

ENVIRONMENTAL WASTE INTERNATIONAL INC.
UNAUDITED INTERIM FINANCIAL STATEMENTS
For The Three Month Period Ended March 31, 2011

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Index to the Unaudited Interim Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

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Note: The Company does not have Comprehensive Income, therefore, no IFRS reconciliation provided.

**ENVIRONMENTAL WASTE INTERNATIONAL INC.
Unaudited Interim Financial Statements
For The Three Month Period Ended March 31, 2011**

Responsibility for consolidated unaudited interim financial statements

The accompanying financial statements for Environmental Waste International Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. The most significant of these accounting principles have been set out in the December 31, 2010 audited financial statements.

Auditor involvement

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

Ajax, Ontario
June 17, 2011

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Balance Sheet
As At March 31, 2011, December 31, 2010 & January 1, 2010

ASSETS

	As at March 31 2011	As at December 31 2010	As at January 1 2010
	Prepared under IFRS (Unaudited)	Restated under IFRS (Unaudited) Canadian Dollars	Restated under IFRS (Unaudited)
Current Assets			
Cash and cash equivalents	\$ 1,175,649	\$ 463,313	\$ 1,189,585
Accounts receivable (Note 8)	49,725	21,942	318,505
Prepaid expenses and sundry (Note 9)	113,391	616,523	18,310
	<u>1,338,765</u>	<u>1,101,778</u>	<u>1,526,400</u>
Property and equipment (Note 4)	1,747,132	1,312,908	8,590
Goodwill (Note 10)	2,552,184	2,552,184	-
Technology Rights (Note 5)	87,500	100,000	150,000
Long Term Investments	-	-	588,724
Total Assets	<u>\$ 5,725,581</u>	<u>\$ 5,066,870</u>	<u>\$ 2,273,714</u>

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 Balance Sheet
As At March 31, 2011, December 31, 2010 & January 1, 2010

LIABILITIES

	As at March 31 2011	As at December 31 2010	As at January 1 2010
	Prepared under IFRS (Unaudited)	Restated under IFRS (Unaudited) Canadian Dollars	Restated under IFRS (Unaudited)
Current Liabilities			
Accounts payable and accrued liabilities	\$ 1,436,937	\$ 1,397,819	\$ 414,858
Provisions	350,987	375,472	350,987
Debt component of convertible loans (Note 13)	-	-	345,873
Deferred revenue	-	-	522,324
Current portion of mortgages payable (Note 15)	111,244	111,244	-
	<u>1,899,168</u>	<u>1,884,535</u>	<u>1,634,042</u>
Long-term Liabilities			
Loan payable-Northern Ontario Heritage Fund (note 14)	2,000,000	2,000,000	-
Mortgages payable (Note 15)	772,716	773,756	-
Debt component of convertible loans (Note 13)	377,162	377,162	-
	<u>3,149,878</u>	<u>3,150,918</u>	<u>-</u>
Total Liabilities	<u>5,049,046</u>	<u>5,035,453</u>	<u>1,634,042</u>

SHAREHOLDERS' EQUITY (DEFICIENCY)

Capital Stock (Note 18)	39,078,664	36,316,381	36,178,267
Contributed surplus (Note 18)	2,225,667	2,225,667	1,802,868
Warrants (Note 18)	926,141	926,141	926,141
Equity component of convertible debt (Note 13)	119,838	119,838	169,127
Deficit	(42,585,181)	(41,486,591)	(39,339,076)
	<u>(234,871)</u>	<u>(1,898,564)</u>	<u>(262,673)</u>
Non-Controlling interests (Note 10)	911,406	1,929,981	902,345
Total equity (deficiency)	<u>676,535</u>	<u>31,417</u>	<u>639,672</u>
Total Liabilities and Equity	<u>\$ 5,725,581</u>	<u>\$ 5,066,870</u>	<u>\$ 2,273,714</u>

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 Month Period Ended March 31, 2011 and 2010

	Three months ended March 31	
	2011	2010
	Prepared under IFRS (Unaudited)	Restated under IFRS (Unaudited)
	Canadian Dollars	
REVENUE		
Sales	\$ 13,107	\$ 7,693
Interest Income	4,564	-
Amortization of deferred income (Note 6)	-	85,308
Consulting Fees	-	125,037
	<u>17,671</u>	<u>218,038</u>
EXPENSES		
Manufacturing expenses	975,091	78,122
Research & development	(279,606)	-
Salaries, wages & benefits	164,078	111,117
Operations, general and administration	205,716	79,055
Foreign exchange	1,195	-
Interest - convertible debt	12,425	15,450
Interest - mortgages payable	23,455	-
Amortization of property, equipment and technology rights	13,907	12,963
	<u>1,116,261</u>	<u>296,707</u>
NET INCOME (LOSS)	<u>\$ (1,098,590)</u>	<u>\$ (78,669)</u>
Income (loss per share)	<u>\$ (0.013)</u>	<u>\$ (0.001)</u>
Weighted average number of common shares outstanding	<u>83,678,148</u>	<u>77,448,324</u>

The accompanying notes are an integral part of these financial statements.
Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Statement of Changes in Equity
For The Three Month Period Ended March 31, 2011 and 2010

	<u>Unaudited-Prepared under IFRS</u>			<u>Balance March 31, 2011</u>
	<u>Balance January 1, 2011</u>	<u>Net Value of shares Issued</u>	<u>Net Loss</u>	
Capital Stock	\$ 36,316,381	\$ 2,762,283	\$ -	\$ 39,078,664
Contributed Surplus	2,225,667	-	-	2,225,667
Warrants	926,141	-	-	926,141
Equity component of convertible loans	119,838	-	-	119,838
Deficit	(41,486,591)	-	(1,098,590)	(42,585,181)
Total	<u>\$ (1,898,564)</u>	<u>\$ 2,762,283</u>	<u>\$ (1,098,590)</u>	<u>\$ (234,871)</u>

	<u>Unaudited-Restated under IFRS</u>			<u>Balance March 31, 2010</u>
	<u>Balance January 1, 2010</u>	<u>Value of shares Issued</u>	<u>Net Loss</u>	
Capital Stock	\$ 36,178,267	\$ -	\$ -	\$ 36,178,267
Contributed Surplus	1,802,868	-	-	1,802,868
Warrants	926,141	-	-	926,141
Equity component of convertible loans	169,127	-	-	169,127
Deficit	(39,424,384)	-	85,308	(39,339,076)
Total	<u>\$ (347,981)</u>	<u>\$ -</u>	<u>\$ 85,308</u>	<u>\$ (262,673)</u>

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 Month Period Ended March 31, 2011 and 2010

	Three months ended March 31	
	2011 Prepared under IFRS (Unaudited) Canadian Dollars	2010 Restated under IFRS (Unaudited) Canadian Dollars
OPERATING ACTIVITIES		
Net Income (loss) for the period	\$ (1,098,590)	\$ (78,669)
Items not affecting cash:		
Amortization of plant, equipment and technology rights	13,907	12,963
Amortization of deferred income	-	(85,308)
	<u>(1,084,683)</u>	<u>(151,014)</u>
Changes in non-cash working capital items:		
Accounts receivable	(27,783)	(1,067,945)
Prepaid expenses and sundry	503,132	15,351
Accounts payable & accrued liabilities	39,118	906,508
Provisions	(24,486)	-
Deferred revenue	-	(125,037)
Mortgages Payable	(1,040)	-
Non-Controlling Interests	(1,018,575)	-
	<u>(529,634)</u>	<u>(271,123)</u>
 CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES	 <u>(1,614,317)</u>	 <u>(422,137)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>(435,631)</u>	<u>(802)</u>
FINANCING ACTIVITIES		
Issuance of common shares	2,798,573	-
Share issue costs	(36,289)	-
	<u>2,762,284</u>	<u>-</u>
 NET INCREASE (DECREASE) IN CASH	 712,336	 (422,939)
 CASH - BEGINNING OF PERIOD	 463,313	 1,189,585
 CASH - END OF PERIOD	 \$ 1,175,649	 \$ 766,646

The accompanying notes are an integral part of these financial statements.
Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Equity Reconciliation from CGAAP to IFRS
For The Three Month Period Ended March 31, 2011 and 2010

A reconciliation of how the transition from CGAAP to IFRS has affected the equity of the Corporation, its financial performance and cash flows is set out below:

Reconciliation of Equity as at January 1, 2010, March 31, 2010 and December 31, 2010

	Canadian Dollars		
	December 31 2010	March 31 2010	January 1 2010
Capital Stock			
Balance in accordance with CGAAP	\$ 36,316,381	\$ 36,178,267	\$ 36,178,267
Adjustments for IRFS	-	-	-
Balance in accordance with IFRS	36,316,381	36,178,267	36,178,267
Contributed Surplus			
Balance in accordance with CGAAP	2,225,667	1,802,868	1,802,868
Adjustments for IRFS	-	-	-
Balance in accordance with IFRS	2,225,667	1,802,868	1,802,868
Warrants			
Balance in accordance with CGAAP	926,141	926,141	926,141
Adjustments for IRFS	-	-	-
Balance in accordance with IFRS	926,141	926,141	926,141
Equity Component of Convertible Loans			
Balance in accordance with CGAAP	119,838	169,127	169,127
Adjustments for IRFS	-	-	-
Balance in accordance with IFRS	119,838	169,127	169,127
Deficit			
Balance in accordance with CGAAP	(41,486,591)	(39,577,534)	(39,424,384)
Adjustment for IRFS (Note 1)	-	74,481	85,308
Balance in accordance with IFRS	\$ (41,486,591)	\$ (39,503,053)	\$ (39,339,076)

Note 1 - Under IFRS, Deferred income is eliminated with the balance brought into income under IAS 17.58.

The accompanying notes are an integral part of these financial statements.
Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Statement of Operations Reconciliation from CGAAP to IFRS
For The Three Month Period Ended March 31, 2010 and the Year Ended December 31, 2010

	<u>Three months ended March 31, 2010</u>		
	CGAAP	Adjustment Canadian Dollars	IFRS
REVENUE			
Sales	\$ 7,693	\$ -	\$ 7,693
Amortization of deferred income (See Note 1 below)	10,827	74,481	85,308
Consulting Fees	125,037	-	125,037
	<u>143,557</u>	<u>74,481</u>	<u>218,038</u>
EXPENSES			
Manufacturing expenses	78,122	-	78,122
Research & development	-	-	-
Salaries, wages & benefits	111,117	-	111,117
Operations, general and administration	79,055	-	79,055
Foreign exchange	-	-	-
Interest - convertible debt	15,450	-	15,450
Amortization of property, equipment and technology rights	12,963	-	12,963
	<u>296,707</u>	<u>-</u>	<u>296,707</u>
NET INCOME (LOSS)	<u>\$ (153,150)</u>	<u>\$ 74,481</u>	<u>\$ (78,669)</u>
<u>Year ended December 31, 2010</u>			
	CGAAP	Adjustment	IFRS
REVENUE			
Sales and other	\$ 53,850	\$ -	\$ 53,850
Interest Income	-	13,635	13,635
Amortization of deferred income (See Note 1 below)	85,309	-	85,309
Consulting Fees	2,426,569	-	2,426,569
Foreign exchange (loss) gain	(5,159)	-	(5,159)
	<u>2,560,569</u>	<u>13,635</u>	<u>2,574,204</u>
EXPENSES			
Operating, labour and manufacturing expenses	3,392,950	-	3,392,950
Research & development	-	-	-
Stock based compensation	253,672	-	253,672
Interest - convertible debt	39,497	-	39,497
Interest - mortgages payable	14,704	-	14,704
Scientific research and investment tax credits	(10,568)	-	(10,568)
Amortization of property, equipment and technology rights	53,775	-	53,775
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,744,030</u>	<u>-</u>	<u>3,744,030</u>
<u>LOSS BEFORE THE UNDERNOTED:</u>	<u>(1,183,461)</u>	<u>13,635</u>	<u>(1,169,826)</u>
Interest income	13,635	(13,635)	-
Gain on sale of partnership units	74,994	-	74,994
Loss on equity investment	(835,494)	-	(835,494)
Loss on repayment of convertible loans	(169,127)	-	(169,127)
Non-Controlling Interests	56,540	-	56,540
	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (2,042,913)</u>	<u>\$ -</u>	<u>\$ (2,042,913)</u>

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

Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

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

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to a going concern which assumes that the Company will continue to operate for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

The Company incurred a net loss of \$2,042,913 during the year ended December 31, 2010 and, as of that date, has a working capital deficiency of \$782,757 (2009 – \$150,949) and a cumulative deficit of \$41,486,591 (2009 - \$39,424,384). 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statements and Use of Estimates

The accompanying financial statements for EWI for the quarters ended March 31, 2011 and 2010 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with IFRS.

The preparation of financial statements in conformity with IFRS 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.

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

The consolidated interim financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period (December 31, 2010), or which have been adopted early, including IAS 34, Interim Financial Reporting. The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. In accordance with IFRS 1, First-time Adoption of IFRS, the company presents two statements of financial position in its 2010 financial statements. In the year 2011, the company will present three comparative periods for the statement of financial position, and in the subsequent following years for two comparative periods when it: (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its financial statements, or (iii) reclassifies items in the financial

The accompanying financial statements for EWI for the quarters ended March 31, 2011 and 2010 in the opinion of management, include all adjustments necessary for their fair presentation in conformity with IFRS.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Environmental Waste Management Corporation "EWMC", Jaguar Carbon Sales Limited, EWI Rubber Inc., 2228641 Ontario Limited, Ellsin Environmental Ltd. ("Ellsin") and a variable interest entity, Environmental Waste International Limited Partnership ("EWILP"), for which the Company is the primary beneficiary. All inter-company transactions and balances have been eliminated on consolidation. The activities of the subsidiaries are currently immaterial.

In general a SPE 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.

SIC 12 requires EWILP to be consolidated with EWI if the relations between them is such that (a) EWI has the power to govern the financial and operating policies of EWILP under a statute or an agreement, (b) in substance, the activities of EWILP are being conducted on behalf of EWI according to specific business needs so that EWI obtains benefits from EWILP's operations, (c) in substance, EWI has the decision making powers to obtain the majority of the benefits of the activities of EWILP or, by setting up an 'auto-pilot' mechanism, EWI has delegated these decision making powers, (d) in substance, EWI has the rights to obtain the majority of the benefits of EWILP and therefore may be exposed to risks incidental to the activities of EWILP, and (e) in substance, EWI retains the majority of the residual or ownership risks related to EWILP or its assets in order to obtain benefits from its activities.

(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.

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.

The consolidated financial statements for prior periods include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. In accordance with IAS 28.29, 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 11).

(d) Technology Rights

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

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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.

(f) Goodwill

Goodwill results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination. Goodwill is not amortized, but tested for impairment annually or if events or changes in circumstances indicate that the asset might be impaired. Goodwill has an indefinite life.

(g) Revenue Recognition

Revenue is recognized when all of the following criteria have been met: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be estimated reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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.

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.

Interest Income is a subject matter of IAS 18: Revenues. Hence, it has been shifted into the Revenues from Other Income. Interest Income is calculated on the basis of the Effective Interest Rate method under IFRS as against Accruals on a time basis under CGAAP. Since the difference in these two methods results in the difference in amounts allocated to each period, no recalculation is done as the mortgage receivable in respect of which they were arising have been eliminated on consolidation.

In accordance with the latitude available under IAS 18.33, royalties are recognized as earned when received from the sub-licencee or their agent.

The Tire processing fees will be recognized as income on receipt of cash from the licensee or their agent.

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

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

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Stock Based Compensation

The Company has 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 the EWI believes are reasonable.

(i) 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.

(j) Basic and Diluted Loss Per Share

Basic loss per share has been computed by dividing net 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 diluted earnings/loss per share. Diluted loss per share is calculated using the treasury stock method in which 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. The diluted loss per share calculation excludes any potential conversion of options and warrants if their effect is anti-dilutive.

(k) Segmented Information

The Company has determined that it has two geographic segments. During the period, all revenues from operations were derived from sources located in the United States and all identifiable assets were located in Canada (note 20).

(l) 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. Such amounts are disclosed as Other Income, in accordance with IAS 20.29. The Company recognizes ITCs and other incentives when earned, and when there is reasonable assurance of realization.

(m) Research and Development Costs.

Research costs are expensed as incurred [IAS 38.54]. Development costs that meet the criteria for deferral under International Financial Reporting Standards 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 [IAS 38.57(a)-(f)].

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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. 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.

(o) 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.

(p) 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 March 31, 2011, no such impairment has occurred.

(q) 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

Computer equipment	30-55%	declining balance
Building	4%	declining balance
Equipment	30%	declining balance
Gas Engine	10%	declining balance

One-half of annual depreciation and amortization is charged on net assets acquired during the period. Government assistance is recorded as a reduction of the related assets.

The building and gas engine have not been amortized as they were not available for use during the period.

(r) Cash Equivalents

In prior periods, cash equivalents consisted principally of highly liquid interest-bearing short-term deposits. The Company defines cash equivalents as highly liquid investments which are readily convertible into a known amount of cash, 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.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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.

(t) Product Warranty Period:

Environmental Waste International Inc.

The warranty period for the products typically is one year. The product warranty accrual reflects management's best estimate of probable liability under its product warranties. 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 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.

The product warranty accrual reflects management's best estimate of probable liability under its product warranties. 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 period ended March 31, 2011.

(u) Concentration of Credit Risk

The Company derived net sales and fees from one (2010 -2) major customers amounting to approximately \$13,107 (2010-\$2,473,812) representing 74% of total revenues (2010 - \$2,473,812 representing 97% of total revenues).

(v) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") of the CICA announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing CGAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The conversion to IFRS will impact the Company's accounting policies, data systems, internal controls over financial reporting and disclosure controls and procedure. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The current focus of the project is identification of local level impacts for the opening balance sheet in the Company's operations, and finalization of the IFRS 1 transitional provisions to be taken. The technical analysis completed by the Company has indicated that the transition to IFRS will not have a material impact on the Company's financial statements.

(x) TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS IN FISCAL 2011

IFRS uses a conceptual framework similar to CGAAP; however, certain differences exist related to items such as recognition, measurement, and disclosure that could significantly impact the Company's accounting policies and related business processes. The Company is continuing its assessment of the full impact of its transition to IFRS as further discussed below.

Accounting Policies

- Perform a detailed comparison of IFRS to CGAAP to determine the impact to the Company's accounting policies.
- Key differences between IFRS and CGAAP have been identified.
- Other differences between IFRS and CGAAP, which are expected to have a lower impact and require limited changes to business processes have also been identified.
- Analyze and determine ongoing policies where alternatives are permitted.
- The Company has analyzed the available alternatives for the majority of its significant accounting policies and has completed a preliminary assessment on which alternatives it will select.
- Analyze and determine which IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1) exemptions will be taken on transition to IFRS.
- The Company has analyzed the available IFRS 1 exemptions and has completed an assessment on certain of the exemptions it expects to apply on transition.
- Identify the tax implications resulting from first time adoption decisions and ongoing accounting policy differences.
- The Company is assessing the tax impacts related to its first-time adoption decisions and transitional adjustments to IFRS, and the on-going tax impacts of accounting policy differences.
- Implement revisions to key accounting policies
- Technical accounting analyses have been completed for all IFRS standards that are expected to impact the Company.
- Key accounting policies requiring revisions have been identified.

(y) FINANCIAL STATEMENT PREPARATION AND REPORTING

- Identify significant changes in note disclosures and financial statement presentation.
- Significant changes in note disclosures and financial statement presentation have been identified, drafts have been prepared and data requirements are being assessed and gathered.
- Assess the impact of transition on the IFRS opening Consolidated Balance Sheet.
- An analysis of the impact to the Company's IFRS opening Consolidated Balance Sheet has been prepared for internal review. This analysis may change as the Company finalizes its IFRS 1 exemption options and accounting policy decisions and reviews all data to ensure its accuracy.
- Perform data gathering and prepare IFRS opening Consolidated Balance Sheet and comparative financial information, including related transitional reconciliation and note disclosures.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) FINANCIAL STATEMENT PREPARATION AND REPORTING (Continued)

· Processes have been established to gather data to prepare the Company's IFRS opening Consolidated Balance Sheet. A preliminary draft of the opening Consolidated Balance Sheet has been prepared for internal review. We anticipate this draft to change as the Company finalizes its IFRS 1 exemption options and accounting policy decisions throughout fiscal 2011.

· Preliminary drafts of the transitional reconciliations from CGAAP to IFRS and related note disclosures, as required by IFRS 1, are being prepared for internal review.

· Report IFRS Consolidated Financial Statements, including an IFRS opening Consolidated Balance Sheet, transitional reconciliations and related note disclosures to be effective for the interim and annual periods beginning in the first quarter of 2011.

(z) FIRST-TIME ADOPTION OF IFRS

Accounting changes resulting from the transition to IFRS will generally be reflected in the Company's IFRS opening Consolidated Balance Sheet on a retrospective basis. Where transition has been accounted for on a retrospective basis, the IFRS opening Consolidated Balance Sheet will be presented as if IFRS had always been applied and adjustments for any differences between CGAAP and IFRS will affect IFRS opening retained earnings. Initial elections upon adoption of IFRS (IFRS 1) specify certain mandatory exceptions to the retrospective application of certain standards, and permit exemption options for certain other standards. For the Company, there are significant exemption options available in the areas of accounting for the following: (i) Share Based payment transaction, (ii) Estimates, (iii) Designation of Financial Instruments, and (iv) Deemed costs.

(aa) SHARE-BASED PAYMENTS

Under IFRS, the cost of share-based payments is recognized over the period that an employee provides the service to earn the award.

This period is generally equal to the vesting period, and may include a period prior to the grant date. Under CGAAP, the Company does not recognize an expense before the grant date. Since Environmental Waste International Inc. had no options outstanding on or before 7 Nov 2002, it is not required to choose the optional exemption of applying IFRS 2: Share Based Payment.

(bb) DESIGNATION OF FINANCIAL INSTRUMENTS

Under IAS 39, Financial Instruments: Recognition and Measurement, entities are permitted to make certain designations only upon initial recognition. IFRS 1 provides entities with an opportunity to make these designations on the date of transition to IFRS. Specifically, on transition, IFRS 1 permits the Company to a) make an available-for-sale designation for financial assets and, b) designate any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets certain criteria specified under IFRS at that date. The Company has determined that it will not re-designate any of its financial assets to available-for-sale or fair value through profit or loss on transition.

(cc) ESTIMATES

An entity's estimates under IFRSs at the date of transition to IFRSs shall be consistent with estimates made for the same date under previous CGAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. Estimates shall not be adjusted for information received after the date of transition to IFRSs; this information is to be treated in the same way as non-adjusting events after the balance sheet date under IAS 10.

(dd) DEEMED COSTS

IFRS 1 allows an exemption from re-measuring an item's cost in line with IAS 16; the fair value of the asset at the date of transition can be used as its deemed cost, this will be the base for subsequent depreciation. This election may be used selectively for individual items of property, plant and equipment. However, Environmental Waste International Inc. has declined to take this exemption.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) EXPECTED IMPACT TO IFRS OPENING CONSOLIDATED BALANCE SHEET

The Company estimates an increase in the Retained Earnings by an amount of \$85,308 in the IFRS opening Consolidated Balance Sheet. This change is on account of IAS 17.61 which states: 'If a sale and lease back transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately'. A re-classification has also made from Accruals into Provisions in the Opening Balance Sheet in accordance with the Canadian GAAP and IFRS differences [IAS 37.11].

4 PROPERTY AND EQUIPMENT

March 31, 2011

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
<i>Land</i>	68,260	0	68,260
<i>Building</i>	1,035,036	0	1,035,036
<i>Gas Engine</i>	636,740	0	636,740
<i>Computer Equipment</i>	18,837	16,111	2,726
<i>Equipment</i>	13,235	8,865	4,370
	<u>1,772,108</u>	<u>24,976</u>	<u>1,747,132</u>

December 31, 2010

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
<i>Land</i>	68,260	0	68,260
<i>Building</i>	1,237,147	0	1,237,147
<i>Computer Equipment</i>	18,837	15,109	3,728
<i>Equipment</i>	12,235	8,462	3,773
	<u>1,336,479</u>	<u>23,571</u>	<u>1,312,908</u>

January 1, 2010

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
<i>Computer Equipment</i>	16,151	12,951	3,200
<i>Equipment</i>	12,235	6,845	5,390
	<u>28,386</u>	<u>19,796</u>	<u>8,590</u>

5 TECHNOLOGY RIGHTS

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Opening balance, net	100,000	150,000	200,000
Amortization during the period	(12,500)	(50,000)	(50,000)
Closing balance, net	<u>87,500</u>	<u>100,000</u>	<u>150,000</u>

6 DEFERRED INCOME

A sale and leaseback transaction entered in the year 2009 resulted in EW I using the property as an Operating lease. Under IFRS, the profit on the sale of the property is to be accounted for in the Income Statement immediately [IAS 17.61] and is not to be deferred as under the CGAAP. Hence this amount of \$85,308 split between Deferred Income-current of \$ 43,307 and Deferred Income-non-current of \$42,001 has been written back to the Retained Earnings on the Income Statement.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

7 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 EWI. In prior periods, deferred revenue has been recognized based on the percentage of completion method. An amount of \$2,426,569 for the year ended December 31, 2010 (2009 - \$677,676) is reflected as Revenue, \$nil (2009 - \$522,324) as Deferred Revenue and manufacturing costs of \$1,995,776 (2009 - \$423,407) reflected in operating, labour and manufacturing expenses. These transactions reflect activity related to Ellsin prior to November 1, 2010 (note 10).

8 ACCOUNTS RECEIVABLE

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

9 PREPAID EXPENSES AND SUNDRY

The balance as at December 31, 2010 predominately consisted of deposits on a large piece of machinery delivered to the Company in this quarter.

10 VARIABLE INTEREST ENTITIES AND NON-CONTROLLING INTERESTS

The Company is currently the primary beneficiary of one (2010-two) special purpose entity ("SPE") as defined under SIC-12 on Consolidation: Special Entities.

Ellsin

In the prior year, the Company held a 37.5% interest in Ellsin Environmental Ltd ("Ellsin"). On January 27, 2011, the Company completed the acquisition of Ellsin. As of November 1, 2010, the Company entered into negotiations to acquire the remaining 62.5% ownership of Ellsin and commenced providing financing for the completion of the TR900 pilot plant tire system. In addition, the Company began providing operational and advisory services to Ellsin from that day. As a result of the Company's equity interest, financing and other advisory services, the Company determined that it is the primary beneficiary as defined by the SIC-12 on Consolidation: Special Entities, and accordingly, the Company has consolidated the results of Ellsin from November 1, 2010 to December 31, 2010. Goodwill recognized in the transaction amounted to \$2,552,184 and the non-controlling interest in the entity is presented separately.

EWILP

The Company holds an indirect 46.66% interest in the EWILP. 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 below shareholders' equity on the balance sheet. The proceeds 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. The 53.34% non-controlling interest in the EWILP is presented separately.

Reconciliation of Non-Controlling Interest:

	2011	2010
	\$	\$
<u>EWILP</u>		
Opening Balance	911,406	902,345
Share of proceeds on sale of partnership units	0	65,601
Share of loss	0	(56,540)
	<u>911,406</u>	<u>911,406</u>
<u>Ellsin</u>		
Consideration owing for the acquisition of 62.5% interest on January 27, 2011	0	1,018,575
	<u>911,406</u>	<u>1,929,981</u>

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

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

11 LONG-TERM INVESTMENT (DEFICIENCY) EQUITY

Investment in Ellsin Environmental Ltd. ("Ellsin"):

2010
\$

(a) Opening balance 588,724

During 2009, the company acquired 37.5% of the common shares of Ellsin 0
 Loss on equity investment to October 31, 2010 (835,494)
 Total (deficiency) investment (246,770)
 Eliminated on acquisition (note 10) 246,770
 Balance as at December 31, 2010 0

Until October 31, 2010, the Company accounted for this investment using the equity accounting method as the Company had significant influence over Ellsin. The Company has recorded its equity share of Ellsin's loss of \$835,494 during the period ended October 31, 2010 (2009 - \$311,276). Subsequent to October 31, 2010 Ellsin has been accounted for as a SPE (note 10).

12 PROVISIONS

Under IAS 37.11, a re-classification is made from Accruals and Accounts payable into provisions in the Opening Balance Sheet. The provisions include audit accruals and retro-active pay. There is an element of uncertainty regarding the amount and timing of the payment of both these expenses.

Audit accrual

	31-Dec-10	31-Dec-09
Opening Balance	(56,229)	22,500
Additional provisions in the period	57,398	75,054
Amounts used (ie incurred and charged against the provision)	(56,229)	(22,500)
Unused amounts reversed during the period		
Closing Balance of the Provision	80,714	(56,229)

Retro-active Pay

	31-Dec-10	31-Dec-09
Opening Balance	294,758	-
Additional provisions in the period	-	294,758
Amounts used (ie incurred and charged against the provision)	-	-
Unused amounts reversed during the period	-	-
Closing Balance of the Provision	294,758	294,758

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
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13 DEBT COMPONENT OF CONVERTIBLE LOANS

All loans bear monthly interest at the rate of 10%. The interest is payable monthly. The loans consists of the following.

	2011	2010
	\$	\$
(a) Represents a loan from a relative of the president of the Company convertible for common shares at the rate of \$0.35 per share and is due on April 9, 2012.	228,422	228,422
(b) Represents loans from directors convertible to common shares at the rate of \$0.35 per share and is due on April 9, 2012.	148,740	148,740
Total long-term debt	377,162	377,162
Less: current portion	-	-
	<u>377,162</u>	<u>377,162</u>

In 2004, as required by CGAAP (and now IFRS), 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 two years, an expected volatility of 136% and a dividend yield rate of nil. As a result, the company allocated \$267,000 of the gross proceeds received to debt and \$163,000 to equity (\$20,000 of such debt was repaid in 2008 (2007 - \$10,000)).

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 12% convertible debentures for a balance principal amount of \$59,800. The debenture expired on December 31, 2008. As required by CGAAP, 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 one year, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company allocated \$97,500 of gross proceeds received to debt and \$17,500 to equity.

During fiscal 2010, the above convertible loans were repaid at the original issue amount and the unamortized equity component (discount) has been written off as a loss on repayment of convertible loans.

During fiscal 2009, the Company negotiated an extension of its \$515,000 debt due September 30, 2009 to September 30, 2010. As an incentive to extend the repayment date, the Company issued 515,000, two year \$.20 warrants. 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 two years, and \$8,046 was recorded as Stock-based compensation.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

13 DEBT COMPONENT OF CONVERTIBLE LOANS (Continued)

In 2010, the Company borrowed \$497,000 from five directors of the Company. The loans bear interest at 10%, are unsecured, are due on April 9, 2010 with the feature to convert it to equity. As required by CGAAP (and now IFRS), 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 10%, 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 1.75%, an expected life of approximately 18 months, an expected volatility of 100% and a dividend yield rate of nil. As a result, the Company allocated \$377,162 of the gross proceeds received to debt and \$119,838 to equity.

Interest payments in the year on the convertible loans 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 10%. During fiscal 2010, \$19,294 interest paid on the equity portion of the loan paid off on September 30, 2010 and new loans obtained in 2010, was allocated to equity as a distribution on the equity component.

14 LOAN PAYABLE - NORTHERN ONTARIO HERITAGE FUND

A non-revolving term loan of \$2,000,000 from the Northern Ontario Heritage Fund Corporation for the purchase of the TR900 pilot plant tire system. Terms and conditions include a fixed interest rate of 4.00% per annum compounded monthly, not in advance. The loan matures on March 23, 2020.	2011 \$	2010 \$
	2,000,000	2,000,000
Less current portion	0	0
Balance	<u>2,000,000</u>	<u>2,000,000</u>

The blended principal and interest repayment against the above term loan is \$27,337.61 per month. The interest payment on the above loan will commence on the third anniversary of the closing date of this loan. The blended payment will start on the first day of the month following the month in which the interest payment commences.

The security for the above bank loan is:

- (a) A General Security Agreement covering all assets other than real property of Ellsin Environmental Ltd.
- (b) An assignment of all risks and fire insurance on the subject properties.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

15 MORTGAGE PAYABLE

	2011 \$	2010 \$
(a) First mortgage of \$150,000 from the Community Development Corporation of Sault Ste. Marie, Ontario, term is two (2) years, amortization period is ten (10) years, bearing interest of 6% per annum calculated monthly, due on August 1, 2012.	148,960	150,000
(b) Second mortgage bearing interest at 12%, term is five (5) years, amortization period is eight (8) years, due on April 15, 2015. Further, the borrower issued to each lender of the investor group one (1) common share purchase warrant of Ellsin for each one (1) dollar of principal advanced hereunder entitling the holder thereof to purchase one (1) common share of the debtor at an exercise price of two dollars (2) for the period of two (2) years from the date of issuance. These Ellsin warrants were cancelled as part of the EWI purchase of Ellsin.	735,000	735,000
Total- long term debt	883,960	885,000
Less: current portion	(111,244)	(111,244)
	<u>772,716</u>	<u>773,756</u>

The security for the above mortgage is as follows:

(a) Community Development Corporation of Sault Ste. Marie, Ontario

(1) A promissory note in the amount of \$150,000.

(2) A fixed and floating charge on the business assets of Ellsin Environmental Ltd. by way of a General Security Agreement subordinate to the Northern Ontario Heritage Fund Corporation, covering all assets other than real property.

(b) The Shareholder Investor Group

(1) Second charge on the property, subordinate to the first charge of \$150,000 of Community Development Corporation of Sault Ste. Marie.

(c) Principal repayments over the next five years are as follows:

	\$
2011	111,244
2012	113,900
2013	114,680
2014	115,510
2015 and subsequent	429,666
	<u>885,000</u>

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three Month Period Ended March 31, 2011

16 ENVIRONMENTAL WASTE INTERNATIONAL LIMITED PARTNERSHIP

On June 1, 2007, Environmental Waste International Inc. 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 \$9,000,000 with EWI taking notes receivable as consideration. EWILP has syndicated subscriptions of 11,637 units as of March 31, 2011 (2010-11,637). 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 \$9,931,199 debt.

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 31, 2014 by issuing up to \$6,600,000 in EWI stock at its then fair market value, based on the ten (10) day average trading price, to be not less than \$0.50 a share.

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

17 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 through 2009 inclusive, 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.

During 2010, the Company recognized SR&ED tax credits of \$10,568 related to fiscal year 2009 (2009 - \$33,454 related to fiscal year 2008), for which no accounting benefit was previously recognized. These SR&ED tax credits have been recorded as a reduction to expenses in the year of receipt, in accordance with IAS 20.29.

18 CAPITAL STOCK

(a) Authorized:
 Unlimited common shares

	March 31, 2011		December 31, 2010	
	Number of Shares	Amount \$	Number of Shares	Amount \$
(b) Issued and outstanding:				
Balance, beginning of period	78,398,324	36,316,381	77,448,324	36,178,267
Options exercised	-	-	950,000	138,114
Warrants Exercised (i)	150,000	30,000	-	-
Private Placement (Note 28)	5,000,000	1,750,000	-	-
Shares Issued to Acquire Ellsin (Note 27)	2,263,500	1,018,575	-	-
Share issue costs (Note 28)	-	(36,292)	-	-
Balance, end of period	85,811,824	39,078,664	78,398,324	36,316,381

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

(i) Warrants Exercised

Pursuant to a non-brokered private placement on July 23, 2009, the Company issued 6,000,000 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 July 23, 2011.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
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18 CAPITAL STOCK (Continued)

(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 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 July 16, 2010, at the Annual General and Special Shareholders' meeting, the shareholders approved the resolution to increase the number of common shares available for issue from 7,100,000 to 7,500,000 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 were outstanding on March 31, 2011 and December 31, 2010.

	<u>March 31, 2011</u>		<u>2010</u>	
	<u>Number of options</u>	<u>Weighted exercise price</u>	<u>Number of options</u>	<u>average exercise price</u>
		\$		\$
Balance, beginning of period	6,610,000	0.24	6,430,000	0.19
Exercised			(950,000)	(0.15)
Forfeited			(565,000)	0.20
Granted during the year	-	-	1,695,000	0.27
Balance, end of period	6,610,000	0.24	6,610,000	0.24

A summary of stock options outstanding at March 31, 2011 is set out below:

<u>Outstanding and Exercisable Stock Options</u>			
<u>Exercise price</u>	<u>Number of options</u>	<u>Weighted average remaining contractual life</u>	<u>Weighted average exercise price</u>
\$			\$
Less than 0.25	3,495,000	1.67 years	0.15
0.25 - 0.30	2,715,000	3.11 years	0.28
0.35 - 0.40	400,000	3.96 years	0.35
	<u>6,610,000</u>	<u>2.40 years</u>	<u>0.24</u>

The fair value of these options were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 100%; risk free interest rates of 1.75% - 2.63%; and an expected life of 2 - 5 years. In 2010 this generated an expense to stock-based compensation of \$253,672.

(d) Warrants

On April 17, 2009, the Company issued 515,000 warrants; each warrant entitles the holder to acquire an additional common share at \$0.20 and expires on April 16, 2011. These warrants were exercised on April 15, 2011.

On July 23, 2009, the Company issued 6,000,000 warrants, each warrant entitles the holder to acquire an additional common share at \$0.20 and expires on July 22, 2011.

On January 24, 2011, the Company issued 5,000,000 half warrants, or the equivalent of 2,500,000 warrants, each full warrant entitles the holder to acquire an additional common share at \$0.50 and expires on January 23, 2013.

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18 CAPITAL STOCK (Continued)

A summary of the status of the Company's warrants as at March 31, 2011 and changes during the year ended

	March 31, 2011		2010	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Balance, beginning of period	6,515,000	0.20	6,515,000	0.20
Exercised	(150,000)	(0.20)	0	
Forfeited	0		0	
Granted during the year	2,500,000	0.50	0	
Balance, end of period	8,865,000	0.28	6,515,000	0.20

A summary of warrants outstanding at March 31, 2011 is set out below:

Outstanding and Exercisable Warrants			
Exercise price \$	Number of options	Weighted average remaining contractual life	Weighted average exercise price \$
0.20	515,000	0.04 years	0.20
0.20	5,850,000	0.20 years	0.20
0.50	2,500,000	0.51 years	0.50
0.28	8,865,000	0.71 years	0.28

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.

	Number of options	Amount \$
Reconciliation:		
Balance, beginning of period	6,515,000	926,141
Warrants exercised in 2011	(150,000)	0
Warrants granted in 2011	2,500,000	
Balance, end of period	8,865,000	926,141

(e) **Per Share Amounts:**

For the three months ended March 31, 2011, the weighted average number of shares were 83,678,148 (2010 - 77,960,598). 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:**

	March 31, 2011	Dec 31, 2010
	\$	\$
Balance, beginning of period	2,225,667	1,802,868
Stock options granted and/or vested during the period:		
Options issued		253,672
Equity component of convertible debt paid during the year (note 12)		169,127
Balance, end of period	2,225,667	2,225,667

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19 RELATED PARTY TRANSACTIONS

During the period, 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 - \$4,900 (2010 - \$24,266) and to a relative of the President - \$7,525 (2010 - \$34,525) .

During the period the Company recovered (2010-\$11,100) for use of office space and paid rent of (2010-\$2,000) from/to a Company in which the President and the CFO of EWI are shareholders.

During 2010, the Company issued 220,000 options to non-key employees

The following were intercompany loan balances as at December 31, 2010:

	Environmental Waste International (EWI)	EWI Rubber (EWIR)	EWILP	Loans from/to related parties	Ellsin
EWI	n/a	(327,583)	(7,098,558)	497,000	(750,000)
EWIR	327,583	n/a	-	-	(599,596)
EWILP	7,098,558	-	n/a	-	-
Related Parties	(497,000)	-	-	n/a	-
Ellsin	750,000	599,596	-	-	n/a
	7,679,141	272,013	(7,098,558)	497,000	(1,349,596)

The above intercompany loans are interest free and due on demand. The advances to Ellsin from EWI and EWI Rubber were made during the time that Ellsin was viewed as a SPE.

20 SEGMENTED INFORMATION AND SEASONALITY

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

	2011 Revenues \$	2010 Revenues \$
Canada	0	53,850
United States	13,107	2,506,719
	<u>13,107</u>	<u>2,560,569</u>

The Company's business is not seasonal.

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21 CAPITAL DISCLOSURES

Capital

management:

The Company's objectives when managing its capital are:

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

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

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

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

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to capital management during the fiscal year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

22 ACCOUNTING FOR FINANCIAL INSTRUMENTS

Financial instruments are defined under IFRS 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 dependant 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 specific 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 March 31, 2011 and December 31, 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.

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22 ACCOUNTING FOR FINANCIAL INSTRUMENTS (Continued)

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 was as follows:

	March 31 2011	December 31 2010
	\$	\$
Cash and term deposits	1,175,649	463,313
Accounts receivable	49,725	21,942
	<u>\$ 1,225,374</u>	<u>\$ 485,255</u>

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 that EWILP will commercially exploit the Company's product lines and expand market penetration during the course of the agreement. The Company expects EWILP will generate enough revenue and cash to fulfill its debt obligations owing to the Company. Amounts related to notes receivable have been eliminated on 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 March 31, 2011, the Company had cash on hand of \$1,175,649 (2010 - \$463,313) available to be drawn on to pay liabilities

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 on common shares.

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

Foreign Currency Risk

As at March 31, 2011, the Company determined that changes in the U.S. dollar exchange rate would not impact net earnings and is not exposed to significant foreign 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.

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22 ACCOUNTING FOR FINANCIAL INSTRUMENTS (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 March 31, 2011 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 is 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.

23 OTHER ITEMS

(a) Sale of Real Property

In 2006, the Company disposed of land and building under the terms of a sale-leaseback transaction.

24 COMMITMENTS

The Company is committed under a long-term lease for premises which expires on May 31, 2015. The Company has the right to terminate this lease upon giving the landlord 60 days written notice after the first year of the lease term of its intent to terminate. The Company has no plans to give notice at the current time. Starting in the third year of the lease, in addition to basic rent and operating expenses the Company will start paying its share of realty taxes as well.

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

	\$
2011	105,600
2012	105,600
2013	96,000
2014	96,000
2015	96,000

25 INCOME TAXES

(a) Provision of Income Taxes

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

	2010
	\$
Net income (loss) before income taxes	<u>(1,957,605)</u>
Expected income tax expense (recovery) based upon the combined Canadian federal and provincial expected tax rates of 31.00% and (2009 - 33.00%)	(606,857)
Adjustments to tax benefit resulting from:	
Permanent differences (items not deductible or taxable for tax purposes)	476,745
Timing differences	152,698
Benefit from application of prior year losses	(74,967)
Unrecorded tax benefit of losses	52,381
Provision for income taxes	<u>\$ -</u>

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25 INCOME TAXES (Continued)

(b) Future Income Tax Balances

The tax effect of temporary differences that gives rise to future income tax assets and liabilities at December 31, 2010 is as follows:

	2010
	\$
Non-capital losses	374,785
SR&ED tax credits available	528,870
SR&ED expenditures applicable to future years	640,199
Timing differences resulting in potential future income taxes	735,466
Total net future tax assets	2,279,320
Timing differences resulting in potential future income taxes	(2,279,320)
Valuation allowances	\$ -

(c) Tax Benefits Available

The Company has incurred the undernoted non-capital losses and has \$1,208,986 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 31%. Given the uncertainty of realization, no future asset or benefit has been recognized in these financial statements.

The estimated losses expire as follows:

	\$
2015	289,146
2026	536,460
2029	112,274
2030	271,106
	<u>\$ 1,208,986</u>

26 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. These lawsuits are inactive.

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.

27 COMPARATIVE FIGURES

Certain 2010 comparative figures have been reclassified to conform to the current period's financial statement presentation.

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28 ACQUISITION OF ELLSIN

On January 27, 2011, the Company announced that it had completed the acquisition of Ellsin Environmental Ltd. (Ellsin). EWI issued 2,263,500 of its common shares and now owns 100% of Ellsin. The acquisition has received approval from all regulatory and government entities involved in the TR900 project in Sault Ste. Marie (SSM). All non-EWI directors and officers have resigned their positions in Ellsin. The acquisition gives EWI complete ownership of the TR900 project in SSM and returns the sales and marketing rights to EWI for the Tire Reduction systems in Canada and the United States.

29 PRIVATE PLACEMENT

On January 24, 2011, the Company closed a private placement for 5,000,000 Units with gross proceeds of \$1,750,000, less agent fees of \$36,289 payable to arm's length parties. Each \$0.35 Unit consists of one common share and one half of a Share Purchase Warrant. A whole Share Purchase Warrant allows for the purchase of one additional common share of EWI at a price of \$0.50 through January 23, 2013. All shares issued in the placement are subject to a hold period that expires May 24, 2011.

30 SUBSEQUENT EVENT

On April 11, 2011, the Company announced that the installation phase of the TR900 System at the Ellsin Environmental Ltd. Facility in Sault Ste. Marie is substantially complete.

Prepared by Management - without audit