**ENVIRONMENTAL WASTE INTERNATIONAL INC.**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

**For The Ninth Month Period Ended September 30, 2010**

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## Responsibility for consolidated unaudited interim financial statements

The accompanying financial statements for Environmental Waste International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2009 audited financial statements. These statements should be read in conjunction with the audited financial statements for the year ending December 31, 2009.

## Auditor involvement

The auditor of Environmental Waste International Inc. has not performed a review of these unaudited interim financial statements.

Ajax, Ontario
November 24, 2010

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Balance Sheet**
**As At September 30, 2010 and December 31, 2009**

**ASSETS**

| | September 30 2010 (Unaudited) | December 31 2009 (Audited) |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | **$ 1,468,258** | $ 1,189,585 |
| Accounts receivable (Note 5) | **541,093** | 318,505 |
| Prepaid expenses and sundry | **2,277** | 18,310 |
| | **2,011,628** | 1,526,400 |
| **Property and equipment** (Note 6) | **35,553** | 8,590 |
| **Technology Rights** (Note 7) | **112,500** | 150,000 |
| **Long term investments** (Note 12) | **1,483,724** | 588,724 |
| **Total Assets** | **$ 3,643,405** | $ 2,273,714 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 1,885,071** | $ 765,845 |
| Loans payable (Note 8) | **-** | 345,873 |
| Deferred income - current (Note 9) | **43,307** | 43,307 |
| Deferred revenue (Note 10) | **1,025,464** | 522,324 |
| | **2,953,842** | 1,677,349 |
| **Long-term Liabilities** | | |
| Deferred income (Note 9) | **9,521** | 42,001 |
| Non-Controlling Interests (Note 11) | **918,560** | 902,345 |
| | **928,081** | 944,346 |
| **Total Liabilities** | **3,881,922** | **2,621,695** |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| Capital Stock (Note 14) | **36,316,467** | 36,178,267 |
| Contributed surplus (Note 14) | **1,802,868** | 1,802,868 |
| Warrants (Note 14) | **926,141** | 926,141 |
| Convertible debt (Note 8) | **-** | 169,127 |
| Deficit | **(39,283,993)** | (39,424,384) |
| | **(238,517)** | (347,981) |
| **Total Liabilities and Shareholders' Equity** | **$ 3,643,405** | $ 2,273,714 |

**ON BEHALF OF THE BOARD**

"William Bateman", Director

"Stephen Simms", Director

The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Statement of Operations**
**For The Three & Nine Months Ended September 30, 2010 and 2009**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| **REVENUE** | | | | |
| Sales | **$ 24,108** | $ 24,967 | **$ 38,633** | $ 71,176 |
| Amortization of deferred income (Note 9) | **10,826** | 10,827 | **32,480** | 32,479 |
| Consulting fees | **1,753,399** | - | **2,471,860** | - |
| | **1,788,333** | 35,794 | **2,542,973** | 103,655 |
| **EXPENSES** | | | | |
| Manufacturing expenses | **1,134,318** | 4,835 | **1,583,207** | 11,057 |
| Research & development | **-** | 82,573 | **-** | 248,960 |
| Salaries, wages & benefits | **134,934** | 20,633 | **394,771** | 62,241 |
| Operations, general & administration | **118,278** | 93,787 | **358,651** | 286,875 |
| Foreign exchange | **579** | 982 | **(1,001)** | (1,610) |
| Interest on debt | **15,450** | 16,219 | **46,350** | 52,320 |
| Amortization of property & equipment & Technology Rights | **12,964** | 12,963 | **38,889** | 38,889 |
| | **1,416,523** | 231,992 | **2,420,867** | 698,732 |
| **INCOME (LOSS) BEFORE THE FOLLOWING:** | **371,810** | (196,198) | **122,106** | (595,077) |
| **GAIN ON SALE OF PARTNERSHIP UNITS** | **0** | 27,170 | **18,285** | 274,468 |
| **NET INCOME (LOSS)** | **$ 371,810** | $ (169,028) | **$ 140,391** | $ (320,609) |
| **Income (loss) per share** | **$0.005** | ($0.002) | **$0.002** | ($0.004) |
| **Weighted average number of common shares outstanding** | **77,812,087** | 76,065,546 | **78,398,324** | 72,932,753 |

The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

**ENVIRONMENTAL WASTE INTERNATIONAL INC.**
**Consolidated Statement of Deficit**
**For The Nine Month Period Ended September 30, 2010 and 2009**

| | Nine months ended | |
|---|---|---|
| | September 30 2010 (Unaudited) | September 30 2009 (Unaudited) |
| **DEFICIT - BEGINNING OF PERIOD** | **$ (39,424,384)** | $ (38,549,812) |
| Net income (Loss) for the period | **$140,391** | ($320,609) |
| **DEFICIT - END OF PERIOD** | **$ (39,283,993)** | $ (38,870,421) |

The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

## ENVIRONMENTAL WASTE INTERNATIONAL INC.
## Consolidated Statement of Cash Flows
## For The Three & Nine Months Ended September 30, 2010 and 2009

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **OPERATING ACTIVITIES** | | | | |
| Net Income (loss) for the period | **$371,810** | ($169,028) | $140,391 | ($320,609) |
| Items not affecting cash: | | | | |
| Amortization of property, equipment and technology rights | **12,964** | 12,963 | **38,889** | 38,889 |
| Convertible debt | **(169,127)** | | **(169,127)** | |
| Amortization of deferred income | **(10,826)** | (10,827) | **(32,480)** | (32,479) |
| | **204,821** | (166,892) | **(22,327)** | (314,199) |
| Changes in non-cash working capital items: | | | | |
| Accounts receivable | **(176,694)** | (75,497) | **(222,588)** | (88,408) |
| Prepaid expenses and sundry | **(1,995)** | 9,214 | **16,033** | 20,263 |
| Construction of Prototype TR900 | **-** | (115,652) | **-** | (115,652) |
| Accounts payable & accrued liabilities | **747,769** | 157,715 | **1,119,226** | 136,216 |
| Deferred revenue | **(1,578,399)** | 1,150,000 | **503,140** | 1,250,000 |
| Non-Controlling Interests | **-** | 24,095 | **16,215** | 243,396 |
| | **(1,009,319)** | 1,149,875 | **1,432,026** | 1,445,815 |
| CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES | **(804,498)** | 982,983 | **1,409,699** | 1,131,616 |
| **INVESTING ACTIVITIES** | | | | |
| Purchase (disposal) of capital assets | **1,831** | - | **(28,353)** | - |
| Ellsin Environmental Limited | **-** | (900,000) | **(895,000)** | (900,000) |
| | **1,831** | (900,000) | **(923,353)** | (900,000) |
| **FINANCING ACTIVITIES** | | | | |
| Exercise of Options | **12,000** | 6,500 | **138,200** | 6,500 |
| Repayment of Loans | **(345,873)** | (43,333) | **(345,873)** | (43,333) |
| Issuance of shares | **-** | 900,000 | **-** | 900,000 |
| | **(333,873)** | 863,167 | **(207,673)** | 863,167 |
| **NET INCREASE (DECREASE) IN CASH** | **(1,136,540)** | 946,150 | **278,673** | 1,094,783 |
| **CASH - BEGINNING OF PERIOD** | **2,604,798** | 492,857 | **1,189,585** | 344,224 |
| **CASH - END OF PERIOD** | **$ 1,468,258** | $ 1,439,007 | **$ 1,468,258** | $ 1,439,007 |
| **Represented by:** | | | | |
| **Cash** | **$ 468,258** | **$ 539,007** | **$ 468,258** | **$ 539,007** |
| **Short term deposits** | **1,000,000** | **900,000** | **1,000,000** | **900,000** |
| | **$ 1,468,258** | **$ 1,439,007** | **$ 1,468,258** | **$ 1,439,007** |

The accompanying notes are an integral part of these financial statements.

Prepared by Management - without audit

## 1 NATURE OF BUSINESS

Environmental Waste International Inc. ("EWS") is incorporated under the Ontario Business Corporations Act. The Company's business is the design, development and sale of environmentally sound devices utilizing EWS's patented Reverse Polymerization process dealing with waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world.

## 2 GOING CONCERN

These financial statements have been prepared in accordance with "Canadian generally accepted accounting principles" (CGAAP) applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Recurring sources of revenue have not yet been sufficient. The Company needs to obtain additional financing to enable it to meet its obligations. Management continues to monitor the cash needs and consider various alternatives to raise additional financing and 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.

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 gain or 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 EWS for the quarters ended September 30, 2010 and 2009 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with CGAAP. These statements should be read in conjunction with the audited financial statements for the year ending December 31, 2009.

The preparation of financial statements in conformity with CGAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property, plant and equipment and technology rights. Actual results could differ from these estimates.

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

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

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

Accounting Guideline 15 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, or both (making such party 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 13. EWS does not have legal control of the assets and liabilities of EWILP.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Investments Subject to Significant Influence

Investment in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost plus the Company's share of income or loss to date less dividends received. The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee (see note 12).

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

### (d) 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.

### (e) Technology Rights

Technology represents the cost of acquired technology which is tested for impairment annually, or more frequently if circumstances indicate that the asset might be impaired. The unamortized technology rights balance is being amortized at the rate of $50,000 annually. Technology rights, except for the tire and wastewater applications, were sold during fiscal 2007; amounts related to this transaction have been eliminated in consolidation.

### (f) 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 a 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 and are recorded as revenue when certain contractual obligations are not met. When there is uncertainty as to ultimate collection, the Company's policy is to recognize the revenue only as cash is received. Any other billings or cash received in advance of sales are being recorded as deferred revenue. Royalties are recognized as earned when received from the sub-licencee or their agent. Tire processing fees will be recognized as income on receipt of cash from the licencee or their agent. Other revenue is recognized at the time ownership transfers or services are rendered to the customer.

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

### (g) Stock Based Compensation

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (3(g) Continued)**

Estimates used in the fair value computation, including the expected lives of the options, risk free interest rate and volatility of the stock, are determined on the basis of available comparable market and historical data that EWS believes are reasonable.

**(h) Warrants**

The Company uses the fair value method of accounting for warrants. Under the fair value method, warrants are measured at fair value at the date of the offering and segregated separately in shareholders' equity.

**(i) Basic and Diluted earnings (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.

The Canadian Institute of Chartered Accountants ("CICA") recommends the use of the treasury stock method in computing earnings/loss per share. Diluted earnings (loss) per share uses weighted average shares outstanding, increased to include additional shares from the assumed exercise of stock options, warrants and compensation options or dilutive instruments. In computing the fully diluted earnings (loss) per share, the treasury stock method the Company uses assumes that proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate. The weighted average number of shares outstanding is then adjusted by the net change.

**(j) Segmented Information**

The Company has determined that it has two geographic segments and one operating segment. During fiscal 2010, all revenues from operations were derived from sources located in Canada and United States and all identifiable assets were located in Canada (note 17).

**(k) 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. The Company recognizes ITCs and other incentives when earned, and when there is reasonable assurance of realization.

**(l) Research and Development Costs.**

Research costs are expensed as incurred. Development costs that meet the criteria for deferral under CGAAP 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.

**(m) Translation of Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the 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. Revenues 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.

**(n) 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 in 3(o). Rental payments under operating leases are expensed as incurred.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 property and equipment no longer contribute to the Company's ability to provide services, its carrying amount is written down to residual value. Amortization is provided annually on property and equipment, other than land, at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

| | | |
|---|---|---|
| Leasehold Improvements | 30% | declining balance |
| 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.
No amortization has been taken on leasehold improvements to date.

### (p) Impairment of Long-Lived Assets

Long-lived assets, including capital assets, are amortized over their useful lives. The Company reviews these assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. At September 30, 2010, no such impairment has occurred.

### (q) Cash Equivalents

Cash equivalents consist principally of highly liquid interest-bearing short-term deposits which are subject to an insignificant risk of changes in value and have a maturity date of one year or less from the date of acquisition.

### (r) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on applying income tax rates to the differences between the carrying values on the financial statements and the values for income tax purposes. The income tax rates used are those that are expected to be in effect when these temporary differences are reversed.

Significant doubt regarding the recovery of these income tax assets exists, therefore a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

### (s) Product Warranty:

Environmental Waste International Inc.
The warranty period for products typically is one year. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

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

Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.
No accrual was provided for the fiscal period ended September 30, 2010.

### (t) Concentration of Credit Risk

In 2010 and 2009, the Company derived net sales and fees from two major customers amounting to $2,510,493 in 2010 (2009-$735,444), representing 99% of total revenues (2009 -92%).

## 4 CHANGES IN ACCOUNTING POLICIES

As of January 1, 2009, the Company adopted CICA Handbook Section 3064 Goodwill and Intangible Assets.. The adoption of this new section did not have an impact on the consolidated financial statements for the year ended December 31, 2009.

On January 20, 2009, the CICA Accounting Standards Board issued Emerging Issues Committee Abstract 173 which affirms that an entity's own credit risk (in the case of financial liabilities) and a counterparty's credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this guidance did not have a significant impact on the Company's financial statements.

In June 2009, the Canadian Accounting Standards Board issued an amendment to the CICA Handbook Section 3862 in an effort to make it consistent with International Financial Reporting Standards ("IFRS") Section 7. The purpose was to establish a framework for measuring fair value in CGAAP and expand disclosures about fair value measurements. The use of observable and unobservable inputs is reflected in the fair value assessment.

The availability of observable inputs can vary based upon a variety of factors. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment by management. The amendments also provide clarification about the required liquidity risk disclosures. The adoption of the new standard resulted in additional disclosures in note 19 to the consolidated financial statements.

### FUTURE CHANGE IN ACCOUNTING POLICIES

In January 2009, CICA issued new Handbook Section 1582 "Business Combinations" providing the Canadian equivalent to IFRS 3. The Company expects to adopt this standard on January 1, 2011.

In January 2009, the CICA issued new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align CGAAP with US GAAP and IFRS.

Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest must be clearly identified and distinguish between the interests of the parent and the non-controlling owners. The Company is currently considering the impact of 1601 and 1602 on its consolidated financial statements in 2010 in connection with the conversion to IFRS.

On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS from CGAAP for all Canadian publically accountable enterprises. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal controls over financial reporting and disclosure controls and procedures.

The Company has identified four phases of its conversion plan. The scoping and planning (Phase 1) involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing an implementation plan and communication strategy. Detailed assessment (Phase 2) will result in the accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted.

## 4 CHANGES IN ACCOUNTING POLICIES (Continued)

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

No transitional elections will be taken for fixed assets. The Company will retain assets at historical costs rather than taking the election to recognize assets at fair value. The transition to IFRS will not have a material impact on the Company's fixed accounts upon transition.

## 5 ACCOUNTS RECEIVABLE

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

## 6 PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | **September 30 2010 Net Book Value** | December 31 2009 Net Book Value |
|---|---|---|---|---|
| Leasehold Improvements | $ 25,667 | $ - | **$ 25,667** | $ - |
| Computer Equipment | 18,837 | (14,340) | **4,497** | 3,200 |
| Equipment | 12,234 | (6,845) | **5,389** | 5,390 |
| | $ 56,738 | $ (21,185) | **$ 35,553** | $ 8,590 |

## 7 TECHNOLOGY RIGHTS

| | **September 30, 2010** | December 31,2009 |
|---|---|---|
| 2002 Value | **$ 500,000** | $ 500,000 |
| Accumulated amortization | **(387,500)** | (350,000) |
| | **$ 112,500** | $ 150,000 |

## 8 LOANS PAYABLE

All loans bear monthly interest at the rate of 12%. The loans, paid off prior to quarter end, consisted of the following:

| | **September 30, 2010** | December 31,2009 |
|---|---|---|
| **(a)** Loan from a relative of the president of the Company convertible for common shares at the rate of $0.25 per share and due September 30, 2010 | **$ -** | $ 186,000 |
| **(b)** Loans from directors convertible to common shares at the rate of $0.25 per share, due on September 30, 2010. | **-** | 62,373 |
| **(c)** Loans from directors convertible to common shares at the rate of $0.13 per share, due on September 30, 2010 | **-** | 97,500 |
| Total long-term debt | **-** | 345,873 |
| Less: current portion | | (345,873) |
| | **$ -** | $ - |

## 8 LOANS PAYABLE (Continued)

The following relate to the December 31, 2009 comparative figures:
CGAAP requires disclosure of the debt and equity components of convertible loans.

| | Debt | Equity | Total Loans |
|---|---|---|---|
| Refer to 8 (a) and (b) above | 248,373 | 151,627 | 400,000 |
| Refer to 8 (c) above | 97,500 | 17,500 | 115,000 |
| | 345,873 | 169,127 | 515,000 |

The classification between debt and equity was determined using the relative fair value approach.

For the $400,000 loans payable, fair value was determined by discounting estimated cash flows at a rate of 20% for a comparable debt instrument. The equity component, 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.

For the $115,000 loans payable, fair value was determined by discounting estimated cash flows at a rate of 20% for a comparable debt instrument. The equity component, 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.

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.

## 9 DEFERRED INCOME

Amortization of deferred income is calculated on a straight line basis over the initial 60 month lease term of the Company's premises.

| | **September 30, 2010** | December 31,2009 |
|---|---|---|
| Opening Balance | **$ 85,308** | $ 128,615 |
| Amortization during the period | **(32,480)** | (43,307) |
| | **52,828** | 85,308 |
| Less: current portion | **(43,307)** | (43,307) |
| Long-term portion | **$ 9,521** | $ 42,001 |

## 10 DEFERRED REVENUE

The Company, through its subsidiary EWI Rubber Inc., is building a Prototype tire processing system based on the Reverse Polymerization Process developed by EWS. Deferred Revenue and Work in Progress have been recognized based on the percentage of completion method. An amount of $2,471,860 for the nine month period ended September 30, 2010 (December 31, 2009 - $677,676) is reflected as Revenue, $1,025,464 (December 31, 2009 - $522,324) as Deferred Revenue and cost $1,583,207 (December 31, 2009 - $423,407) of designing and building of the system has been reflected as Manufacturing expenses.

## 11 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.

Reconciliation of Non-Controlling Interest:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Opening Balance | **$ 902,345** | $ 442,364 |
| Share of gain on sale of partnership units | **16,215** | 637,852 |
| Share of loss | **-** | (177,871) |
| | **$ 918,560** | $ 902,345 |

## 12 LONG-TERM INVESTMENTS

During 2009 the Company acquired 37.5% of the common shares of Ellsin Environmental Ltd.

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Opening Balance | **$ 588,724** | $ 900,000 |
| Loss on equity investment during the period | **-** | (311,276) |
| Loan receivable | **750,000** | - |
| Second mortgage receivable | **145,000** | - |
| Total long-term investments | **$ 1,483,724** | $ 588,724 |

The Company has two directors in common with Ellsin Environmental Ltd ("Ellsin"). The Company accounts for this investment using the equity accounting method since significant influence exists. The Company has recorded its equity share of Ellsin's loss of $311,276 during the year ended December 31, 2009 (2008 - $0). The $750,000 loan receivable is expected to be repaid by July, 2011. The $145,000 second mortgage is on Ellsin's property located at 155 Yates Avenue, Sault Ste. Marie, Ontario facility. The Company owns 745,000 $2.00 Ellsin warrants of which 600,000 expire July 31, 2011 and 145,000 expire April 15, 2012.

## 13 ENVIRONMENTAL WASTE INTERNATIONAL LIMITED PARTNERSHIP (EWILP)

On June 1, 2007, Environmental Waste International Inc. (EWS) entered into a Technology and Intellectual Property Purchase and Sale Agreement with a newly formed arms' length Limited Partnership, EWILP, which was formed as a Limited Partnership to commercially exploit EWS's product lines and expand market penetration. All rights to EWS's patents, proprietary software and system design portfolio, except for the tire and wastewater applications, were sold for $9,600,000 with EWS taking notes receivable as consideration.

EWILP has syndicated subscriptions of 11,637 units as of December 31, 2009 (2008 - 7,872). During 2008 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 EWS. The individual limited partners of EWILP personally assumed a total of $9,737,177 of the limited partnership debt.

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

EWS 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 December 1, 2014 by issuing approximately $6,500,000 in EWS stock at its then fair market value, as long as EWS stock is trading at a minimum of $0.50 a share.

EWILP has been accounted for as a VIE (note 3(b)).

## 14 CAPITAL STOCK

**(a)** The Company is authorized to issue an unlimited number of common shares.

## 14 CAPITAL STOCK (Continued)

**(b)** The following details the changes in the issued shares for the periods ended September 30, 2010 and December 31, 2009:

| | **September 30, 2010** | | December 31, 2009 | |
|---|---|---|---|---|
| | Number | $ | Number | $ |
| Issued and Outstanding: | | | | |
| Balance, beginning of period | **77,448,324** | **$ 36,178,267** | 71,398,324 | $ 35,839,145 |
| Issued for Cash: | | | | |
| Private placements (i) | **-** | **-** | 6,000,000 | 900,000 |
| Employee stock options | **950,000** | **138,200** | - | - |
| Cost of equity financing | **-** | **-** | - | (567,378) |
| Stock based compensation related to exercise of options | **-** | **-** | 50,000 | 6,500 |
| **Balance, end of period** | **78,398,324** | **$ 36,316,467** | 77,448,324 | $ 36,178,267 |

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

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

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

**(c) Stock Options:**

The Board of Directors has 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 is set by the Board at the time of grant, provided that it is not be less than the market price of the common shares on the day immediately preceding the grant.

On June 16, 2010, the shareholders approved an increase in the number of common shares available for issue under the Plan from 7,100,000 to 7,500,000. All options issued after June 27, 2007 are subject to a six-month vesting period.

Stock option activity for the nine months ended September 30, 2010 and year ended December 31, 2009 is presented below:

| | **Nine Months ended September 30, 2010** | **Weighted average exercise price** | Year-ended December 31 2009 | Weighted average exercise price |
|---|---|---|---|---|
| | **#** | **$** | # | $ |
| Balance, beginning of year | **6,430,000** | **0.19** | 5,320,000 | 0.19 |
| Granted | **1,745,000** | **0.27** | 1,795,000 | 0.24 |
| Expired | **(565,000)** | **(0.22)** | (635,000) | (0.38) |
| Exercised | **(950,000)** | **(0.15)** | (50,000) | (0.13) |
| **Outstanding at end of period** | **6,660,000** | **0.21** | 6,430,000 | 0.19 |

The following table summarizes the outstanding exercisable options expiring through June 16, 2015

| Range of Prices | # | Weighted Average Remaining Life (yrs) | Weighted Average Exercise Price |
|---|---|---|---|
| Less than .25 | 4,830,000 | 3.09 | 0.17 |
| $0.25 to$0.30 | 1,430,000 | 3.00 | 0.30 |
| Greater than.30 | 400,000 | 4.71 | 0.35 |
| **Outstanding at end of period** | 6,660,000 | 3.16 | 0.21 |

## 14 CAPITAL STOCK (14(c) Continued)

The fair value of these options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 100%; risk free interest rates of 1.36% - 3%; and an expected life of 2 - 5 years.

**(d) Warrants:**

Warrant activity for the nine months ended September 30, 2010 and year ended December 31, 2009 is presented below:

| | **Nine Months ended September 30, 2010** | | Year-ended December 31 2009 | |
|---|---|---|---|---|
| | **#** | **$** | # | $ |
| Balance, beginning of year: | | | | |
| Expires April 16, 2011 | **515,000** | **0.20** | 515,000 | 0.20 |
| Expires July 22, 2011 | **6,000,000** | **0.20** | 6,000,000 | 0.20 |
| Issued during the year | | | | |
| Exercised during the year | | | | |
| Expired during the year | | | | |
| **Outstanding at end of period** | **6,515,000** | **0.20** | 6,515,000 | 0.20 |

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

A summary of warrants outstanding at December 31, 2009 is set out below:

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

**(e) Per Share Amounts:**

For the period ended September 30, 2010 the weighted average number of shares was 77,812,087 (December 31, 2009 -74,074,077). Diluted earnings per share reflect the exercise of options, warrants and convertible debt as if issued at the later of the date of grant or beginning of the year.

| **(f) Contributed Surplus:** | **September 30,2010** | December 31,2009 |
|---|---|---|
| Balance, beginning of period | $ 1,802,868 | $ 1,529,671 |
| Stock options granted and/or vested during the period: | | |
| Net options issued and expired | - | 273,197 |
| Balance, end of period | $ 1,802,868 | $ 1,802,868 |

## 15 RELATED PARTY TRANSACTIONS

Consulting fee income was earned from Ellsin.
Two of the directors of Ellsin (see note 12) are also directors and shareholders of EWS.

## 16 SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDITS

The Company has outstanding claims for federal scientific research and experimental development tax credits (SR&ED tax credits) for the fiscal years 2004, 2005, 2006, 2007, 2008 and 2009, the value of which is approximately $541,600. Since these claims have not been formally approved, the benefit thereof has not been reflected in these financial statements. The tax credits will be recorded in the year when reasonable assurance of their realization exists.

## 17 SEGMENTED INFORMATION

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

| | **2010 Revenues** | 2009 Revenues |
|---|---|---|
| | **$** | $ |
| North America | **$2,542,973** | 803,155 |
| Total Revenue | **$ 2,542,973** | $ 803,155 |

## 18 CAPITAL DISCLOSURES

The Company's objectives when managing its capital are:

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

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

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

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

## 19 ACCOUNTING FOR FINANCIAL INSTRUMENTS

Financial instruments are defined under CGAAP as contracts that give rise to both financial assets and financial liabilities. In the balance sheet, this includes cash and cash equivalents, accounts receivable, loans payable and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents approximate their carrying value due to their short-term nature. The Company's accounts receivable, are classified as loans and receivables; loans payable are classified as loans payable. Accounts payable and accrued liabilities are classified as other financial liabilities, the fair values of which approximate their carrying values due to the short-term nature of these instruments. The carrying values of financial instruments approximate fair values unless otherwise indicated.

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

Fair value estimates are made at a point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at September 30, 2010 due to the short term maturity of these instruments.

**Risk Management**

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

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

### Credit Risk

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

The Company's exposure to credit risk for these financial Instruments is as follows:

| | **September 30 2010** | Dec 31 2009 |
|---|---|---|
| | **$** | $ |
| Cash and term deposits | **1,468,258** | 1,189,585 |
| Accounts receivable | **541,093** | 318,505 |
| | **$ 2,009,351** | $ 1,508,090 |

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. EWS expects EWILP to fulfill its debt obligations to the Company. Amounts related to notes receivable have been eliminated in consolidation. In addition the Company takes into account the debtor's payment history, credit worthiness and the economic environment in which it operates to assess impairment. Based on the above management believes that the credit risk concentration with respect to this financial instrument is low.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. As at September 30, 2010, in addition to cash on hand of $468,258 the Company had $1,000,000 in term deposits, available to be drawn on to pay its liabilities. A large portion of the cash was subsequently invested in short term deposits.

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.

### Foreign Currency Risk

As of September 30, 2010, the Company determined that the change in the U.S. dollar exchange rate would not impact net earnings and therefore EWS is not exposed to significant currency risk.

### Interest Rate Risk

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

**Interest Rate Risk (Continued)**

The Company is exposed to interest rate fluctuations related to interest earned on term deposits. The Company has performed sensitivity analysis on interest rate risk at September 30, 2010 to determine how a change in interest rates would impact equity and net earnings. Since this balance carries a fixed rate of interest and management does not expect change in the current rate of interest and accordingly not exposed to any interest rate risk.

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

## 20 OTHER ITEMS

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. Out of the $625,552 pre-tax gain, $216,533 has been deferred and is being amortized to income over the term of the lease.

## 21 COMMITMENTS

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

| | $ |
|---|---|
| 2010 | 26,400 |
| 2011 | 105,600 |
| 2012 | 96,000 |
| 2013 | 96,000 |
| 2014 and after | 140,000 |

## 22 INCOME TAXES

**Tax Benefits Available**

The Company has operating losses of $1,348,087 and scientific research expenses of $2,065,157 available to reduce future income taxes. The scientific research expenses do not expire. The potential benefit of these amounts are expected to approximate 33%. Given the uncertainty of realization, no future asset or benefit has been recognized in these financial statements.

The estimated operating losses and expiry dates are as follows:

| | $ |
|---|---|
| 2015 | 501,000 |
| 2026 | 536,500 |
| 2029 | 310,587 |
| | $ 1,348,087 |

## 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 lawsuit is currently inactive.

**Director/Officer Indemnification**

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. There are no indemnification claims known to the Company at this time and nothing has been accrued in these financial statements with respect to any indemnifications. The Company has purchased directors' and officers' liability insurance.

## 24 COMPARATIVE FIGURES

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

## 25 SUBSEQUENT EVENT

On October 8, 2010, the Company announced that it had entered into convertible loan agreements for $497,000 @ 10% interest with directors and a related party. The majority of these parties were the same parties that had made the previous loans noted in Note 8. The loans are due on April 9, 2012 and carry an option to convert into common shares at $0.35 per share. At the Company's option, the loans can be repaid anytime after six months.