

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
(Formerly: E.W.M.C. International Inc.)  
Consolidated Financial Statements  
December 31, 2001

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Auditors Report to the Shareholders

To the Shareholders of:  
ENVIRONMENTAL WASTE INTERNATIONAL INC.  
(Formerly: E.W.M.C. International Inc.)

I have audited the consolidated balance sheets of ENVIRONMENTAL WASTE INTERNATIONAL INC. as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Signed: "Wm. Andrew Campbell C.A."

Chartered Accountant  
Toronto, Ontario  
April 25, 2002

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ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Consolidated Balance Sheets  
December 31, 2001 and 2000

<u>Assets</u>	<u>2001</u>	<u>2000</u>
Current		
Cash	\$ 241,306	\$ 795,178
Accounts receivable	702,630	779,153
Prepaid expenses and deposits	<u>-</u>	<u>175,000</u>
	<u>943,936</u>	<u>1,749,331</u>
Other		
Capital assets (note 3)	1,391,112	224,741
Equipment held for demonstration or resale (net of accumulated depreciation of \$1,461,339); 2000 \$1,461,339)	1	1
Patents and technology (net of accumulated amortization of \$5,962,011; 2000 \$4,948,451)	<u>4,173,095</u>	<u>5,186,655</u>
	<u>5,564,208</u>	<u>5,411,397</u>
	<u>\$ 6,508,144</u>	<u>\$ 7,160,728</u>
<u>Liabilities</u>		
Current		
Accounts payable and accrued liabilities	\$ 363,417	\$ 345,080
Customer deposits	337,100	110,000
Mortgage payable (note 5)	845,157	-
Loans and advances from related parties (Note 4)	<u>59,000</u>	<u>134,000</u>
	<u>1,604,674</u>	<u>589,080</u>
<u>Shareholders Equity</u>		
Share Capital (Note 6)	32,949,842	31,393,308
Deficit (Page 4)	<u>(28,046,372)</u>	<u>(24,821,660)</u>
	<u>4,903,470</u>	<u>6,571,648</u>
	<u>\$ 6,508,144</u>	<u>\$ 7,160,728</u>

See Commitments and Contingencies (Note 7)

Approved on behalf of the Board of Directors:

(Signed) "Bill Bateman" Director

(Signed) "Stephen Simms" Director

See Auditors Report to Shareholders appearing on Page 2  
See accompanying Notes to Consolidated Financial Statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
 Consolidated Statements of Loss and Deficit  
 For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenue:		
Medical equipment sales	\$ 100,000	\$ 655,366
Foreign exchange gains	83,812	-
Interest income	<u>12,216</u>	<u>4,498</u>
	<u>196,028</u>	<u>659,864</u>
Operating Expenses:		
Operations, general and administration	2,211,416	2,190,926
Research and development	16,884	9,157
Amortization and depreciation	<u>1,096,950</u>	<u>1,095,777</u>
	<u>3,325,250</u>	<u>3,295,860</u>
(Loss) before the following item:	(3,129,222)	(2,635,996)
Write down of obsolete equipment	(95,490)	-
Write down of pilot plant (net of direct expenses)	<u>-</u>	<u>(644,041)</u>
(Loss) for the year	(3,224,712)	(3,280,037)
Deficit, beginning of year	<u>(24,821,660)</u>	<u>(21,541,623)</u>
Deficit, end of year	<u>\$ (28,046,372)</u>	<u>\$ (24,821,660)</u>
Loss per share (note 8)	<u>\$ ( 0.060)</u>	<u>\$ ( 0.073)</u>

See Auditors Report to Shareholders appearing on Page 2  
 See accompanying notes to Consolidated Financial Statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Consolidated Statements of Changes in Cash Flows  
For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash provided by (used in):		
Operation Activities:		
Loss for the year	\$ (3,224,712)	\$ (3,280,037)
Add: items not affecting cash:		
Write off of obsolete computer equipment	95,490	-
Write down of pilot plant (net of direct expenses)	-	1,658,821
Amortization and depreciation	<u>1,096,959</u>	<u>1,095,777</u>
	(2,032,263)	(525,439)
Changes in non-cash operating working capital:		
Accounts receivable	76,523	(326,542)
Prepaid expenses and deposits	175,000	-
Accounts payable and accrued liabilities	18,337	(1,409,840)
Customer deposit	227,100	110,000
Loans from Directors	<u>(75,000)</u>	<u>75,000</u>
Provided by (Used in) Operating Activities	<u>(1,610,303)</u>	<u>(2,076,821)</u>
Financing Activities		
Deferred revenue	-	443,750
Issue of common shares for cash	1,556,534	2,358,479
Mortgage payable	<u>845,157</u>	<u>-</u>
Provided by (Used in) Financing Activities	<u>2,401,691</u>	<u>2,802,229</u>
Investing Activities		
Addition to capital assets	<u>(1,345,260)</u>	<u>-</u>
Provided by (Used in) Financing Activities	<u>(1,345,260)</u>	<u>-</u>
Increase (decrease) in cash	(553,872)	725,408
Cash, beginning of year	<u>795,178</u>	<u>69,770</u>
Cash, end of year	<u>\$ 241,306</u>	<u>\$ 795,178</u>

See Auditors Report to Shareholders appearing on page 2  
See accompanying Notes to Consolidated Financial Statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
December 31 2001

1. Nature of business and going-concern considerations

E.W.M.C. International Inc. was incorporated on September 9, 1985 under the Ontario Business Corporations Act. On July 12, 2001 the Company changed its name to Environmental Waste International Inc.

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

These financial statements have been prepared in accordance with generally accepted accounting principles 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. The Company has not yet attained commercial production and has no recurring sources of revenue. The Company is in significant need of additional financing to enable it to continue its business. In the absence of additional financing, the Company will not have sufficient funds to meet its obligations. Management continues to look at various alternatives to raise additional financing; however, there is no assurance that this will be successful.

If the going-concern basis was 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.

2. Significant accounting policies:

(a) Basis of presentation:

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

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

(b) Revenue recognition:

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

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

(c) Capital assets:

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

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

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ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
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2. Significant accounting policies (continued):

(d) Equipment held for demonstration or resale:

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

(e) Patents and technology:

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

(f) Research and development:

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

(g) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(h) Stock-based compensation:

The Company has a stock option plan. No compensation expense is recognized for this plan when stock options are issued to directors and employees. Any consideration paid by directors and employees on exercise of stock options is credited to share capital

(i) Income taxes:

On January 1, 2000, the Company adopted the liability method of accounting for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The recommendations have been applied retroactively, with no significant effect on the accounts of prior years. Future income tax relates to the expected consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment or substantive enactment.

(j) Financial instruments:

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial instrument is other than temporary, the financial instrument is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts. The carrying value of all of the Company's financial instruments included in the working capital approximates their fair values since these instruments have short-term maturity dates.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
December 31 2001

3. Capital assets

<u>2001</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 331,125	\$ -	\$ 331,125
Buildings	993,875	24,800	969,075
Computer equipment Equipment and furniture	435,994	344,202	91,792
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,760,994</u>	<u>\$369,002</u>	<u>\$ 1,391,992</u>
<u>2000</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer equipment	\$		
	855,970	719,555	136,415
Equipment and furniture	423,301	334,975	88,326
Forklift	<u>8,246</u>	<u>8,246</u>	<u>-</u>
	<u>\$ 1,287,517</u>	<u>\$ 1,062,776</u>	<u>\$ 224,741</u>

On September 4, 2001, Company acquired the Land and building located at 283 Station Street, Ajax, Ontario for \$1,325,000. The Company paid \$300,000 on closing and obtained a three-year vendor take back mortgage for \$850,000.

4. Loans and advances from related parties

The loans and advances from related parties are interest free and have no fixed repayment terms.

5. Mortgage payable

The mortgage payable is secured by the land and building located at 283 Station Street, Ajax, Ontario, bears interest at 7.5% and is due on September 4, 2004. Subsequent to the year end the Company paid an additional \$100,000 against the mortgage principal.

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
December 31 2001

6. Share Capital

(a) Issued and outstanding

	<u>2001</u>		<u>2000</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Authorized:				
Unlimited number of common shares				
Issued and Outstanding:				
Balance, beginning of year	48,548,910	\$ 31,393,308	40,670,584	\$ 29,034,829
Issued under Contract Settlement	210,000	83,800	50,000	50,000
Issued for cash:				
Warrants	-	-	1,259,583	296,603
Private Placements Under Employee option agreements	3,565,300	1,136,734	2,118,360	1,119,180
Under Option agreements	120,000	36,000	-	-
	<u>850,000</u>	<u>300,000</u>	<u>3,860,000</u>	<u>892,696</u>
 Balance, end of year	 <u>53,294,210</u>	 <u>\$ 32,949,842</u>	 <u>48,548,910</u>	 <u>\$ 31,393,308</u>

During 1999, under new management (as of September 23, 1999) a private placement was issued for 1,600,000 common shares at \$0.13 per share plus warrants exercisable for 1,600,000 common shares at \$0.20 for proceeds of \$208,000. During 1999 a total of 166,950 warrants were exercised for aggregate proceeds of \$241,390.

During 2000, the Company issued private placements totaling 2,118,360 units, 1,518,360 units entitled the holder to acquire one common share at \$0.50 and one half warrant exercisable at \$0.75, and 600,000 units which entitled the holder to acquire one common share for \$0.60 and one half warrant exercisable at \$0.75. Each full warrant entitled the holder to acquire one additional common share.

During 2000, 3,860,000 options were exercised under the option plan for aggregate proceeds of \$892,696.

During 2001 the Company issued private placements totaling 2,132,250 units as follows:

- 1,052,250 units entitling the holder to acquire one common share at \$0.50 and one half warrant. Each whole purchase warrant is exercisable into one common share at \$0.75 per share which expire July 27, 2003
- 1,080,000 units entitling the holder to acquire one common share at \$0.30 per share and one/half purchase warrant. Each whole purchase warrant entitles the holder to acquire one common share at \$0.50 per share, which expires on October 18, 2003.

- In addition 1,433,050 purchase warrants of the 1999 placement were exercised at \$0.20 per warrant resulting in proceeds of \$286,610. Each warrant entitled the holder to acquire one common share.

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
December 31 2001

6. Share Capital (continued):

As at December 31, 2001, there were 4,442,000 employee, officers and directors options outstanding exercisable at prices ranging from \$0.30 per share to \$0.90 per share with expiry dates up to October 25, 2006.

At December 31, 2001 there were 750,000 options outstanding under an agreement with the vendor of the building (see also note 3) to issue common shares as follows:

- 150,000 at \$0.50 per share until April 5, 2002 (expired)
- 300,000 at \$0.41 per share until May 2, 2002 (expired): and
- 300,000 at \$0.41 per share which expire on May 2, 2003

In addition there were options outstanding to purchase up to of 2,000,000 common shares; 1,000,000 exercisable at \$0.50, and 1,000,000 exercisable at \$1.00 both of which expire May 2, 2002. (Expired)

7. Contingent Liability

On May 20, 2000 a former officer commenced an action against the Company for \$1,000,000 plus costs alleging wrongful dismissal. The Company denies any liability, and has made no provision in the financial statements.

8. Loss per share:

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

2000	44,779,000
2001	51,900,000

9. Significant agreement:

The Company had entered into an agreement with an unrelated company, CLE Management Inc. ("CLE"), to use certain technology, patents and other information owned by CLE. The Company had agreed to make royalty payments to CLE totaling 50% of any licensing fees received and 20% on the net cost of each machine up to \$250,000 per machine sold, 15% on the net cost of each machine between \$250,000 and \$500,000 and 10% on the net cost of each machine in excess of \$500,000. During the fiscal year ended December 31, 2001 the Company purchased all rights and interests of CLE. The Company is under no obligation to make further royalty payments to CLE.

ENVIRONMENTAL WASTE INTERNATIONAL INC.  
Notes to Consolidated Financial Statements  
December 31 2001

10. Income taxes:

The Company's effective income tax rate differs from the amount that would be computed by applying the federal and provincial statutory rate of 43% (2000-43%) to the net loss for the year. The reason for the difference is as follows:

	2001	2000
Income tax recovery based on statutory rate	\$(1,414,000)	\$(1,410,000)
Unrecorded tax benefit of losses	1,414,000	1,410,000
	\$ -	\$ -

The Company and its subsidiaries have losses for income tax purposes of approximately \$28,900,000 available to offset future taxable income, the benefit of which has not been reflected in these financial statements and which expire approximately as follows:

2002	\$ 1,300,000
2003	3,000,000
2004	3,000,000
2005	4,000,000
2006	2,400,000
2007	1,400,000
2008	2,100,000
	\$ 28,900,000

11. Comparative figures:

Certain 2000 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2001.