ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

ENVIRONMENTAL WASTE INTERNATIONAL INC.

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DECEMBER 31, 2007

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Rich
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CHARTERED ACCOUNTANTS

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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, 2007 and 2006 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, 2007 and 2006 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
March 14, 2008

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2007 and 2006

ASSETS

	2007 $	2006 $
Current Assets		
Cash	0	420,430
Accounts receivable	19,673	6,110
Prepaid expenses and sundry	33,186	49,437
Notes receivable - current portion (note 20)	905,542	0
Interest receivable	556	0
	958,957	475,977
Property and equipment (note 5)	4,630	3,973
Technology Rights (note 6)	1	300,000
Notes receivable (note 20)	10,328,458	0
Total Assets	**11,292,046**	**779,950**

Approved by the Board:

"Stephen Simms" Director "Sam Geist" Director

Please refer to notes 19 and 20 for a full understanding of these financial statements

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2007 AND 2006

LIABILITIES

	2007 $	2006 $
Current Liabilities		
Bank indebtedness (note 15)	5,847	0
Accounts payable and accrued liabilities	184,431	237,695
Loans payable (note 7)	469,500	367,000
Deferred income - current (note 12)	43,307	43,307
Deferred revenue - current (notes 1(e) and 9)	0	66,731
	703,085	714,733
Long-term Liabilities		
Deferred income (note 12)	128,615	171,922
Total Liabilities	831,700	886,655
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock (note 17(b))	35,816,645	35,657,624
Contributed surplus (note 17(f))	1,450,992	1,322,256
Warrants (note 17(d))	358,763	217,784
Convertible debt (note 7)	180,500	163,000
Deficit	(27,346,554)	(37,467,369)
	10,460,346	(106,705)
Total Liabilities and Shareholders' Equity (Deficiency)	**11,292,046**	**779,950**

Going Concern (note 2)

Commitments (note 22)

Contingent Liabilities (note 24)

Subsequent Event (note 26)

Please refer to notes 19 and 20 for a full understanding of these financial statements

The accompanying notes are an integral part of these financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 $	2006 $
REVENUE		
Management fees	1,634,000	0
Sales and other	218,005	72,384
Amortization of deferred income (note 12)	43,307	1,304
Foreign exchange (loss) gain	(8,994)	1,530
	1,886,318	75,218
EXPENSES		
Operating, labour and manufacturing expenses	618,292	649,762
Research and development costs	309,102	392,233
Stock based compensation (note 17(c))	128,736	143,698
Mortgage interest and financing costs (note 11)	0	136,425
Amortization of property, equipment and technology rights	22,726	89,897
Loan interest (note 7)	46,247	51,670
Scientific research and investment tax credits (note 18)	(58,912)	(188,475)
	1,066,191	1,275,210
INCOME (LOSS) BEFORE THE UNDERNOTED	820,127	(1,199,992)
OTHER ITEMS		
Gain on sale of technology rights (note 6)	9,320,833	0
Interest income	556	0
Gain on sale of real property (notes 21(a) and 12)	0	409,019
Gain on sale of property and equipment	7,782	0
Settlement of law suit (note 21(b))	(8,019)	(37,383)
INCOME (LOSS) BEFORE INCOME TAXES	10,141,279	(828,356)
PROVISION FOR INCOME TAXES		
Current income taxes	2,248,740	0
Benefit of losses carried forward (note 23(a))	(2,248,740)	0
	0	0
NET INCOME (LOSS) FOR THE YEAR	10,141,279	(828,356)
DEFICIT, BEGINNING OF YEAR	(37,467,369)	(36,597,650)
Distributions paid on convertible debt equity component (note 7)	(20,464)	(41,363)
DEFICIT, END OF YEAR	(27,346,554)	(37,467,369)
BASIC EARNINGS (LOSS) PER SHARE	0.144	(0.012)
DILUTED EARNINGS (LOSS) PER SHARE	0.132	(0.012)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	**70,546,954**	**66,318,187**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	**76,990,671**	**66,318,187**

Please refer to notes 19 and 20 for a full understanding of these financial statements

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, 2007 AND 2006

	2007 $	2006 $
OPERATING ACTIVITIES		
Net income (loss) for the year	10,141,279	(828,356)
Items not affecting cash		
Amortization	22,726	89,897
Gain on disposal of real property	0	(409,019)
Amortization of deferred income	(43,307)	(1,304)
Gain on disposal of technology rights	(9,320,833)	0
Gain on disposal of capital assets	(7,782)	0
Stock based compensation	128,736	143,698
Amortization of deferred financing charges	0	10,694
	920,819	(994,390)
Changes in non-cash working capital items		
Accounts receivable	(13,566)	(1,159)
Notes receivable - current portion	(905,542)	0
Government assistance receivable	0	67,123
Prepaid expenses and sundry	16,250	(13,973)
Interest receivable	(556)	0
Deferred revenue	(66,731)	66,731
Accounts payable and accrued charges	(53,260)	22,191
CASH USED IN OPERATING ACTIVITIES	(102,586)	(853,477)
INVESTING ACTIVITIES		
Purchase of capital assets	(2,549)	0
Proceeds on disposal of capital assets, net of expenses	7,782	1,701,280
Notes receivable	(728,458)	0
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(723,225)	1,701,280
FINANCING ACTIVITIES		
Repayment of loans	0	(48,100)
Proceeds from loans	120,000	0
Increase (Decrease) in long-term debt (note 11)	0	(1,300,000)
Proceeds from issuance of common stock	300,000	730,000
Distributions paid on convertible debt equity component	(20,464)	(41,363)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	399,536	(659,463)
NET INCREASE (DECREASE) IN CASH	(426,275)	188,340
Cash - beginning of year	420,430	232,090
(BANK INDEBTEDNESS) CASH - END OF YEAR	**(5,845)**	**420,430**
OTHER CASH FLOW INFORMATION:		
Interest paid	46,247	188,095
Distributions paid on convertible debt equity component	20,464	41,363

Please refer to notes 19 and 20 for a full understanding of these financial statements

The accompanying notes are an integral part of these financial statements

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, including the ultimate collection of its long-term notes receivable (note 20), 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, 2007 and 2006 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

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

(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 the year.

(e) Revenue Recognition

Revenue is recognized when all of the following criteria have been met: persuasive evidence of an arrangement exits; 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.

During fiscal 2007, the Company earned fees for the services provided to the Environmental Waste International Limited Partnership (the "EWILP") from a software license agreement and management and operating services agreements (representing software rights, management, personnel and facilities and equipment that the Company has agreed to provide to the EWILP).

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.

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

(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 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 2007, all revenues from operations were derived from sources located in Canada and United States and all identifiable assets were located in Canada (note 16).

(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) 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.

(o) 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, 2007, no such impairment has occurred.

(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 fee from 3 (2006 - 1) major customers amounting to approximately $1,845,171 representing 98% of total revenues (2006 - $42,541 representing 57% of total revenues). Accounts/note receivable from the above significant customers at December 31, 2007 is $1,650,096.

4. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the revised CICA Handbook Section 1506, Accounting Changes. Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior periods errors initiated in periods beginning on or after January 1, 2007. This new standard did not affect the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 1530, Comprehensive Income. Comprehensive income is the change in a company’s net assets that results from transactions, events and circumstances from sources other than the company’s shareholders and the company’s net income and Other Comprehensive Income. Other Comprehensive Income includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. There were no such items recognized in comprehensive income for the year ended December 31, 2007.

The company also prospectively adopted CICA Handbook Section 3251, Equity which establishes standards for the presentation of equity and changes in equity during the reporting period, effective for fiscal years beginning October 2006. This standard had no impact on the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. In accordance with this new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. This new standard did not affect the Company's consolidated financial statements for the year ended December 31, 2007.

On January 1, 2007, the Company prospectively adopted CICA Handbook Section 3865, Hedges. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. Company has not designated any hedging relationships. This new standard did not affect the Company's consolidated financial statements for the year ended December 31, 2007.

FUTURE CHANGE IN ACCOUNTING POLICIES

As of January 1, 2008, the Company will be required to adopt 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. The Company is assessing the impact of these new standards on its financial statements; however, the adoption is not expected to have a material impact on its financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Sections 3862, Financial Instruments – Disclosures; 3863, Financial Instruments – Presentation; 1535, Capital Disclosures and 1400, General Standards of Financial Statement Presentation. The Company is assessing the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional required disclosures.

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.

5. PROPERTY AND EQUIPMENT

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computer equipment	14,133	9,503	4,630
Equipment	5,893	5,893	0
	20,026	15,396	4,630

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computer equipment	11,583	7,610	3,973
Equipment	5,893	5,893	0
	17,476	13,503	3,973

6. TECHNOLOGY RIGHTS

	2007 $	2006 $
2002 Value	1	500,000
Accumulated amortization	0	(200,000)
	1	300,000

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. A gain of $9,320,833 was recognized on the sale of these rights. EWI has the right to re-acquire all assigned rights (see note 19). The Company has attributed $1 of 2002 value to the retained applications.

7. LOANS PAYABLE

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

		2007 $	2006 $
(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 November 1, 2007. The maturity date has been extended to September 30, 2008.	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, 2008.	100,000	100,000
(c)	Loans from directors convertible to common shares at the rate of $0.25 per share, was due on November 12, 2007. The maturity date has been extended to September 30, 2008.	81,000	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, 2008.	97,500	0
(e)	Loan from a director bearing interest at 12% per annum and is due on demand.	5,000	0
	Total long-term debt	469,500	367,000
	Less: current portion	(469,500)	(367,000)
		0	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.

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 will mature on December 31, 2008. The debentures are open to repayment from September 30, 2008 onward or can be converted into 460,000 common shares of the Company at $0.13 per share at the lender's option. 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 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, $20,464 interest paid on the equity portion was allocated to equity as a distribution on the equity component.

8. MORTGAGES PAYABLE

These mortgages were paid in full during 2006, the equity component of the second mortgage, being $172,000, was repaid with the debt component, and the mortgage was discharged upon sale of the real property. Second mortgage interest payments of $56,960, up until the discharge of the mortgage, were classified between the debt component and equity component as $35,190 of interest expense, and $21,770 as distributions on the equity component.

The deferred financing charges represented costs associated with the setup of the first mortgage and were being amortized to income straight line over the term of the mortgage. Upon discharge of the above noted mortgage, the unamortized balance of the deferred financing charges were written off as interest expense.

9. DEFERRED REVENUE

Deferred revenue represents a customer deposit of nil (2006 - $66,731) on a unit to be delivered to the customer in 2007. This deposit was recognized as income upon delivery in 2007.

10. ACCOUNTS RECEIVABLE

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

11. **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, 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 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.

12. **DEFERRED INCOME**

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

	2007 $	2006 $
Opening balance	215,229	0
Balance deferred during the period (note 21(a))	0	216,533
Amortization during the year	(43,307)	(1,304)
	171,922	215,229
Less current portion	(43,307)	(43,307)
	128,615	171,922

13. **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 - $18,712 (2006 - $22,851) and to a relative of the president - $36,000 (2006 - $36,000) and $12,000 (2006 - $12,000) to a relative of a director.

During the year the Company incurred no legal expenses with a law firm, which has a partner, who is also a member of the Board of Directors (2006 - $4,763).

A limited partner of the partnership is also a shareholder of the Company (note 19).

14. **ECONOMIC DEPENDENCE**

Approximately 87% of the Company's revenue has been derived from one customer.

15. **BANK INDEBTEDNESS**

Bank indebtedness in the amount of $5,847 includes $26,718 for cheques issued but not cashed at the year end.

16. SEGMENTED INFORMATION

The Company has determined that it has one operating segment being Environmental Waste International Inc.

Geographic information:

	Revenues $	Capital assets $
Canada	1,677,825	4,630
United States	208,493	-
Total	1,886,318	4,630

Information about major customers:

Revenues from one customer represents approximately $1,634,000 of the Company's total revenues.

17. CAPITAL STOCK

(a) Authorized:
Unlimited common shares

(b) Issued and outstanding:

	Number of Shares	Amount $
Balance at December 31, 2006	69,248,324	35,657,624
Private placement May 8, 2007 (i)	2,000,000	300,000
Value allocated to warrants (note 17(d))	0	(140,979)
Balance at December 31, 2007	71,248,324	35,816,645

(i) Private placement: 2,000,000 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 2007.

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 2007.

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 2007.

(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 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, 2007. In all cases, one option entitles the holder to purchase 1 common share at the designated exercise price.

	2007		2006	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at December 31, 2006	5,085,000	0.23	4,269,000	0.30
Exercised	0	0.00	0	0.00
Forfeited	(1,400,000)	(0.24)	(1,139,000)	(0.28)
Granted during the year	1,485,000	0.22	1,955,000	0.11
Outstanding at December 31, 2007	5,170,000	0.22	5,085,000	0.23

A summary of stock options outstanding at December 31, 2007 is set out below:

Outstanding Stock Options				Exercisable Stock Options	
Exercise price $	Number of options	Weighted average remaining contractual life	Weighted average exercise price $	Number of options	Weighted average exercise price $
less than 0.25	3,220,000	3.25 years	0.14	3,220,000	0.14
0.25 - 0.30	700,000	4.49 years	0.30	700,000	0.30
0.35 - 0.40	1,250,000	1.06 years	0.37	1,250,000	0.37
	5,170,000	2.89 years	0.22	5,170,000	0.22

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 3.75%; and a expected life of 5 years. This generated an expense to stock-based compensation of $128,736 (2006 - $143,698).

(d) Warrants:

On May 8, 2007, the Company issued 2,000,000 warrants, each warrant entitles the holder to acquire an additional common share at $0.20 and expires on May 7, 2009.

A summary of the status of the Company's warrants as at December 31, 2007 and changes during the year ended on that date are:

	2007	
	Warrants #	Weighted average exercise price $
Balance at December 31, 2006	4,500,000	0.18
Issued during the year (i)	2,000,000	0.20
Exercised during the year	0	0.00
Expired during the year	0	0.00
Outstanding at December 31, 2007	6,500,000	0.19

A summary of warrants outstanding at December 31, 2007 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 $
0.16	2,000,000	0.06 years	0.16	2,000,000	0.16
0.20	2,500,000	0.32 years	0.20	2,500,000	0.20
0.20	2,000,000	0.42	0.20	2,000,000	0.20
	6,500,000	0.80 years	0.19	6,500,000	0.19

(i) The fair value of these warrants 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 4.25% and an average expected life of 2 years.

Reconciliation:

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

(e) Per Share Amounts:

For the year ended December 31, 2007, the weighted average number of shares were 70,546,954 (2006 - 66,318,187). 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:

	2007 $	2006 $
Balance, beginning of year	1,322,256	1,178,558
Stock options granted and/or vested during the period:		
Net options issued and expired	128,736	143,698
Balance, end of year	1,450,992	1,322,256

18. **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 and 2007, the value of which is approximately $449,400. Since these claims have not been formally approved, the benefit hereof 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 2007, the company recognized SR&ED tax credits of $58,912 related to fiscal year 2006 (2006 - $188,475 related to fiscal years 2002 and 2005), for which no accounting benefit was previously recognized. These SR&ED tax credits have been recorded as reduction of expenses in the year of receipt.

19. **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 (note 20).

EWILP has syndicated subscription of 8,474 units as of December 31, 2007. 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 $4,095,738, or $483.33 per unit, of the limited partnership debt. Subsequent to year-end EWI received $339,151 with an additional $965,771 to be received over the period from June 2008 until June 30, 2009, for total cash proceeds to EWI of $1,304,922. EWILP continues to offer partnership units for sale. If fully subscribed this would result in further cash proceeds to EWI of up to $1,700,000 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.

20. NOTES RECEIVABLE

	2007 $	2006 $
(a) On June 1, 2007, 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 unsecured notes receivable as consideration (note 19); bearing effective interest at lesser of (i) 5% per annum and (ii) the rate prescribed by the Income Tax Act (Canada) for the purposes of section 143.2 calculated annually, due on December 31, 2014.	9,600,000	0
(b) This represents the unsecured notes receivable on account of management fees receivable from the individual partners of the EWILP for the services provided to the EWILP, bearing interest at 5%, due on December 31, 2009.	1,634,000	0
Total notes receivable	11,234,000	0
Less: current portion	(905,542)	0
Notes receivable - long-term	10,328,458	0

As part of the agreement for payment of interest and repayment of principal on the notes receivable the following was agreed:

(a) 100% of the individual limited partner's share of any net profits of the business carried on by EWILP will be first allocated for payment to EWI for their portion of interest due and unpaid on the notes receivable and once fully paid then,

(b) 55% of the individual limited partner's share of said profit will be allocated for payment to EWI for principal reduction, provided that, if any principal remains unpaid on December 31, 2014 with respect to an individual limited partner's proportionate share of their obligation to EWI, then such limited individual partner will repay their proportional share of the principal.

(c) See last paragraph of note 19 above if notes remains unpaid.

21. 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 (note 12).

	$
Sale price	1,765,000
Less: net book value	(1,075,728)
Less: selling expenses	(63,720)
Gain before the undernoted	625,552
Less amount of gain deferred as a result of sale-leaseback transaction (note 12)	(216,533)
Net gain	409,019

The Company leased back approximately 18% of the building. In accordance with 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 amount of $216,533 has been deferred.

(b) Settlement of Law Suit

During 2007, a consultant commenced an action against the Company relating to unpaid amounts under a contract for $22,400, pre-judgement and post-judgement interest from October 21, 2006 plus costs of the action. Subsequently, in a court negotiated settlement, this law suit was settled for $8,500, during the year, and has been recorded as an expense net of Goods and Services Tax in these financial statements.

	$
Cost of settlement of law suit	8,019

22. 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 four years, are approximately as follows:

	$
2008	49,800
2009	49,800
2010	49,800
2011	49,800

23. **INCOME TAXES**

(a) Provision of Income Taxes

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

	2007 $	2006 $
Net income (loss) before income taxes	10,141,279	(828,356)
Expected income tax expense (recovery) based upon the combined Canadian federal and provincial expected tax rates of 36.12% and (2006 - 36.12%)	3,663,030	(299,202)
Adjustments to tax benefit resulting from:		
Permanent differences (items not deductible or taxable for tax purposes)	38,384	(51,240)
Timing differences	(1,452,674)	224,750
Unrecorded tax benefit of losses	(2,248,740)	125,692
Provision for income taxes	0	0

(b) Future Income Tax Balances

The tax effect of temporary differences that gives rise to future income tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	2007 $	2006 $
Non-capital losses	2,480,652	5,170,000
SR&ED tax credits available	449,395	366,480
SR&ED expenditures applicable to future years	651,557	551,044
Timing differences resulting in potential future income taxes	940,759	(105,147)
Total net future tax assets	4,522,363	5,982,377
Valuation allowances	(4,522,363)	(5,982,377)
Total net future tax assets	0	0

(c) Tax Benefits Available

The Company has incurred the undernoted non-capital losses and has $1,803,867 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.

The estimated losses expire as follows:

	$
2009	5,036,500
2010	794,000
2015	501,000
2026	536,500
	6,868,000

24. 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. The Company denies liability in this action, and has made no provision in the financial statements.

Warranties and Guarantees

In 2005, the Company sold a limited warranty expiring December 7, 2009 on an installed system. In 2007, $23,176 was amortized to income. As at December 31, 2006, accounts payable includes a liability of $42,256 (2006 - $65,432) 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.

25. COMPARATIVE FIGURES

Certain 2006 comparative figures have been reclassified to conform to the current year's financial statement presentation.

26. **SUBSEQUENT EVENTS**

Subsequent to the balance sheet date, the Company has signed a memorandum of understanding (MOU) with TRD Instum Ltd. (TRD), a publicly traded Israeli company, to form jointly owned companies with the exclusive rights to EWI's patented Reverse Polymerization™ (RP) technology in Israel and certain European countries. The MOU will remain in effect until the signing of a final agreement (Agreement), no later than May 30, 2008. The terms of the MOU require TRD to place an order for a TR1500 on EWI's standard terms and conditions upon the signing of the Agreement. The Agreement will include specific performance requirements for TRD to retain exclusive rights in Israel and the designated European countries. TRD has placed an initial deposit of $180,000 in trust to be released upon the signing of the Agreement. If TRD and EWI do not complete the Agreement then 75% of the deposit will be returned to TRD with EWI retaining the remaining 25%, half as an investment in EWI common shares and half as compensation. Upon signing the Agreement, EWI and TRD will each receive two options to purchase up to 20% ownership in the other. The first is a 10% option priced at a 50% premium to each company's share trading price the day before the MOU was signed. The second 10% option will be priced at the ten day closing average price of the common shares prior to the first anniversary of the Agreement. Each option will be valid for one year; the options will run consecutively based on the Agreement signing date.