(14,753)	43,476
Total Expenses	121,173	381,206

EWI does not have legal control of the assets and liabilities of EWILP.

11. LONG-TERM INVESTMENT (DEFICIENCY) EQUITY

Investment in Ellsin Environmental Ltd. ("Ellsin"):

		2010 $	2009 $
(a)	Opening balance	588,724	0
	During 2009, the Company acquired 37.5% of the common shares of Ellsin.	0	900,000
	Loss on equity investment to October 31, 2010	(835,494)	(311,276)
	Total (deficiency) investment	(246,770)	588,724
	Eliminated on acquisition (note 10)	246,770	0
	Balance	0	588,724

The Company has two directors in common with Ellsin. Until October 31, 2010, the Company accounted for this investment using the equity accounting method as the Company had significant influence over Ellsin. The Company has recorded its equity share of Ellsin's loss of $835,494 during the period ended October 31, 2010 (2009 - $311,276). Subsequent to October 31, 2010 Ellsin has been accounted for as a VIE (note 10).

12. DEBT COMPONENT OF CONVERTIBLE LOANS

All loans bear monthly interest at the rate of 10%. The interest is payable monthly. The loans consist of the following:

		2010 $	2009 $
(a)	Fiscal 2009 balance was paid during the year. A new loan from a relative of the president of the Company convertible for common shares at the rate of $0.35 per share and is due on April 9, 2012.	228,422	186,000
(b)	Fiscal 2009 balance was paid during the year. New loan from directors convertible to common shares at the rate of $0.35 per share and is due on April 9, 2012.	148,740	62,373
(c)	Loans from directors convertible to common shares at the rate of $0.13 per share, were due on January 31, 2008. The maturity date has been extended to September 30, 2010. These loans were paid during the year.	0	97,500
	Total long-term debt	377,162	345,873
	Less: current portion	0	(345,873)
		377,162	0

In 2004, as required by CGAAP, 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 two years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the Company allocated $267,000 of the gross proceeds received to debt and $163,000 to equity ($20,000 of such debt was repaid in 2008 (2007 - $10,000)).

Again in 2007, the Company borrowed $115,000 from five directors of the Company. The loan is in the form of $55,200, 12% secured loans and a 12% convertible debentures for a balance principal amount of $59,800. The debenture expired on December 31, 2008. As required by CGAAP, 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 4.25%, an expected life of approximately one year, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company allocated $97,500 of the gross proceeds received to debt and $17,500 to equity. These loans were paid during the year and proportionate balance recorded as equity have now been recorded as related to the loss on payment of convertible debt.

During fiscal 2010, the above convertible loans were repaid at the original issue amount and the unamortized equity component (discount) has been written off as a loss on repayment of convertible loans.

During fiscal 2009, the Company negotiated an extension of its $515,000 debt due on September 30, 2009 to September 30, 2010. As an incentive to extend the repayment date, the Company issued 515,000, two year $0.20 warrants. The fair value of these warrants was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 100%; risk free interest rate of 1.36% and an average expected life of two years, and $8,046 was recorded as Stock-based compensation.

In 2010, the Company borrowed $497,000 from five directors of the Company. The loan is in the form of 10% unsecured loans with the feature to covert it to equity, the loan is due on April 9, 2012. As required by CGAAP, 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 10%, 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 1.75%, an expected life of approximately 18 months, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company allocated $377,162 of the gross proceeds received to debt and $119,838 to equity.

Interest payments in the year 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 10%. During the year, $19,294 interest paid on the equity portion of the loan paid off on September 30, 2010 and a new loan obtained in 2010, was allocated to equity as a distribution on the equity component.

13. LOAN PAYABLE - NORTHERN ONTARIO HERITAGE FUND

	2010 $	2009 $
A non-revolving term loan of $2,000,000 from the Northern Ontario Heritage Fund Corporation for the purchase of the TR900 pilot plant tire system. Terms and conditions include a fixed interest rate of 4.00% per annum compounded monthly, not in advance. The loan matures on March 23, 2020.	2,000,000	0
Less current portion	0	0
Balance	2,000,000	0

The blended principal and interest repayment against the above term loan is $27,337.61 per month. The interest payment on above loan will commence on the third anniversary of the closing date of this loan. The blended payment will start on the first day of the month following the month in which interest payment commences.

The security for the above bank loan :

(a) A General Security Agreement covering all assets other than real property of Ellsin Environmental Ltd.

(b) Assignment of all risks and fire insurance on the subject properties.

14. MORTGAGES PAYABLE

		2010 $	2009 $
(a)	First mortgage of $150,000 from Community Development Corporation of Sault Ste. Marie, term two (2) years, amortization period ten (10) years, bearing interest at 6% per annum calculated monthly, due on August 1, 2012.	150,000	0
(b)	Second mortgage bearing interest at 12%, term five (5) years, amortization period eight (8) years, due on April 15, 2015. Further, the borrower issued to each lender of the investor group one (1) common share purchase warrant of Ellsin for each one (1) dollar of principal advanced hereunder entitling the holder thereof to purchase one (1) common share of the debtor at an exercise price of two dollars (2) for the period of two (2) years from the date of issuance. These Ellsin warrants were cancelled as part of the EWI purchase of Ellsin.	735,000	0
	Total long-term debt	885,000	0
	Less: current portion	(111,244)	0
		773,756	0

The security for the above mortgages is as follows:

(a) Community Development Corporation of Sault Ste. Marie

(1) A promissory note in the amount of $150,000.

(2) A fixed and floating charge on the business assets of Ellsin Environmental Ltd. by way of General Security Agreement subordinate to the Northern Ontario Heritage Fund Corporation, covering all assets other than real property.

(b) The Shareholder Investor Group

(1) Second charge on the property, subordinate to the first charge of $150,000 of Community Development Corporation of Sault Ste. Marie.

(c) Principal repayments over the next five years are as follows:

	$
2011	111,244
2012	113,900
2013	114,680
2014	115,510
2015 and subsequent	429,666
	885,000

15. **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 subscriptions of 11,637 units as of December 31, 2010 (2009 -11,637). 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 $9,931,199 debt.

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 $6,600,000 in EWI stock at its then fair market value, based on the ten (10) day average trading price, to be not less than $0.50 per share.

EWILP has been accounted for as variable interest entity (note 3(b)).

16. SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDITS

The Company has outstanding claims for federal scientific research and experimental development tax credits (SR&ED tax credits) for the years 2004 through 2009 inclusive, the value of which is approximately $541,600. Since these claims have not been formally approved, the benefit thereof has not been reflected in these financial statements. The tax credits will be recorded in the year when reasonable assurance of their realization exists.

During 2010, the Company recognized SR&ED tax credits of $10,568 related to fiscal year 2009 (2009 - $33,454 related to fiscal year 2008), for which no accounting benefit was previously recognized. These SR&ED tax credits have been recorded as a reduction of expenses in the year of receipt.

17. CAPITAL STOCK

(a) Authorized:
Unlimited common shares

(b) Issued and outstanding:

	Number of Shares	Amount $
Balance at December 31, 2008	71,398,324	35,839,145
Private placement July 23, 2009 (i)	6,000,000	900,000
Share issue costs	0	(567,378)
Options exercised	50,000	6,500
Balance at December 31, 2009	77,448,324	36,178,267
Options exercised	950,000	138,114
Balance at December 31, 2010	78,398,324	36,316,381

(i) Private placement: 6,000,000 common shares at $0.15 per share

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

Pursuant to non-brokered private placement on July 23, 2009, the Company issued 6,000,000 units, consisting of one common share at $0.15 and one warrant. Each warrant entitles the holder to acquire one additional common share at $0.20 per share before July 23, 2011. None of these warrants have been exercised to date.

(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 thereof 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 the options issued to date vest immediately and generally expire from one (1) to five (5) years from the date of Grant.

On June 16, 2010, at the Annual General and Special Shareholders' meeting, the shareholders approved the resolution to increase the number of common shares available for issue from 7,100,000 to 7,500,000 under the plan, representing less than 10% of the total number of shares in issue.

The Board also approved the addition of a six-month vesting period on all new options issued under the plan after June 27, 2007.

The following options to purchase shares were outstanding on December 31, 2010 and December 31, 2009.

	2010		2009	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at December 31, 2009	6,430,000	0.19	5,320,000	0.19
Exercised	(950,000)	(0.15)	(50,000)	(0.13)
Forfeited	(565,000)	0.20	(635,000)	(0.38)
Granted during the year	1,695,000	0.27	1,795,000	0.24
Outstanding at December 31, 2010	6,610,000	0.24	6,430,000	0.19

A summary of stock options outstanding at December 31, 2010 is set out below:

Outstanding and Exercisable Stock Options			
Exercise price $	Number of options	Weighted average remaining contractual life	Weighted average exercise price $
less than 0.25	3,495,000	1.91 years	0.15
0.25 - 0.30	2,715,000	3.36 years	0.28
0.35 - 0.40	400,000	4.21 years	0.35
	6,610,000	2.65 years	0.24

The fair value of these options were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 100%; risk free interest rates of 1.75% - 2.63%; and an expected life of 2 - 5 years. This generated an expense to stock-based compensation of $253,672 (2009 - $273,197).

(d) Warrants:

On April 17, 2009, the Company issued 515,000 warrants, each warrant entitles the holder to acquire an additional common share at $0.20 and expires on April 16, 2011. These warrants were exercised on April 15, 2011.

On July 23, 2009, the Company issued 6,000,000 warrants, each warrant entitles the holder to acquire an additional common share at $0.20 and expires on July 22, 2011. None of these warrants have been exercised.

A summary of the status of the Company's warrants as at December 31, 2010 and changes during the year ended on that date are:

	2010	
	Warrants #	Weighted average exercise price $
Balance at December 31, 2009	6,515,000	0.20
Issued during the year	0	0.00
Exercised during the year	0	0.00
Expired during the year	0	0.00
Outstanding at December 31, 2010	6,515,000	0.20

A summary of warrants outstanding at December 31, 2010 is set out below:

Outstanding and Exercisable Warrants			
Exercise price $	Number of options	Weighted average remaining contractual life	Weighted average exercise price $
0.20	6,515,000	0.54 years	0.20

(i) The fair value of these warrants was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 100%; risk free interest rate of 1.36% and an average expected life of 2 years.

Reconciliation:

	Number of Warrants	Amount $
Balance - December 31, 2008	2,000,000	358,763
Warrants expired in 2009	(2,000,000)	0
Warrants granted in 2009	6,515,000	567,378
Balance - December 31, 2009 and 2010	6,515,000	926,141

(e) Per Share Amounts:

For the year ended December 31, 2010, the weighted average number of shares were 77,960,598 (2009 - 74,074,077). Diluted earnings per share reflect the exercise of options, warrants and convertible debt as if issued at the later of the date of grant or beginning of the year.

(f) Contributed Surplus:

	2010 $	2009 $
Balance, beginning of year	1,802,868	1,529,671
Stock options granted and/or vested during the period:		
Options issued	253,672	273,197
Equity component of convertible debt paid during the year (note 12)	169,127	0
Balance, end of year	2,225,667	1,802,868

18. RELATED PARTY TRANSACTIONS

During the year, the Company engaged in transactions in the normal course of operations with the following related parties, the total of these expenses included in the consolidated statement of operations and deficit are as follows:

Interest and distributions paid to the directors - $24,266 (2009 - $27,376) and to a relative of the President - $34,525 (2009 - $36,000) and $nil (2009 - $6,496) to a relative of a director.

During the year the Company recovered $11,100 for use of office space and paid rent of $2,000 from/to a Company in which the President and the CFO of EWI are shareholders.

During the year the Company incurred $15,520 legal expenses with a law firm, which has a partner, who is also a member of the Board of Directors (2009 - $47,012).

The Company recognized $2,426,569 revenues in fiscal 2010 (2009 - 677,676) and manufacturing costs of $1,995,776 (2009 - $423,407) from Ellsin, relating to the period prior to November 1, 2010.

A limited partner of the partnership is also a shareholder of the Company. Operating, labour and manufacturing expenses include marketing fees of $135,099 paid to a company owned by one of the general partners in EWILP.

Some of the directors of Ellsin (see (note 11)) are also shareholders of EWI.

19. SEGMENTED INFORMATION

The Company has determined that it has one geographic operating segment.

	2010 Revenues $	2009 Revenues $
North America	2,560,569	803,155

20. CAPITAL DISCLOSURES

Capital management:

The Company's objectives when managing its capital are:

(a) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;

(b) to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;

(c) to safeguard the Company's ability to obtain financing should the need arise; and

(d) to maintain financial flexibility in order to have access to capital in the event of future acquisitions and to improve current and new research and development for new technologies.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to

capital management during the fiscal year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

21. ACCOUNTING FOR FINANCIAL INSTRUMENTS

Financial instruments are defined under CGAAP as contracts that give rise to both financial assets and financial liabilities. In the balance sheet, this includes cash and cash equivalents, accounts receivable, loans payable and accounts payable and accrued liabilities. The fair values of cash and cash equivalents approximate their carrying value due to their short-term nature. The Company's accounts receivable, are classified as loans and receivables, loans payable are classified as loans payable. Accounts payable and accrued liabilities are classified as other financial liabilities, the fair values of which approximate their carrying values due to the short-term nature of these instruments. The carrying values of financial instruments approximate fair values unless otherwise indicated.

The carrying amount of the Company's long-term investments is dependant on the underlying operations and accordingly a fair value is based on management's best estimate using inputs that are not based on directly observable markets.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at December 31, 2010 and 2009 due to the short term maturity of these instruments.

Risk Management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks to the extent possible on a cost effective basis. The Company does not enter into derivative financial agreements for speculative purposes.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and term deposits. The Company limits its exposure to credit risk with respect to cash and term deposits by ensuring available cash is deposited with reputed banks in Canada all of which have a credit rating of A or better.

The Company's exposure to credit risk was as follows:

	December 31 2010	December 31 2009
	$	$
Cash and term deposits	463,313	1,189,585
Accounts receivable	21,942	318,505
	485,255	1,508,090

The Company's credit risk is primarily attributable to uncertainties relating to timing and collectability of its long term notes receivable from the Limited Partnership (EWILP) and its

individual partners. Company management believes its credit risk is low as it expects EWILP units will be fully subscribed and that EWILP will commercially exploit the Company's product lines and expand market penetration during the course of the agreement. The Company expects EWILP will generate enough revenue and cash to fulfill its debt obligations owing to the Company. Amounts related to notes receivable have been eliminated on consolidation. In addition the Company takes into account the debtor's payment history, credit worthiness and the economic environment in which it operates to assess impairment. Based on the above, management believes that the credit risk concentration with respect to this financial instrument is low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had cash on hand of $463,313 (2009 - $689,585), the Company had nil (2009 - $500,000) in term deposits, available to be drawn on to pay its liabilities.

The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and acquire or dispose of rights to certain intellectual property assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. In order to maximize ongoing development efforts, the Company does not pay out dividends on common shares.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations.

Foreign Currency Risk

As at December 31, 2010, the Company determined change in the U.S. dollar exchange rate would not impact net earnings and is not exposed to significant foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company is exposed to interest rate fluctuations related to interest earned on term deposits. The Company has performed sensitivity analysis on interest rate risk at December 31, 2010 to determine how a change in interest rates would impact equity and net earnings. Since this balance carries a fixed rate of interest, management does not expect change in the current rate of interest and accordingly, is not exposed to any interest rate risk.

The risk that the Company will realize a loss as a result of a decline in the fair value of the notes receivable or pay more interest on loans payable is limited because the majority of these instruments bear a fixed rate of interest and are generally held to maturity.

22. OTHER ITEMS

(a) Sale of Real Property

In 2006, the Company disposed of land and building under the terms of a sale-leaseback transaction. A portion of the gain in the amount of $216,533 has been deferred and is being amortized to income over the term of the lease (see note 6).

23. COMMITMENTS

The Company is committed under a long-term lease for premises which expires on May 31, 2015. The Company has the right to terminate this lease upon giving the landlord 60 days written notice after first year of the lease term of its intention to terminate. The Company has no plans to give such notice at the current time. Starting in the third year of the lease, in addition to basic rent and operating expenses, the Company will start paying its share of realty taxes as well.

Future approximate minimum lease payments for the ensuing five years, including estimated tenant's share of operating expenses and realty taxes, required under leases for the rental of premises are as follows:

	$
2011	105,600
2012	105,600
2013	96,000
2014	96,000
2015	96,000

24. INCOME TAXES

(a) Provision of Income Taxes

The provision for income taxes differs from that calculated by applying statutory rates for the following reasons:

	2010 $	2009 $
Net income (loss) before income taxes	(2,042,913)	(851,998)
Expected income tax expense (recovery) based upon the combined Canadian federal and provincial expected tax rates of 31.00% and (2009 - 33.00%)	(633,303)	(281,159)
Adjustments to tax benefit resulting from:		
Permanent differences (items not deductible or taxable for tax purposes)	503,191	230,605
Timing differences	152,698	1,544,755
Benefit from application of prior year losses	(74,967)	0
Unrecorded tax benefit of losses	52,381	(1,494,201)
Provision for income taxes	0	0

(b) Future Income Tax Balances

The tax effect of temporary differences that gives rise to future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010 $	2009 $
Non-capital losses	374,785	1,483,510
SR&ED tax credits available	528,870	528,775
SR&ED expenditures applicable to future years	640,199	681,344
Timing differences resulting in potential future income taxes	735,466	858,358
Total net future tax assets	2,279,320	3,551,987
Valuation allowances	(2,279,320)	(3,551,987)
Total net future tax assets	0	0

(c) Tax Benefits Available

The Company has incurred the undernoted non-capital losses and has $1,208,986 of scientific research expenses for tax purposes, which are available to reduce future taxable incomes. The potential benefit of amounts from these non-capital losses, if any, are expected to approximate to 31%. Given the uncertainty of realization, no future asset or benefit has been recognized in these financial statements.

The estimated losses expire as follows:

	$
2015	289,146
2026	536,460
2029	112,274
2030	271,106
	1,208,986

25. CONTINGENT LIABILITIES

In 2000, a former officer commenced a wrongful dismissal action against the Company for $1,000,000 plus costs. In 2001, the former officer commenced a second claim against the Company relating to unpaid loans. The Company denies liability in either action, and has made no provision in the financial statements. These lawsuits are inactive.

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.

26. COMPARATIVE FIGURES

Certain 2009 comparative figures have been reclassified to conform to the current year's financial statement presentation.

27. SUBSEQUENT EVENTS

On January 24, 2011, the Company closed a private placement for 5,000,000 Units with gross proceeds of $1,750,000, less agent fees of $36,289 payable to arm's length parties. Each $0.35 Unit consists of one common share and one half of a Share Purchase Warrant. A whole Share Purchase Warrant allows for the purchase of one additional common share of EWI at a price of $0.50 through January 23, 2013. All shares issued in the placement are subject to a hold period that expires May 24, 2011.

On January 27, 2011, the Company announced that it had completed the acquisition of Ellsin Environmental Ltd. (Ellsin). EWI issued 2,263,500 of its common shares and now owns 100% of Ellsin. The acquisition has received approval from all regulatory and government entities involved in the TR900 project in Sault Ste. Marie (SSM). All non-EWI directors and officers have resigned their positions in Ellsin. The acquisition gives EWI complete ownership of the TR900 project in SSM and returns the sales and marketing rights to EWI for the Tire Reduction systems in Canada and the United States.

On April 11, 2011, the Company announced that the installation phase of the TR900 System at the Ellsin Environmental Ltd. facility in Sault Ste. Marie is substantially complete.