

ANNUAL  
REPORT  
1997





E.W.M.C. International Inc.

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Dear Valued Shareholder:

Progress this past year has been reminiscent of a comment I recently heard:

***"The elevator to success is not in operation.  
The only way up is to take the stairs, one step at a time."***

Our climb has indeed been arduous, but despite the many hurdles, we continue to ascend the stairs, one step at a time.

Your concerns regarding our sales are understandable and appreciated. We too, are concerned with sales and have been working diligently with two objectives in mind. Firstly, we want to ensure that all potential sales are in the best interests of shareholders and E.W.M.C. alike. And secondly, we have positioned ourselves to be able to finalize all sales providing both short term *and* long term benefits, as speedily as possible.

Our efforts appear to be close to fruition; however, we feel no announcement should be made until we hold, in hand, the financial commitment of interested buyers. We hope, indeed anticipate we will be able to make significant announcements concerning our expanding sales opportunities very soon.

This year has been a hallmark year for improvement and refinement of the E.W.M.C. *Reverse Polymerization* Reduction Process. The E.W.M.C. *Reverse Polymerization* Medical Waste Reduction System has been upgraded to commercial status as of January '98. On-site inspection and testing by many prospective clients from around the globe, has resulted in their unanimous satisfaction with the capabilities of the System and their interest in involvement with E.W.M.C. It has been our task to investigate the viability of each of these possibilities.

As an entrepreneurial organization we realize that growth can only come by stretching our existing parameters, by exploring new opportunities, by maximizing the power of the latest technology, and by taking risks. To achieve successful growth we have been building a strong infrastructure to assist us stretch, explore and take educated risks. Your patience with E.W.M.C.'s entrepreneurial process has been noted. Your support and continued commitment to E.W.M.C. is appreciated. Your confidence in the future of E.W.M.C. will be amply rewarded.

We look forward to meeting with you once again, to outline our past achievements and highlight our plans and goals for the upcoming year, at our annual meeting.

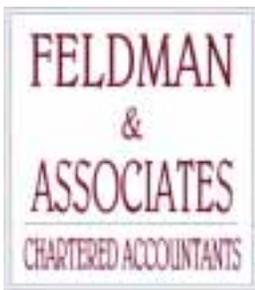
Yours sincerely,

Thomas A. Fairfull  
Chairman

Consolidated Financial Statements of

**E.W.M.C. INTERNATIONAL INC.**

Years ended December 31, 1997 and 1996



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of E.W.M.C. International Inc. as at December 31, 1997 and the consolidated statement of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The comparative figures as at December 31, 1996 and for the year then ended are based upon financial statements which were examined by other Auditors who expressed an unqualified opinion in their report dated February 18, 1997.

Toronto, Canada  
May 19, 1998

Chartered Accountants

# E.W.M.C. INTERNATIONAL INC.

Consolidated Balance Sheets

December 31, 1997 and 1996

	1997	1996
<b>Assets</b>		
Current assets:		
Cash	\$ 197,686	\$ 169,002
Accounts receivable	-	560,123
Prepaid expenses	648,764	458,085
	<u>846,450</u>	<u>1,187,210</u>
Pilot plant and other equipment (note 2)	2,953,682	3,785,334
Equipment held for demonstration or resale (net of accumulated depreciation of \$146,133; 1996 nil)	1,315,199	1,203,989
Patents and technology (net of accumulated amortization of \$1,908,669; 1996 \$1,127,892)	7,026,937	7,807,708
	<u>\$12,142,268</u>	<u>\$13,984,241</u>

## Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$1,504,225	\$1,559,366
Deferred revenue	443,750	306,000
Capital lease obligation - current portion	6,275	9,168
	<u>1,954,250</u>	<u>1,874,534</u>
Capital lease obligation	-	6,275
Shareholders' equity:		
Share capital (note 3)	25,334,814	22,403,814
Deficit	(15,146,796)	(10,300,382)
	<u>10,188,018</u>	<u>12,103,432</u>
Commitments (notes 4 and 6)		
	<u>\$12,142,268</u>	<u>\$13,984,241</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director

Director

# E.W.M.C. INTERNATIONAL INC.

## Consolidated Statements of Operations and Deficit

Years ended December 31, 1997 and 1996

	1997	1996
Revenue:		
Licensing fees	\$ 679,440	\$ 1,143,681
Interest income	4,421	12,088
	<u>683,861</u>	<u>1,155,769</u>
Expenses:		
Depreciation and amortization	1,819,288	1,498,371
Operations, general and administrative	2,536,384	3,172,389
Royalties (note 6)	339,720	264,600
Research and development	834,883	1,230,239
	<u>5,530,275</u>	<u>6,165,599</u>
Loss for the year	4,846,414	5,009,830
Deficit, beginning of year	10,300,382	5,290,552
Deficit, end of year	<u>\$15,146,796</u>	<u>\$10,300,382</u>
Loss per share (note 5)	\$ 0.22	\$ 0.27

See accompanying notes to financial statements.

# E.W.M.C. INTERNATIONAL INC.

## Consolidated Statements of Changes in Financial Position

Years ended December 31, 1997 and 1996

	1997	1996
Cash provided by (used in):		
Operations:		
Loss for the year	\$(4,846,414)	\$(5,009,830)
Depreciation and amortization which do not involve cash	1,819,288	1,498,371
Changes in non-cash operating working capital:		
Accounts receivable	560,123	(502,654)
Prepaid expenses	(190,679)	(260,149)
Accounts payable and accrued liabilities	(55,141)	506,901
Deferred revenue	137,750	181,120
	<u>(2,575,073)</u>	<u>(3,586,241)</u>
Financing:		
Capital lease obligation	(9,168)	(9,168)
Issue of share capital:		
For cash	2,931,000	4,874,938
For acquisition of patents and technology (note 3)	-	4,835,600
	<u>2,921,832</u>	<u>9,701,370</u>
Investments:		
Expenditures on pilot plant and other equipment	(60,732)	(628,304)
Expenditures on equipment held for demonstration or resale	(257,343)	(1,203,989)
Patents and technology (note 3)	-	(4,835,600)
	<u>(318,075)</u>	<u>(6,667,893)</u>
Increase (decrease) in cash position	28,684	(552,764)
Cash, beginning of year	169,002	721,766
Cash, end of year	<u>\$ 197,686</u>	<u>\$ 169,002</u>

See accompanying notes to financial statements.

# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Years ended December 31, 1997 and 1996

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

## 1. Significant accounting policies:

### (a) Basis of presentation:

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

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

The Company has recorded significant operating losses in each of the last three years during the start-up and testing of its technology. In addition, the Company has a working capital deficiency as at December 31, 1997. The ability of the Company to continue as a going concern depends on achievement of profitable operations and/or continued financing from shareholders or other sources.

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

### (b) Revenue recognition:

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

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

# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 2

Years ended December 31, 1997 and 1996

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## 1. Significant accounting policies (continued):

(c) Pilot plant and other equipment:

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

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

(d) Equipment held for demonstration or resale:

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

(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.

# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 3

Years ended December 31, 1997 and 1996

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## 1. Significant accounting policies (continued):

(h) Comparative figures:

Certain 1996 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1997.

## 2. Pilot plant and other equipment:

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

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

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# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 4

Years ended December 31, 1997 and 1996

## 3. Share capital:

### (a) Issued and outstanding

	1997		1996	
	Number	Amount	Number	Amount
Authorized:				
Unlimited number of common shares				
Issued and outstanding:				
Balance, beginning of year	19,772,153	\$22,403,814	15,952,181	\$12,693,276
Issued in exchange for territory rights	-	-	1,256,000	4,835,600
Issued for cash:				
Private placements	1,000,000	750,000	280,000	569,500
Under option agreements	2,493,334	2,181,000	2,260,162	4,219,722
Under warrant agreement	-	-	23,810	85,716
Balance, end of year	23,265,487	\$25,334,814	19,772,153	\$22,403,814

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

During 1997, the Company issued, under a private placement offering, 1,000,000 units for aggregate proceeds of \$750,000. Each unit is composed of one common share and one half share purchase warrant. One share purchase warrant will entitle the holder to acquire one common share of the Company at an exercise price of \$1.50 on or before June 22, 1998, or at an exercise price of \$1.75 on or before June 27, 1999.

During 1997, 2,493,334 options were exercised under the option plan for \$2,181,000. At December 31, 1997, there were options outstanding to acquire 850,000 of the Company's common shares at varying prices from \$1.20 to \$1.80 per share. The weighted average option price per share approximated \$1.74 as at December 31, 1997. These options expire on December 15, 1998.

Subsequent to December 31, 1997, the Company granted an additional 3,445,000 options at varying prices from \$0.50 to \$1.80 per share. The weighted average option price per share approximated \$0.61. Of these options, 1,150,000 options were exercised for proceeds of \$661,000.

# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 5

Years ended December 31, 1997 and 1996

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### 3. Share capital (continued):

#### (b) Stock purchase plan

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

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

Subsequent to December 31, 1997, the Company issued 560,000 common shares at \$0.80 per share under this plan. The Company assisted these employees in financing these purchases.

### 4. Commitments:

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

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

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1998	\$ 89,760
1999	104,468
2000	104,468
Thereafter	269,875
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	\$568,571

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### 5. Loss per share:

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

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1997	21,544,670
1996	18,554,925

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# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 6

Years ended December 31, 1997 and 1996

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## 6. Significant agreements:

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

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

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

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

## 7. Income taxes:

The Company and its subsidiaries have losses for income tax purposes of approximately \$9,400,000 available to offset future taxable income, the benefit of which has not been reflected in these financial statements and which expire approximately as follows:

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2000	\$ 800,000
2001	1,300,000
2002	1,300,000
2003	3,000,000
2004	3,000,000
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	\$9,400,000

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# E.W.M.C. INTERNATIONAL INC.

Notes to Consolidated Financial Statements, page 7

Years ended December 31, 1997 and 1996

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## 8. Segmented information:

Licensing fees by country are as follows:

	1997	1996
United States	\$679,440	\$ 529,600
Brazil	-	614,081
	<u>\$679,440</u>	<u>\$1,143,681</u>

## 9. Financial instruments:

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