

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Index to the Consolidated Financial Statements

DECEMBER 31, 2008 AND 2007

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AUDITORS' REPORT

**To the Shareholders of
Environmental Waste International Inc.**

We have audited the consolidated balance sheet of ENVIRONMENTAL WASTE INTERNATIONAL INC. as at December 31, 2008 and 2007 and the statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Rich Rotstein LLP

RICH ROTSTEIN LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
April 13, 2009

ENVIRONMENTAL WASTE INTERNATIONAL INC.

**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008 and 2007**

	2008	2007
	\$	\$ Restated
Current Assets		
Cash	344,224	483,281
Accounts receivable	46,333	19,673
Prepaid expenses and sundry	<u>23,216</u>	<u>33,186</u>
	<u>413,773</u>	<u>536,140</u>
Property and equipment (note 7)	<u>2,778</u>	<u>4,630</u>
Technology Rights (note 8)	<u>200,000</u>	<u>250,000</u>
Total Assets	<u><u>616,551</u></u>	<u><u>790,770</u></u>

Approved by the Board:

_____ "Sam Geist" _____ Director _____ "William Bateman" _____ Director

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008 AND 2007****LIABILITIES**

	2008 \$	2007 \$ Restated
Current Liabilities		
Accounts payable and accrued liabilities	266,138	184,430
Loans payable (note 13)	86,667	469,500
Deferred income - current (note 9)	<u>43,307</u>	<u>43,307</u>
	<u>396,112</u>	<u>697,237</u>
Long-term Liabilities		
Deferred income (note 9)	85,308	128,615
Loans payable (note 13)	338,291	0
Non-Controlling interests (note 12)	<u>442,364</u>	<u>190,320</u>
	<u>865,963</u>	<u>318,935</u>
Total Liabilities	<u>1,262,075</u>	<u>1,016,172</u>

SHAREHOLDERS' DEFICIENCY

Capital stock (note 15(b))	35,839,145	35,816,645
Contributed surplus (note 15(f))	1,529,671	1,450,992
Warrants (note 15(d))	358,763	358,763
Convertible debt (note 13)	176,709	180,500
Deficit	<u>(38,549,812)</u>	<u>(38,032,302)</u>
	<u>(645,524)</u>	<u>(225,402)</u>
Total Liabilities and Shareholders' Deficiency	<u><u>616,551</u></u>	<u><u>790,770</u></u>

Going Concern (note 2)

Commitments (note 19)

Contingent Liabilities (note 23)

Subsequent Event (note 25)

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008 \$	2007 \$ Restated
DEFICIT - BEGINNING OF YEAR		
As previously stated	(27,346,555)	(37,467,368)
Prior period adjustment (note 11)	<u>(10,685,747)</u>	<u>0</u>
As restated	(38,032,302)	(37,467,368)
 Net Loss	 (494,453)	 (544,470)
 Dividends paid	 <u>(23,057)</u>	 <u>(20,464)</u>
 DEFICIT - END OF YEAR	 <u>(38,549,812)</u>	 <u>(38,032,302)</u>

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008 \$	2007 \$ Restated
REVENUE		
Sales and other	157,151	218,005
Amortization of deferred income (note 9)	43,307	43,307
Foreign exchange (loss) gain	<u>9,429</u>	<u>(8,994)</u>
	<u>209,887</u>	<u>252,318</u>
EXPENSES		
Operating, labour and manufacturing expenses	748,063	618,294
Research and development costs	222,638	309,102
Stock based compensation (note 15(c))	78,679	128,736
Amortization of property, equipment and technology rights	51,851	51,893
Loan interest (note 13)	49,566	46,247
Scientific research and investment tax credits (note 16)	<u>(42,527)</u>	<u>(58,912)</u>
	<u>1,108,270</u>	<u>1,095,360</u>
LOSS BEFORE THE UNDERNOTED	(898,383)	(843,042)
OTHER ITEMS		
Interest income	3,000	0
Gain on sale of partnership units (note 12)	385,190	298,809
Gain on sale of property and equipment	0	7,782
Settlement of law suit (note 20(b))	<u>(69,167)</u>	<u>(8,019)</u>
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	<u>(579,360)</u>	<u>(544,470)</u>
PROVISION FOR INCOME TAXES (note 22(a))	0	0
NON-CONTROLLING INTERESTS (note 12)	<u>84,907</u>	<u>0</u>
NET LOSS	<u>(494,453)</u>	<u>(544,470)</u>
BASIC AND DILUTED (LOSS) PER SHARE	<u>(0.006)</u>	<u>(0.007)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	<u>71,313,666</u>	<u>70,546,954</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	<u>78,525,515</u>	<u>76,990,671</u>

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008 \$	2007 \$ Restated
OPERATING ACTIVITIES		
Net loss for the year	(494,453)	(544,470)
Items not affecting cash		
Amortization	51,851	51,893
Amortization of deferred income	(43,307)	(43,307)
Gain on disposal of capital assets	0	(7,782)
Gain on sale of partnership units	(385,190)	(298,809)
Stock based compensation	78,679	128,736
Non-Controlling interests	<u>(84,907)</u>	<u>0</u>
	(877,327)	(713,739)
Changes in non-cash working capital items		
Accounts receivable	(26,660)	(13,566)
Prepaid expenses and sundry	9,970	16,250
Deferred revenue	0	(66,731)
Accounts payable and accrued charges	<u>81,710</u>	<u>(53,261)</u>
CASH USED IN OPERATING ACTIVITIES	<u>(812,307)</u>	<u>(831,047)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	0	(2,549)
Proceeds on disposal of capital assets, net of expenses	<u>0</u>	<u>7,782</u>
CASH PROVIDED BY INVESTING ACTIVITIES	<u>0</u>	<u>5,233</u>
FINANCING ACTIVITIES		
Repayment of loans	(44,542)	0
Proceeds from loans	0	120,000
Proceeds from issuance of common stock	22,500	300,000
Proceeds on the sale of partnership units	722,140	489,129
Reduction in the convertible debt	(3,791)	0
Distributions paid on convertible debt equity component	<u>(23,057)</u>	<u>(20,464)</u>
CASH PROVIDED BY FINANCING ACTIVITIES	<u>673,250</u>	<u>888,665</u>
NET INCREASE (DECREASE) IN CASH	(139,057)	62,851
Cash - beginning of year	<u>483,281</u>	<u>420,430</u>
CASH - END OF YEAR	<u>344,224</u>	<u>483,281</u>
OTHER CASH FLOW INFORMATION:		
Interest paid	49,566	46,247
Distributions paid on convertible debt equity component	<u>23,057</u>	<u>20,464</u>

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 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, management is reasonably confident but can offer no guarantee that it will be able to secure the necessary financing to enable the Company to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. There is no assurance that this will be successful.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements for EWI for the years ended December 31, 2008 and 2007 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with Canadian generally accepted accounting principles (Canadian GAAP).

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 technology rights. Actual results could differ from these estimates.

(b) **Basis of Consolidation of Subsidiaries and Variable Interest Entity ("VIE")**

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Environmental Waste Management Corporation "EWMC", Jaguar Carbon Sales Limited and EWI Rubber Inc. and a variable interest entity, Environmental Waste International Limited Partnership ("EWILP") 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.

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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 11 and 12.

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

(c) Share Issue Costs

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

(d) Technology Rights

Technology represents the cost of acquired technology. The technology rights valuation is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In 2002, the Company incurred a charge of \$2,659,587 representing recognition of impairment. Commencing January 1, 2003, the remaining unamortized technology rights balance is being amortized equally over a 10 year period, the estimated useful life of these rights. These rights, except for the tire and wastewater applications, were sold during fiscal 2007. Amounts related to this transaction have been eliminated on consolidation.

(e) Revenue Recognition

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

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.

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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.

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

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

(f) Stock Based Compensation

The Company has a stock-based compensation plan. It maintains a stock-based compensation plan for employees, directors, officers and consultants of the Company. Effective January 1, 2003, the Company follows the fair-value method (using the Black-Scholes option pricing model) to record compensation expense with respect to stock options 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.

(g) Warrants

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

(h) Basic and Diluted Loss Per Share

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

The Canadian Institute of Chartered Accountants ("CICA") recommends the use of the treasury stock method in computing earnings/loss per share. Diluted per share amounts are calculated using the treasury stock method. Diluted earnings (loss) per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options or dilutive instruments. In computing the loss per share on a fully diluted basis, the treasury stock method assumes that

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proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate. The weighted average number of shares outstanding is then adjusted by the net change.

(i) Segmented Information

The Company has determined that it has two operating segments. During fiscal 2008, all revenues from operations were derived from sources located in Canada and United States and all identifiable assets were located in Canada (note 17).

(j) 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.

(k) Research and Development Costs

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

(l) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the appropriate rates of exchange ruling at the balance sheet date, while other assets and 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.

(m) Leases

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

(n) 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, 2008, no such impairment has occurred.

ENVIRONMENTAL WASTE INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

(o) Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance are charged against income as incurred. Expenditures which extend the estimated life of an asset are capitalized. When a property and equipment no longer contributes to the Company's ability to provide services, its carrying amount is written down to residual value.

Amortization is provided annually on 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
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.

(p) 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.

(q) Concentration of Credit Risk

The Company derived net sales and fees from 1 (2007 - 2) major customer amounting to approximately \$120,333 representing 57% of total revenues (2007 - \$206,223 representing 82% of total revenues).

4. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, the Corporation adopted the CICA Handbook Section 1400, as amended, changed the guidance related to management's responsibility to assess the ability of an entity to continue as a going concern. Management is required to make an assessment of the Corporation's ability to continue as a going concern, taking into account all information available for at least, but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that cast significant doubt upon the Corporation's ability to continue as a going concern. The adoption of this standard had no impact on the Corporation's disclosures as these uncertainties have been, and continue to be, fully described herein.

As of January 1, 2008, the Corporation adopted the CICA Handbook Section 3862, financial instruments. In December 2006, the AcSB issued a new accounting standard on disclosures about financial statements. Section 3862, Financial Instruments - Disclosures, improves upon the disclosure requirements in Section 3861, Financial Instruments - Disclosure and Presentation, and converges with International Financial Reporting Standard IFRS 7, Financial Instruments - Disclosures. Section 3862 must be implemented no later than the first reporting period in the first fiscal year beginning on or after October 1, 2007, but it was made available in time for voluntary

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early implementation concurrent with adoption of the suite of financial instruments standards issued in 2005 (and effective for reporting periods beginning on or after October 1, 2006). Entities choosing not to early adopt the new disclosure requirements will continue to comply with the existing disclosure requirements in Section 3861. Section 3862, like Section 3861, is based on the fundamental principle that entities should provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and performance. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Concurrent with the release of Section 3862, the AcSB also issued Section 3863, Financial Instruments - Presentation, which carries forward unchanged the presentation requirements of Section 3861. Section 3863 provides a companion standard to Section 3862 for entities subject to the latter. These disclosures were presented below within the financial instruments accounting policies.

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

FUTURE CHANGE IN ACCOUNTING POLICIES

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement of comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. **ACCOUNTS RECEIVABLE**

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

6. **FINANCIAL INSTRUMENTS**

Financial instruments are defined under Canadian generally accepted accounting principles as contracts that give rise to both financial assets and financial liabilities. In the balance sheet, this includes cash, accounts receivable, bank indebtedness, loans payable and accounts payable and accrued charges. The fair values of cash (bank indebtedness) approximate their carrying value due to their short-term nature. The Company's accounts receivable, loans payable and accounts payable and accrued liabilities are classified as loans and receivables, 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.

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7. **PROPERTY AND EQUIPMENT**

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	14,133	11,355	2,778
Equipment	<u>5,893</u>	<u>5,893</u>	<u>0</u>
	<u>20,026</u>	<u>17,248</u>	<u>2,778</u>
December 31, 2007	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	14,133	9,503	4,630
Equipment	<u>5,893</u>	<u>5,893</u>	<u>0</u>
	<u>20,026</u>	<u>15,396</u>	<u>4,630</u>

8. **TECHNOLOGY RIGHTS**

	2008	2007
	\$	\$
2002 Value	500,000	500,000
Accumulated amortization	<u>(300,000)</u>	<u>(250,000)</u>
	<u>200,000</u>	<u>250,000</u>

9. **DEFERRED INCOME**

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

	2008	2007
	\$	\$
Opening balance (note 20(a))	171,922	215,229
Amortization during the year	<u>(43,307)</u>	<u>(43,307)</u>
	128,615	171,922
Less current portion	<u>(43,307)</u>	<u>(43,307)</u>
	<u>85,308</u>	<u>128,615</u>

10. **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 - \$28,527 (2007 - \$18,712) and to a relative of the president - \$36,000 (2007 - \$36,000) and \$8,096 (2007 - \$12,000) to a relative of a director.

During the year the Company recovered \$6,175 for use of office space and \$606.00 for supplies from a Company in which the President and the CFO of EWI are shareholders.

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11. **PRIOR PERIOD ADJUSTMENT**

As explained in notes 3(b) and 14, the Company has corrected its method of accounting for its variable interest in EWILP in accordance with Accounting Guideline 15. Accordingly, the following items on the comparative (December 31, 2007) income statement have been revised; revenues have decreased by \$1,634,000, expenses have increased by \$29,167 and other income items (gain on sale of technology rights, interest income and gain on sale of partnership units) have decreased by \$9,022,580 for a total adjustment of \$10,685,747.

12. **NON-CONTROLLING INTERESTS**

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 retained earnings and the balance sheet. The gain 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.

(a)

Reconciliation of Non-Controlling Interest

	2008	2007
	\$	\$
Opening balance	190,320	0
Share of gain on sale of partnership units	336,951	190,320
Share of loss	<u>(84,907)</u>	<u>0</u>
	<u>442,364</u>	<u>190,320</u>

(b)

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

	2008	2007
	\$	\$
Assets		
Cash	243,330	489,128
Accounts receivable	<u>32,948</u>	<u>0</u>
Total Assets	<u>276,278</u>	<u>489,128</u>
Liabilities		
Accounts payable	<u>196,233</u>	<u>0</u>
Total Liabilities	<u>196,233</u>	<u>0</u>
Expenses		
Bank charges	78	0
Marketing expense	79,970	0
Professional fees	<u>101,921</u>	<u>0</u>
Total Expenses	<u>181,969</u>	<u>0</u>

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13. **LOANS PAYABLE**

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

	2008 \$	2007 \$
(a) Loan from relative of the president of the Company convertible for common shares at the rate of \$0.25 per share and was due on September 30, 2008. The maturity date has been extended to September 30, 2010.	186,000	186,000
(b) Loan from relative of a director. The original maturity date was December 8, 2005. The maturity date has been extended to September 30, 2009.	66,667	100,000
(c) Loans from directors convertible to common shares at the rate of \$0.25 per share, was due on September 30, 2008. The maturity date for \$20,000 has been extended to September 30, 2009 and the balance to September 30, 2010.	74,791	81,000
(d) Loans from directors convertible to common shares at the rate of \$0.13 per share, was due on January 31, 2008. The maturity date has been extended to September 30, 2010.	97,500	97,500
(e) Loan from a director bearing interest at 12% per annum and is due on demand.	0	5,000
Total long-term debt	424,958	469,500
Less: current portion (note 25)	(86,667)	(469,500)
	338,291	0

In 2004, as required by Canadian generally accepted accounting principles, the Company classified the convertible loans as having both a liability component and an equity component. The classification between debt and equity was determined using the relative fair value approach, with fair value determined by discounting estimated cash flows at a rate of 20%, for a debt instrument of comparable maturity and credit facility. The equity component, which consists of a conversion feature, was determined using the Black-Scholes option pricing model, and was based on a risk free annual interest rate of 3.68%, an expected life of approximately 2 years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the Company had allocated \$267,000 of the gross proceeds received to debt and \$163,000 to equity (\$10,000 of such debt was repaid in 2008).

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 Canadian generally accepted accounting principles, the Company classified the convertible loans

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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 1 year, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company had allocated \$97,500 of the gross proceeds received to debt and \$17,500 to equity.

Interest payments in 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 12%. During the year, \$23,057 interest paid on the equity portion was allocated to equity as a distribution on the equity component.

14. **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 7,872 units as of December 31, 2008 (2007 - 8,474). During the year the partnership repurchased at a discount 3,200 units from the former general partner. 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 \$5,332,819 of the limited partnership debt. EWILP continues to offer partnership units for sale. If fully subscribed this would result in further cash proceeds to EWI, bringing the total to \$3,000,000.

The above arrangement between EWI and EWILP includes a Management Services Agreement that engages EWI to provide management, personnel, facilities and equipment for the continued operations of EWILP's business interests.

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

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

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15. **CAPITAL STOCK**

(a) Authorized:
 Unlimited common shares

(b) Issued and outstanding:

	Number of Shares	Amount \$
Balance at December 31, 2007	71,248,324	35,816,645
Private placement July 25, 2008 (i)	<u>150,000</u>	<u>22,500</u>
Balance at December 31, 2008	<u>71,398,324</u>	<u>35,839,145</u>

(i) Private placement: 150,000 common shares at \$0.15 per share

During 2004, the Company issued a non-brokered private placement for 1,000,000 units consisting of one common share at \$0.40 and one half warrant. Each warrant entitles the holder to acquire one additional common share at \$0.60 per share before April 27, 2006. None of these warrants were exercised in 2006.

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

The non-brokered private placement on March 14, 2006 totalling 4,000,000 units consisted of one common share at \$0.12 and one half warrant. Each warrant entitles the holder to acquire one additional common share at \$0.16 per share before March 13, 2008. None of these warrants were exercised in 2008 and expired on March 13, 2008.

The non-brokered private placement for 2,500,000 units on November 7, 2006 consisted of one common share at \$0.10 and one warrant. Each warrant entitles the holder to acquire one additional common share at \$0.20 per share before October 31, 2008. None of these warrants were exercised in 2008 and expired on October 31, 2008.

Pursuant to non-brokered private placement on May 8, 2007, the Company issued 2,000,000 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 May 7, 2009. None of these warrants were exercised in 2008.

(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 27, 2007, at the Annual General and Special Shareholders' meeting, the shareholders approved the resolution to increase the number of common shares available for issue from 6,300,000 to 7,100,000 under the plan, representing less than 10% of the total number of shares

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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 are held by directors, employees, officers and consultants of the Company at December 31, 2008. In all cases, one option entitles the holder to purchase 1 common share at the designated exercise price.

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at December 31, 2006	5,170,000	0.22	5,085,000	0.23
Exercised	0	0.00	0	0.00
Forfeited	(835,000)	0.29	(1,400,000)	(0.24)
Granted during the year	<u>985,000</u>	<u>0.12</u>	<u>1,485,000</u>	<u>0.22</u>
Outstanding at December 31, 2007	<u>5,320,000</u>	<u>0.19</u>	<u>5,170,000</u>	<u>0.22</u>

A summary of stock options outstanding at December 31, 2008 is set out below:

Exercise price \$	Outstanding Stock Options			Exercisable Stock Options	
	Number of options	Weighted average remaining contractual life	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
less than 0.25	3,995,000	2.86 years	0.14	3,995,000	0.14
0.25 - 0.30	700,000	3.48 years	0.30	700,000	0.30
0.35 - 0.40	<u>625,000</u>	<u>0.73</u> years	<u>0.39</u>	<u>625,000</u>	<u>0.39</u>
	<u>5,320,000</u>	<u>2.89</u> years	<u>0.19</u>	<u>5,320,000</u>	<u>0.19</u>

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 rate of 1.70%; and a expected life of 4 years. This generated an expense to stock-based compensation of \$78,679 (2007 - \$128,736).

(d) Warrants:

A summary of the status of the Company's warrants as at December 31, 2008 and changes during the year ended on that date are:

	2008	
	Warrants #	Weighted average exercise price \$
Balance at December 31, 2007	6,500,000	0.19
Issued during the year	0	0.00
Exercised during the year	0	0.00
Expired during the year	<u>(4,500,000)</u>	<u>0.18</u>
Outstanding at December 31, 2008	<u>2,000,000</u>	<u>0.20</u>

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A summary of warrants outstanding at December 31, 2008 is set out below:

Warrants outstanding				Exercisable Warrant Options	
Exercise price	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
0.20	<u>2,000,000</u>	<u>0.35</u> years	<u>0.20</u>	<u>2,000,000</u>	<u>0.20</u>

Reconciliation:

	Number of Warrants	Amount \$
Balance - December 31, 2005	500,000	0
Warrants expired in 2006	(500,000)	0
Warrants granted in 2006	<u>4,500,000</u>	<u>217,784</u>
Balance - December 31, 2006	4,500,000	217,784
Warrants granted in 2007	2,000,000	140,979
Issuance costs	<u>0</u>	<u>0</u>
Balance - December 31, 2007	6,500,000	358,763
Warrants expired in 2008	<u>(4,500,000)</u>	<u>0</u>
Balance - December 31, 2008	<u>2,000,000</u>	<u>358,763</u>

(e) Per Share Amounts:

For the year ended December 31, 2008, the weighted average number of shares were 71,313,666 (2007 - 70,546,954). 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:

	2008	2007
	\$	\$
Balance, beginning of year	1,450,992	1,322,256
Stock options granted and/or vested during the period:		
Net options issued and expired	<u>78,679</u>	<u>128,736</u>
Balance, end of year	<u>1,529,671</u>	<u>1,450,992</u>

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16. **SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDITS**

The company has an outstanding claim for scientific research and experimental development tax credits (SR&ED tax credits) for the fiscal years 2004, 2005, 2006, 2007 and 2008, the value of which is approximately \$510,700. 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 fiscal 2008, the company recognized SR&ED tax credits of \$42,527 related to fiscal year 2007 (2007 - \$58,912 related to fiscal year 2006), 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. **SEGMENTED INFORMATION**

The Company has determined that it has two geographic operating segments.

Geographic information:

	2008	2007
	Revenues	Revenues
	\$	\$
Canada	2,020	43,825
United States	<u>207,867</u>	<u>208,493</u>
Total	<u>209,887</u>	<u>252,318</u>

18. **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 as well as 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, 2008. The Company is not subject to externally imposed capital requirements.

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19. **ACCOUNTING FOR FINANCIAL INSTRUMENTS**

Financial instruments are defined under Canadian generally accepted accounting principles as contracts that give rise to both financial assets and financial liabilities. In the balance sheet, this includes cash, accounts receivable, management fees receivable, interest receivable, notes receivable, bank indebtedness, loans payable and accounts payable and accrued charges. The fair values of cash (bank indebtedness) approximate their carrying value due to their short-term nature. The Company's accounts receivable, management fees receivable, interest 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 notes receivable are classified as loans and receivable, the fair value of this long-term receivable is currently deemed equivalent to its carrying value, as it bears a variable interest rate. The carrying values of financial instruments approximate fair values unless otherwise indicated.

Credit Risk

The Company's credit risk is primarily attributable to uncertainties relating to timing and collectability of its long term notes receivables 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. 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 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.

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

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 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 fixed rate of interest and are generally held to maturity.

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20. **OTHER ITEMS**

(a) **Sale of Real Property**

During the fourth quarter of 2006, the Company disposed of land and building under the terms of a sale-leaseback transaction. Of the pre-tax gain of \$625,552, as calculated below, \$216,533 has been deferred and is being amortized to income over the term of the lease.

	\$
Sale price	1,765,000
Less: net book value	(1,075,728)
Less: selling expenses	<u>(63,720)</u>
Gain before the undernoted	625,552
Less amount of gain deferred as a result of sale-leaseback transaction (note 9)	<u>(216,533)</u>
Net gain	<u>409,019</u>

The Company leased back approximately 18% of the building. In accordance with the Canadian Institute of Chartered Accountants ("CICA") emerging issue number 25, the net present value of the minimum lease payments over the lease term is deferred and amortized to income over the lease term. The remaining balance \$215,229 at the beginning of fiscal 2007 is being amortized to income over the remaining term of the lease income (note 9).

(b) **Settlement of Law Suit**

In 2005, a former officer commenced a wrongful dismissal action against the Company for approximately \$400,000 plus costs. During the year this action was settled by the Company for \$70,000 including taxes, to the maximum of \$100,000 pending any default in payments required under the settlement.

	\$
Cost of settlement of law suit - net of taxes \$833	<u>69,167</u>

21. **COMMITMENTS**

The Company is committed under a long-term lease for premises which expires in September 2011.

Minimum annual rentals (exclusive of requirement to pay taxes, insurance and maintenance costs), for each of the next three years, are approximately as follows:

	\$
2009	49,800
2010	49,800
2011	49,800

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22. **INCOME TAXES**

(a) **Provision of Income Taxes**

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

	2008 \$	2007 \$ Restated
Net income (loss) before income taxes	<u>(494,453)</u>	<u>(544,470)</u>
Expected income tax expense (recovery) based upon the combined Canadian federal and provincial expected tax rates of 33.50% and (2007 - 36.12%)	(165,642)	(196,663)
Adjustments to tax benefit resulting from:		
Permanent differences (items not deductible or taxable for tax purposes)	24,092	45,528
Timing differences	816,058	2,399,875
Unrecorded tax benefit of losses	<u>(674,508)</u>	<u>2,248,740</u>
Provision for income taxes	<u>0</u>	<u>0</u>

(b) **Future Income Tax Balances**

The tax effect of temporary differences that gives rise to future income tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008 \$	2007 \$
Non-capital losses	2,875,534	2,480,652
SR&ED tax credits available	510,704	449,395
SR&ED expenditures applicable to future years	671,421	651,557
Timing differences resulting in potential future income taxes	<u>872,014</u>	<u>940,759</u>
Total net future tax assets	4,929,673	4,522,363
Valuation allowances	<u>(4,929,673)</u>	<u>(4,522,363)</u>
Total net future tax assets	<u>0</u>	<u>0</u>

(c) **Tax Benefits Available**

The Company has incurred the undernoted non-capital losses and has \$2,004,241 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 36%. Given the uncertainty of realization, no future asset or benefit has been recognized in these financial statements.

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The estimated losses expire as follows:

	\$
2009	6,752,304
2010	794,000
2015	501,000
2026	<u>536,500</u>
	<u>8,583,804</u>

23. **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, the Company recognized approximately \$1,700,000 as revenue related to non-refundable deposits. During the year, one of the customers had commenced legal action to recover approximately \$280,000 (US \$225,000). This action was dismissed during the year by the court with no cost to the either party.

In 2005, a former officer commenced a wrongful dismissal action against the Company for approximately \$400,000 plus costs. During the year this action was settled by the Company for \$70,000 including taxes, to the maximum of \$100,000 pending any default in payments required under the settlement.

Warranties and Guarantees

In 2005, the Company sold a limited warranty expiring December 7, 2009 on an installed system. In 2008, \$23,176 was amortized to income. As at December 31, 2008, accounts payable includes a liability of \$19,080 (2007 - \$42,256) for future warranty costs. Management's best estimate is that this amount is an adequate provision against future potential liabilities.

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.

24. **COMPARATIVE FIGURES**

Certain 2007 comparative figures have been reclassified to conform to the current year's financial statement presentation.

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25. **SUBSEQUENT EVENTS**

Subsequent to the balance sheet date, the Company has negotiated an extension of its current debt obligations of \$601,667 originally due September 30, 2008. Of this amount \$86,667 remains open for repayment in 2009. The balance of \$515,000 has been extended to September 30, 2010. As an incentive to extend the repayment date, EWI will issue 515,000 two year \$0.20 warrants to purchase common stock, subject to TSX Venture Exchange approval. The other terms and conditions of the debt are unchanged. Please refer to note 13.