

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Audited Financial Statements
Years Ended December 31, 2005 and 2004



HARVEY CANTOR
Professional Corporation

ENVIRONMENTAL WASTE INTERNATIONAL INC.

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Years Ended December 31, 2005 and 2004

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HARVEY CANTOR
Professional Corporation



HARVEY CANTOR PROFESSIONAL CORPORATION

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AUDITOR'S REPORT

To the Shareholders of Environmental Waste International Inc.

I have audited the consolidated balance sheet of Environmental Waste International Inc. as at December 31, 2005 and 2004 and the statements of operations, deficit and cash flow for the years then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
April 24, 2006

Chartered Accountant

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Consolidated Balance Sheet

Years ended December 31, 2005 and 2004

	2005	2004
ASSETS		
CURRENT		
Cash	\$ 232,090	\$ 250,174
Accounts receivable	4,951	60,083
Prepaid expenses	35,464	43,920
Government assistance receivable	67,123	632,819
	339,628	986,996
CAPITAL ASSETS (Note 3)	1,119,598	1,163,593
TECHNOLOGY RIGHTS (Note 4)	350,000	400,000
DEFERRED FINANCING CHARGES	10,694	16,445
	\$ 1,819,920	\$ 2,567,034
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 215,504	\$ 209,561
Loans payable (Note 5)	48,100	596,295
	263,604	805,856
Mortgages payable (Note 6)	1,128,000	850,000
Loans payable (Note 5)	367,000	-
	1,758,604	1,655,856
SHAREHOLDERS' EQUITY		
Share capital	35,145,408	35,145,408
Contributed surplus (Note 8)	1,178,558	952,056
Convertible debt (Note 5, 6)	335,000	-
Deficit	(36,597,650)	(35,186,286)
	61,316	911,178
	\$ 1,819,920	\$ 2,567,034

ON BEHALF OF THE BOARD

"Wm. Bateman" Director

"Stephen Simms" Director



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ENVIRONMENTAL WASTE INTERNATIONAL INC.**Consolidated Statement of Operations****Years Ended December 31, 2005 and 2004**

	2005	2004
REVENUE		
Sales and deposits realized	\$ 237,895	\$ 1,877,069
Foreign exchange (loss)/gain	(9,580)	49,750
	<u>228,315</u>	<u>1,926,819</u>
EXPENSES		
Operating, labour and manufacturing expenses	874,549	931,044
Research and development costs	500,175	511,439
Government assistance	(66,422)	(632,819)
Recovery of GST previously disallowed	(146,992)	-
Mortgage interest and financing costs (Note 6)	89,033	62,514
Loan interest (Note 5)	68,839	55,636
Amortization of capital assets and technology rights	93,995	97,381
	<u>1,413,177</u>	<u>1,025,195</u>
INCOME (LOSS)	(1,184,862)	901,624
Stock based compensation	(226,502)	(499,489)
NET INCOME (LOSS) FROM OPERATIONS	<u>\$ (1,411,364)</u>	<u>\$ 402,135</u>
Income (loss) per share	<u>\$ (0.0184)</u>	<u>\$ 0.0067</u>
Weighted average number of common shares outstanding	<u>62,720,316</u>	<u>60,195,000</u>

**HARVEY CANTOR**
Professional Corporation

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Consolidated Statement of Deficit

Years Ended December 31, 2005 and 2004

	2005	2004
DEFICIT - BEGINNING OF YEAR	\$ (35,186,286)	\$ (35,588,421)
NET INCOME (LOSS) FOR THE YEAR	<u>(1,411,364)</u>	<u>402,135</u>
DEFICIT - END OF YEAR	<u>\$ (36,597,650)</u>	<u>\$ (35,186,286)</u>



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The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Consolidated Statement of Cash Flow

Years Ended December 31, 2005 and 2004

	2005	2004
OPERATING ACTIVITIES		
Net income (loss)	\$ (1,411,364)	\$ 402,135
Items not affecting cash:		
Amortization of capital assets and technology rights	93,995	97,381
Stock based compensation.	226,502	499,489
Amortization of deferred financing charges	5,750	1,056
Deposits realized	-	(1,428,725)
	<u>(1,085,117)</u>	<u>(428,664)</u>
Changes in non-cash working capital:		
Accounts receivable	55,132	(35,837)
Accounts payable and accrued liabilities	5,944	(70,732)
Prepaid expenses	8,456	(22,389)
Government assistance receivable	565,696	(632,819)
	<u>635,228</u>	<u>(761,777)</u>
Cash flow used by operating activities	<u>(449,889)</u>	<u>(1,190,441)</u>
INVESTING ACTIVITY		
Purchase of equipment	-	(4,783)
Cash flow used by investing activity	<u>-</u>	<u>(4,783)</u>
FINANCING ACTIVITIES		
Repayment of loans	(448,195)	(15,205)
Proceeds from loans	430,000	430,000
Proceeds from long term financing	450,000	850,000
Long term financing charges	-	(17,500)
Repayments of loans by conversion to capital	-	(455,000)
Repayment of long term debt	-	(724,763)
Issuance of common shares	-	1,151,000
Cash flow from financing activities	<u>431,805</u>	<u>1,218,532</u>
INCREASE (DECREASE) IN CASH FLOW	(18,084)	23,308
Cash - beginning of year	<u>250,174</u>	<u>226,866</u>
CASH - END OF YEAR	\$ 232,090	\$ 250,174
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 89,033</u>	<u>\$ 62,514</u>

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

1. GOING CONCERN

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. 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, there is no assurance that this will be successful.

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

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's business is the design, development and sale of environmentally sound devices utilizing Environmental Waste International's patented Reverse Polymerization and dealing with environmental waste disposal, including the development, advancing, licencing and sale of its technology and related machines throughout the world.

Basis of consolidation

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

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and 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 goodwill. Actual results could differ from these estimates.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Capital assets

Land, building, plant and equipment are stated at cost less accumulated amortization. Building, plant and equipment are amortized over their estimated useful lives at the following rates and methods:

Building	5%	declining balance method
Equipment	30%	declining balance method

The Company regularly reviews its land, building, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of the related assets.

Technology rights

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

Foreign currency translation

Current monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange prevailing on the transaction date. Any resulting exchange gains and losses are included in the determination of earnings.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue recognition

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.

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

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

Stock based compensation

The Company adopted the fair value method (using the Black-Scholes option pricing model) of accounting for employee stock options effective January 1, 2003. The Company records compensation expense for all vested stock options granted on or after January 1, 2003 with a corresponding increase to contributed surplus. Compensation expense for options has been determined based on the estimated fair value's at the time of the grant, the cost of which is recognized over the vesting period of the respective options.

Basic and diluted loss per share

Basic loss per share has been computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options. The number of additional shares is calculated by assuming that outstanding dilutive securities have been exercised and the proceeds from such exercises have been used to acquire shares of common stock at the average market price during the reporting period.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Investment tax credits "ITCs"

ITCs and other governmental incentives relating to the acquisition of capital assets, including 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.

Research and development costs

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

3. CAPITAL ASSETS

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Land	\$ 331,125	\$ -	\$ 331,125	\$ 331,125
Building	1,036,078	254,246	781,832	822,981
Equipment	25,209	18,568	6,641	9,487
	<u>\$ 1,392,412</u>	<u>\$ 272,814</u>	<u>\$ 1,119,598</u>	<u>\$ 1,163,593</u>

4. TECHNOLOGY RIGHTS

	2005	2004
2002 Value	\$ 500,000	\$ 500,000
Accumulated amortization	(150,000)	(100,000)
	<u>\$ 350,000</u>	<u>\$ 400,000</u>

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

5. LOANS PAYABLE

All loans bear monthly interest at the rate of 12%. Interest payable monthly.

	2005	2004
Loan from a relative of the president of the Company bearing monthly interest at 12% per annum, convertible for common shares at the rate of \$0.50 per share and matured on October 21, 2005 and was repaid.		\$ 300,000
Loan from a relative of the president of the Company convertible for common shares at the rate of \$0.25 per share and matures on November 1, 2007.	\$ 186,000	
The loan from a relative of a director. The original maturity date was December 8, 2005. The maturity date has been extended to November 1, 2007.	100,000	100,000
Loans from directors convertible for common shares at the rate of \$0.50 per share. The loan matured on September 30, 2005 and was repaid.	-	130,000
Loans from directors convertible to common shares at the rate of \$0.25 per share, maturing on November 12, 2007.	81,000	-
Loan from director bearing interest at 12% per annum (prior years loan was non-interest bearing) and is due on demand.	48,100	66,295
	415,100	596,295
Principal due in one year	(48,100)	(596,295)
Principal due in 2007	\$ 367,000	\$ -

For accounting purposes, the convertible loans contain both a liability component and an equity component being the holder's conversion right, which have been separately presented on the consolidated balance sheets. The Company has allocated the \$430,000 face value of the convertible loans issued October 23, 2005, to the liability and equity components, proportionately, based on their respective fair values. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 20% for a debt instrument of comparable maturity and credit quality but excluding any conversion privilege by the holder. The fair value of the convertible right was measured using the Black-Scholes option pricing model, and was based on a risk free annual interest rate of 3.68%, an expected life of approximately 2 years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the Company has allocated \$267,000 of the gross proceeds received to debt and \$163,000 to equity. Interest is normally recognized by proportioning the liability component to the face value over the term of the convertible loans based on an annual interest rate of 12%. As the interest incurred in the year is not material no allocation to equity has been recorded.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

6. MORTGAGES PAYABLE (secured by land and building)

Both mortgages bear monthly payments of interest only until maturity.

	<u>2005</u>	<u>2004</u>
First mortgage bearing effective interest at 8.5% due on October 31, 2007.	\$ 850,000	\$ 850,000
Second mortgage bearing interest at 12%, convertible to common shares at the rate of \$0.225 per share maturing on November 1, 2007. Liability component only	<u>278,000</u>	-
	1,128,000	850,000
Principal payable within one year	<u>-</u>	<u>-</u>
Amount due in 2007	\$ 1,128,000	\$ 850,000

For accounting purposes, the second mortgage contains both a liability component and an equity component being the holder's conversion right, which has been separately presented on the consolidated balance sheets. The Company has allocated the \$450,000 face value of this mortgage, to the liability and equity components, proportionately, based on their respective fair values. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 20% for a debt instrument of comparable maturity and credit quality but excluding any conversion privilege by the holder. The fair value of the convertible right was measured using the Black-Scholes option pricing model, and was based on a risk free annual interest rate of 3.68%, an expected life of approximately 2 years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the Company has allocated \$278,000 of the gross proceeds received to debt and \$172,000 to equity. Interest is normally recognized by proportioning the liability component to the face value over the term of the mortgage based on an annual interest rate of 12%. As the interest incurred in the year is not material no allocation to equity has been recorded.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The following details the changes in the issued shares for the years ended December 31, 2005 and 2004.

	Quantity	2005	Quantity	2004
Issued and Outstanding:				
Balance, beginning of year	62,720,316	\$ 35,145,408	58,645,316	\$ 33,980,012
Issued for cash:				
Private placements	-	-	2,300,000	608,000
Employee Stock Options	-	-	425,000	88,000
Debt conversion	-	-	1,300,000	455,000
Stock-based compensation related to exercise of options	-	-		14,396
Shares issued in 2004, payment received in 2003	-	-	50,000	
	62,720,316	\$ 35,145,408	62,720,316	\$ 35,145,408

During 2004 the Company issued a private placement for 1,000,000 units consisting of one common share at \$.40 and one half warrant. Each warrant entitles the holder to acquire one additional common share at \$.60 per share before April 27, 2006.

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

LOSS PER SHARE

As the effect on any exercise of options, warrants or conversions of debt would be anti-dilutive, there is no disclosure in these financial statements of a diluted loss per share.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

8. STOCK BASED COMPENSATION PLAN

The Company maintains a Stock Option Plan for designated officers, directors, consultants and employees. Under the plan, each option term shall not exceed 5 years and each option shall be exercisable at a price not lower than the closing market price of the common share on the day immediately preceding the grant of the options. All options issued to date vest immediately.

The weighted average fair value of the options granted for the year was \$0.128 (2004 - \$0.278).

Stock option activity for 2005 and 2004 is presented below:

	Number	Weighted Average Exercise Price 2005	Number	Weighted Average Exercise Price 2004
Balance, beginning of year	4,994,000	\$ 0.39	4,149,500	\$ 0.38
Granted	1,775,000	0.22	1,797,500	0.36
Cancelled and expired	(2,500,000)	(0.44)	(528,000)	(0.33)
Exercised	-	-	(425,000)	(0.21)
Outstanding and exercisable at end of year	4,269,000	\$ 0.30	4,994,000	\$ 0.39

The following table summarizes information concerning outstanding exercisable options expiring up to June 22, 2010:

Range of prices	#	Weighted Average Remaining Life in Years	Weighted Average Exercise Price
Less than .25	1,125,000	3.75	0.22
0.25 - 0.30	1,444,000	1.36	0.26
0.35 - 0.40	1,700,000	2.69	0.38
	4,269,000	2.52	0.30

The Company has recognized a compensation expense of \$226,502 (2004 - \$499,489) using the Black Scholes method with estimated volatility of 137% (2004 - 145%) and an average risk free interest rate of 3.70% (2004 - 3.51%).

CONTRIBUTED SURPLUS

	2005	2004
Balance, beginning of year	\$ 952,056	\$ 466,962
Stock based compensation charge to earnings	226,502	499,489
Stock based compensation related to options excised	-	14,396
Balance, end of year	\$ 1,178,558	\$ 952,055

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

9. NON-CAPITAL TAX LOSSES AND OTHER AVAILABLE TAX DEDUCTIONS

The Company has incurred the undernoted losses and has \$831,544 of scientific research expenses for tax purposes which are available to reduce future taxable income. The potential benefits of these amounts, if any, are expected to approximate between 33 to 36%. The benefits will only be recognized in the tax provision in the year realized or when virtual certainty of application exists. The estimated losses and expiry dates are as follows:

2006	\$ 300,000
2007	2,200,000
2008	2,100,000
2009	8,300,000
Thereafter	1,100,000
	<u>\$ 14,000,000</u>

The Company also has approximately \$118,000 in Federal investment tax credits carried forward which are available to reduce future taxes. The benefits will only be recognized in the tax provision in the year realized or when virtual certainty of application exists.

10. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short terms to maturity of these assets. The Company's long-term debt is not publicly traded therefore quoted market prices are not available.

The Company is not exposed to significant interest, currency or credit risks.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

11. 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.

During the 2004 year a supplier commenced an action against the Company relating to unpaid amounts under a contract for components approximating \$60,000. The Company is counter suing for a greater amount as the product was defective. As the outcome of this claim is not determinable no provision has been made within these financial statements.

During the 2004 year the Company recognized approximately \$1,700,000 as revenue related to non-refundable deposits. During the year one of the customers has commenced legal action to recover approximately \$280,000 (US\$225,000). Management is of the opinion that the threatened action is without merit and has made no provision for the claim.

In December 2005, a former officer commenced an action against the Company for approximately \$385,000 plus costs. The claim alleges damages for wrongful dismissal, failure to pay salary and benefits plus damages for lost stock option benefits. The Company has counter sued for approximately \$17,000. The Company believes the action is frivolous and without merit and has made no provision for the claim.

Warranties and Guarantees

In 2005, the Company sold a limited warranty expiring December 7, 2009 on an installed system. As at December 31, 2005 accounts payable includes a liability of \$88,608 for future warranty costs. Managements best estimate is that this amount is an adequate provision against future potential liabilities.

The only significant guarantee the Company has provided to third parties is:

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.

12. SUBSEQUENT EVENTS

Subsequent to the year end the Company completed a private placement for 4,000,000 units. Each unit consists of one common share at \$0.12 and one half of a share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one additional share at \$0.16 for a period of two years from the date of issue.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Financial Statements

Year Ended December 31, 2005

13. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.
