

**ENVIRONMENTAL WASTE INTERNATIONAL INC.
UNAUDITED INTERIM FINANCIAL STATEMENTS - RESTATED
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004
AND FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004**

Responsibility for consolidated financial statements

The accompanying restated financial statements for Environmental Waste International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2003 audited financial statements. Any estimates or approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these restated financial statements have been fairly presented.

Auditor involvement

The auditor of Environmental Waste International Inc. has not performed a review of the unaudited financial statements for the periods presented.

**ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM BALANCE SHEETS**

	As at March 31, 2004 (unaudited) Restated	As at March 31, 2004 (unaudited) Originally reported	As at June 30, 2004 (unaudited) Restated	As at June 30, 2004 (unaudited) Originally reported	As at September 30, 2004 (unaudited) Restated	As at September 30, 2004 (unaudited) Originally reported	As at December 31, 2003 (unaudited) Restated	As at December 31, 2003 (unaudited) Originally reported
ASSETS								
CURRENT								
Cash	\$ 111,259	\$ 106,180	\$ 169,020	\$ 163,941	\$ 271,990	\$ 266,911	\$ 226,866	\$ 221,787
Accounts receivable	35,620	181,948	42,338	188,666	39,879	186,207	24,247	170,575
Other	-	-	950	950	-	-	-	-
Prepaid expenses	21,531	-	21,531	-	21,531	-	21,531	-
	168,410	288,128	233,839	353,557	333,400	453,118	272,644	392,362
PROPERTY, PLANT AND EQUIPMENT	1,195,254	1,138,752	1,184,452	1,111,872	1,175,496	1,086,682	1,206,191	1,165,631
INTANGIBLE ASSETS	437,500	500,000	425,000	500,000	412,500	500,000	450,000	500,000
	1,801,164	\$ 1,926,880	\$ 1,843,291	\$ 1,965,429	\$ 1,921,396	\$ 2,039,800	\$ 1,928,835	\$ 2,057,993
LIABILITIES AND SHAREHOLDERS' EQUITY								
CURRENT								
Accounts payable and accrued liabilities	\$ 499,409	\$ 451,738	\$ 440,991	\$ 475,060	\$ 376,461	\$ 414,568	\$ 280,280	\$ 444,451
Deposits	1,694,726	1,700,473	1,721,225	1,726,972	1,428,725	1,434,472	1,428,725	1,434,472
Loans payable	555,000	555,000	100,000	100,000	530,000	530,000	555,000	555,000
Current portion of long term debt	3,918	721,782	1,036	718,900	1,036	718,900	6,899	724,763
Due to director	81,500	-	81,500	-	81,500	-	81,500	-
	2,834,553	3,428,993	2,344,752	3,020,932	2,417,722	3,097,940	2,352,404	3,158,686
MORTGAGE PAYABLE	717,864	-	717,864	-	717,864	-	717,864	-
	3,552,417	3,428,993	3,062,616	3,020,932	3,135,586	3,097,940	3,070,268	3,158,686
SHAREHOLDERS' EQUITY								
Share capital	33,980,012	33,943,092	34,847,012	34,810,092	34,888,907	34,837,592	33,980,012	33,943,092
Contributed surplus	466,962	-	866,802	-	914,903	-	466,962	-
Deficit	-36,198,227	-35,445,205	-36,933,139	-35,865,595	-37,017,999	-35,895,732	-35,588,407	-35,043,785
	-1,751,253	-1,502,113	-1,219,325	-1,055,503	-1,214,189	-1,058,140	-1,141,433	-1,100,693
	\$ 1,801,164	\$ 1,926,880	\$ 1,843,291	\$ 1,965,429	\$ 1,921,396	\$ 2,039,800	\$ 1,928,835	\$ 2,057,993

See accompanying notes to the consolidated financial statements

**ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM BALANCE SHEETS**

	As at March 31, 2003	As at March 31, 2003	As at June 30, 2003	As at June 30, 2003	As at September 30, 2003	As at September 30, 2003	As at December 31, 2002	As at December 31, 2002
	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported
ASSETS								
CURRENT								
Cash	\$ 725,256	\$ 725,256	\$ 261,854	\$ 261,854	\$ 48,108	\$ 48,108	\$ 688,641	\$ 688,641
Accounts receivable	99,540	242,617	-	149,168	393,594	555,788	235,000	234,995
	824,796	967,873	261,854	411,022	441,702	603,896	923,641	923,636
EQUIPMENT HELD FOR DEMONSTRATION OR RESALE	1	1	1	1	1	1	-	-
PROPERTY, PLANT AND EQUIPMENT	1,202,327	1,168,900	1,250,699	1,184,661	1,266,881	1,180,841	1,213,341	1,213,343
INTANGIBLE ASSETS	487,500	487,500	475,000	475,000	462,500	462,500	500,000	500,000
	\$ 2,514,624	\$ 2,624,274	\$ 1,987,554	\$ 2,070,684	\$ 2,171,084	\$ 2,247,238	\$ 2,636,982	\$ 2,636,979
LIABILITIES AND SHAREHOLDERS' EQUITY								
CURRENT								
Accounts payable and accrued liabilities	414,829	\$ 403,150	\$ 606,281	\$ 421,773	\$ 773,725	\$ 424,325	\$ 492,934	\$ 438,941
Deposits	1,544,472	1,544,472	1,434,472	1,434,472	1,434,472	1,434,472	937,100	937,100
Loans payable	451,295	451,295	491,295	491,295	590,000	590,000	451,295	451,295
Current portion of long term debt	8,961	8,961	5,974	5,974	2,987	2,987	11,948	11,948
Due to director	81,500	-	81,500	-	81,500	-	134,000	59,000
	2,501,057	2,407,878	2,619,522	2,353,514	2,882,684	2,451,784	2,027,277	1,898,284
MORTGAGE PAYABLE	739,762	724,762	739,762	724,762	739,762	724,762	739,763	724,762
	3,240,819	3,132,640	3,359,284	3,078,276	3,622,446	3,176,546	2,767,040	2,623,046
SHAREHOLDERS' DEFICIENCY								
Share capital	33,687,992	33,687,992	33,701,592	33,701,592	33,838,092	33,838,092	33,605,492	33,605,492
Contributed surplus	210,235	-	224,627	-	432,852	-	-	-
Deficit	-34,624,422	-34,196,358	-35,297,949	-34,709,184	-35,722,305	-34,767,400	- 33,735,550	- 33,591,559
	-726,195	-508,366	-1,371,730	-1,007,592	-1,451,362	-929,308	- 130,058	13,933
	\$ 2,514,624	\$ 2,624,274	\$ 1,987,554	\$ 2,070,684	\$ 2,171,084	\$ 2,247,238	\$ 2,636,982	\$ 2,636,979

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM STATEMENT OF INCOME (LOSS) AND DEFICIT

	For the three months ended			
	March 31, 2004	March 31, 2004	March 31, 2003	March 31, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	Restated	Originally reported	Restated	Originally reported
REVENUE	\$ 94,526	\$ 94,526	\$ 133	\$ 133
EXPENSES				
Manufacturing and development expenses	329,973	138,298	14,879	81,764
Salaries, wages & benefits, consulting	208,974	194,680	-	-
Stock compensation expense	-	-	210,235	-
Operations, general and administration	111,803	105,930	640,375	466,226
Bad debt	-	-	-	-
Mortgage interest and financing costs	30,158	30,158	-	-
Amortization of capital assets	23,438	26,880	23,515	56,942
	704,346	495,946	889,005	604,932
NET LOSS	- 609,820	- 401,420	- 888,872	- 604,799
Cumulative deficit beginning of year	- 35,588,407	- 35,043,785	- 33,735,550	- 33,591,559
Cumulative deficit end of year	-\$ 36,198,227	-\$ 35,445,205	-\$ 34,624,422	-\$ 34,196,358
Loss per share	-\$ 0.0104	-\$ 0.0068	-\$ 0.0155	-\$ 0.0105
Weighted average number of shares	58,645,318	58,645,318	57,435,316	57,435,316
Effect of restatements:				
Net of previously under and over accrued expenditures	- 211,842	-	- 11,688	-
Provision against a receivable for GST input credits	-	-	- 143,077	-
Amortization of technology rights previously not recorded	- 12,500	-	-	-
Reduction in amortization of the building	15,942	-	33,427	-
Reclassification of expenses as a reduction of debt	-	-	52,500	-
Recognition of stock compensation expense	-	-	- 210,235	-
Miscellaneous other adjustments decreasing the net loss	-	-	- 5,000	-
Increase of previously reported loss	<u><u>-\$ 208,400</u></u>		<u><u>-\$ 284,073</u></u>	

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM STATEMENT OF INCOME (LOSS) AND DEFICIT

	For the three months ended				For the six months ended			
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2004	2004	2003	2003	2004	2004	2003	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	Restated	Originally reported	Restated	Originally reported	Restated	Originally reported	Restated	Originally reported
REVENUE	\$ 78,164	\$ 69,633	\$ 138,338	\$ 138,338	\$ 172,690	\$ 164,159	\$ 138,471	\$ 138,471
EXPENSES								
Manufacturing and development expenses	62,852	99,359	268,214	73,245	392,825	237,657	283,093	155,009
Salaries, wages & benefits, consulting	186,650	213,529	-	-	395,624	408,209	-	-
Stock compensation expense	399,840	-	14,392	-	399,840	-	224,627	-
Operations, general and administration	110,304	108,470	405,592	421,640	222,107	214,400	1,045,967	887,866
Bad debt	-	-	99,540	99,540	-	-	99,540	99,540
Mortgage interest and financing costs	30,126	30,142	-	-	60,284	60,300	-	-
Amortization of capital assets	23,304	26,880	24,128	56,739	46,742	53,760	47,643	113,681
	813,076	478,380	811,865	651,164	1,517,422	974,326	1,700,870	1,256,096
NET LOSS	- 734,912	- 408,747	- 673,527	- 512,826	- 1,344,732	- 810,167	- 1,562,399	- 1,117,625
Cumulative deficit beginning of year	- 36,198,227	- 35,445,205	- 34,624,422	- 34,196,358	- 35,297,949	- 34,709,184	- 33,735,550	- 33,591,559
Cumulative deficit end of year	-\$ 36,933,139	-\$ 35,853,952	-\$ 35,297,949	-\$ 34,709,184	-\$ 36,642,681	-\$ 35,519,351	-\$ 35,297,949	-\$ 34,709,184
Loss per share	-\$ 0.0123	-\$ 0.0068	-\$ 0.0117	-\$ 0.0089	-\$ 0.0228	-\$ 0.0137	-\$ 0.0272	-\$ 0.0194
Weighted average number of shares	59,970,316	59,970,316	57,687,816	57,687,816	59,045,316	59,045,316	57,462,816	57,462,816
Effect of restatements:								
Net of previously under and over accrued expenditures	81,744	-	172,829	-	130,098	-	184,517	-
Provision against a receivable for GST input credits	-	-	6,091	-	-	-	149,168	-
Amortization of technology rights previously not recorded	12,500	-	-	-	25,000	-	-	-
Reduction in amortization of the building	16,078	-	32,611	-	32,020	-	66,038	-
Reclassification of expenses as a reduction of debt	-	-	-	-	-	-	52,500	-
Recognition of stock compensation expense	399,840	-	14,392	-	399,840	-	224,627	-
Miscellaneous other adjustments decreasing the net loss	11,647	-	-	-	11,647	-	5,000	-
Increase of previously reported loss	326,165	-	160,701	-	534,565	-	444,774	-

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED STATEMENT OF INCOME (LOSS) AND DEFICIT

	For the three months ended				For the nine months ended			
	September 30, 2004 (unaudited) restated	September 30, 2004 (unaudited) Originally Reported	September 30, 2003 (unaudited) restated	September 30, 2003 (unaudited) Originally Reported	September 30, 2004 (unaudited) restated	September 30, 2004 (unaudited) Originally Reported	September 30, 2003 (unaudited) restated	September 30, 2003 (unaudited) Originally Reported
REVENUE	\$ 330,302	\$ 330,270	\$ 399,609	\$ 399,609	\$ 502,992	\$ 494,429	\$ 538,080	\$ 538,080
EXPENSES								
Manufacturing and development expenses	64,599	67,411	235,540	76,367	457,424	305,068	518,633	231,376
Salaries, wages & benefits, consulting	194,361	185,318	-	-	589,985	593,527	-	-
Stock compensation expense	62,496	-	208,225	-	462,336	-	432,852	-
Operations, general and administration	33,306	80,748	355,869	337,124	255,413	295,148	1,401,836	1,224,990
Bad debt	-	-	-	-	-	-	99,540	99,540
Mortgage interest and financing costs	31,235	31,233	-	-	91,519	91,533	-	-
Amortization of capital assets	29,166	26,880	24,332	44,334	75,908	80,640	71,975	158,015
	<u>415,163</u>	<u>391,590</u>	<u>823,965</u>	<u>457,825</u>	<u>1,932,584</u>	<u>1,365,916</u>	<u>2,524,835</u>	<u>1,713,921</u>
NET LOSS	- 84,861	- 61,320	- 424,356	- 58,216	- 1,429,592	- 871,487	- 1,986,755	- 1,175,841
Cumulative deficit beginning of year	- 36,933,139	- 35,853,952	- 35,297,949	- 34,709,184	- 36,198,227	- 35,445,205	- 34,624,422	- 34,196,358
Cumulative deficit end of year	<u>-\$ 37,017,999</u>	<u>-\$ 35,915,272</u>	<u>-\$ 35,722,305</u>	<u>-\$ 34,767,400</u>	<u>-\$ 37,627,819</u>	<u>-\$ 36,316,692</u>	<u>-\$ 36,611,177</u>	<u>-\$ 35,372,199</u>
Loss per share	-\$ 0.0014	-\$ 0.0010	-\$ 0.0073	-\$ 0.0010	-\$ 0.0238	-\$ 0.0145	-\$ 0.0344	-\$ 0.0204
Weighted average number of shares	61,045,316	61,045,316	57,992,816	57,992,816	59,975,316	59,975,316	57,740,316	57,740,316
Effect of restatements:								
Net of previously under and over accrued expenditures	4,038	-	177,918	-	126,060	-	362,435	-
Provision against a receivable for GST input credits	-	-	13,026	-	-	-	162,194	-
Amortization of technology rights previously not recorded	- 12,500	-	-	-	- 37,500	-	-	-
Reduction in amortization of the building	15,942	-	33,427	-	47,962	-	99,465	-
Reclassification of expenses as a reduction of debt	-	-	-	-	-	-	52,500	-
Recognition of stock compensation expense	- 62,496	-	208,225	-	- 462,336	-	432,852	-
Miscellaneous other adjustments decreasing the net loss	31,475	-	399	-	19,828	-	5,399	-
Increase of previously reported loss	<u>-\$ 23,541</u>	<u>-\$ 366,140</u>	<u>-\$ 558,106</u>	<u>-\$ 810,914</u>	<u>-\$ 558,106</u>	<u>-\$ 810,914</u>	<u>-\$ 810,914</u>	<u>-\$ 810,914</u>

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

	For the three months ended			
	March 31, 2004 (unaudited) Restated	March 31, 2004 (unaudited) Originally reported	March 31, 2003 (unaudited) Restated	March 31, 2003 (unaudited) Originally reported
Cash flows from operations				
Net (loss) for the period	-\$ 609,820	-\$ 401,420	-\$ 888,872	-\$ 604,799
Decrease (increase) in accounts receivable	- 11,373	- 11,373	135,460	- 7,622
Deposit on sales	266,001	266,001	607,372	607,372
Add: Items not affecting cash				
Stock based compensation expense	-	-	210,235	-
Amortization and depreciation	23,438	26,880	23,515	56,942
	- 331,754	- 119,912	87,710	51,893
Changes in non-cash working capital	219,128	7,286	78,108	35,791
Generated from (used in) operating activities	- 112,626	- 112,626	9,602	16,102
Cash flows from investing activities				
(Additions) to capital assets	-	-	-	-
Cash flows from financing activities				
Issuance of common shares for cash	-	-	82,500	82,500
Increase (decrease) other loans	-	-	52,500	59,000
Mortgage increase (decrease)	- 2,981	- 2,981	2,987	2,987
Provided by (used by) financing activities	- 2,981	- 2,981	27,013	20,513
Increase (decrease) in cash	- 115,607	- 115,607	36,615	36,615
Cash at the beginning of the period	226,866	221,787	688,641	688,641
Cash at the end of the period	\$ 111,259	\$ 106,180	\$ 725,256	\$ 725,256

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

	For the three months ended				For the six months ended			
	June 30, 2004	June 30, 2004	June 30, 2003	June 30, 2003	June 30, 2004	June 30, 2004	June 30, 2003	June 30, 2003
	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported	(unaudited) Restated	(unaudited) Originally reported
Cash flows from operations								
Net (loss) for the period	-\$ 734,912	-\$ 408,747	-\$ 673,527	-\$ 512,826	-\$ 1,344,732	-\$ 821,810	-\$ 1,562,399	-\$ 1,117,625
Decrease (increase) in accounts receivable	- 6,718	- 10,883	99,540	93,449	- 19,993	- 19,041	235,000	85,827
Deposit on sales	26,499	32,500	110,000	110,000	292,500	292,500	497,372	497,372
Add: Items not affecting cash								
Stock based compensation expense	399,840	-	14,392	-	399,840	-	224,627	-
Amortization and depreciation	23,304	26,880	24,128	56,739	46,742	53,758	47,643	113,681
	- 291,987	- 360,250	- 645,467	- 472,638	- 625,643	- 494,593	- 557,757	- 420,745
Changes in non-cash working capital	- 59,370	1,945	191,440	18,622	161,660	30,710	113,344	17,169
Generated from (used in) operating activities	- 351,357	- 358,305	- 454,027	- 454,016	- 463,983	- 463,883	- 444,413	- 437,914
Cash flows from investing activities								
(Additions) to capital assets	-	-	60,000	60,000	-	-	60,000	59,999
Cash flows from financing activities								
Issuance of common shares for cash	867,000	412,000	13,600	13,600	867,000	412,000	96,100	96,100
Increase (decrease) other loans	- 455,000	-	40,000	40,000	- 455,000	-	12,500	19,000
Mortgage increase (decrease)	- 2,882	- 2,981	- 2,987	- 2,987	- 5,863	- 5,963	- 5,974	- 5,974
Provided by (used by) financing activities	409,118	409,019	50,613	50,613	406,137	406,037	77,626	71,126
Increase (decrease) in cash	57,761	50,714	463,414	463,403	57,846	57,846	426,787	426,787
Cash at the beginning of the period	111,259	113,227	725,268	725,257	226,866	221,787	688,641	688,641
Cash at the end of the period	\$ 169,020	\$ 163,941	\$ 261,854	\$ 261,854	\$ 169,020	\$ 163,941	\$ 261,854	\$ 261,854

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
RESTATED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

	For the three months ended				For the nine months ended			
	September 30, 2004 (unaudited) Restated	September 30, 2004 (unaudited) Originally reported	September 30, 2003 (unaudited) Restated	September 30, 2003 (unaudited) Originally reported	September 30, 2004 (unaudited) Restated	September 30, 2004 (unaudited) Originally reported	September 30, 2003 (unaudited) Restated	September 30, 2003 (unaudited) Originally reported
Cash flows from operations								
Net (loss) for the period	-\$ 84,861	-\$ 61,320	-\$ 424,356	-\$ 58,216	-\$ 1,429,592	-\$ 851,947	-\$ 1,986,755	-\$ 1,175,841
Decrease (increase) in accounts receivable	3,409	374	393,594	406,620	15,632	13,878	158,594	320,793
Deposit on sales	292,500	292,500	-	-	-	-	497,372	497,372
Add: Items not affecting cash								
Stock based compensation expense	62,496	-	208,225	-	462,336	-	432,852	-
Amortization and depreciation	29,166	26,880	24,332	44,334	75,908	80,640	75,908	80,640
	282,290	326,566	585,394	420,502	906,981	785,185	1,139,218	918,622
Changes in non-cash working capital	64,530	27,134	167,432	2,551	96,181	33,228	280,789	14,617
Generated from (used in) operating activities	346,820	353,700	417,962	417,951	810,800	818,413	858,429	933,239
Cash flows from investing activities								
(Additions) to capital assets	7,710	-	28,014	28,014	7,713	-	91,948	10,638
Cash flows from financing activities								
Issuance of common shares for cash	27,500	27,500	136,500	136,500	894,500	894,500	232,600	232,600
Increase (decrease) other loans	430,000	430,000	98,705	298,705	25,000	25,000	86,205	79,705
Mortgage increase (decrease)	-	-	2,987	202,987	5,863	5,963	8,961	8,961
Provided by (used by) financing activities	457,500	457,500	232,218	232,218	863,637	863,537	309,844	303,344
Increase (decrease) in cash	102,970	103,800	213,758	213,747	45,124	45,124	640,533	640,533
Cash at the beginning of the period	169,020	163,111	261,866	261,855	226,866	221,787	688,641	688,641
Cash at the end of the period	\$ 271,990	\$ 266,911	\$ 48,108	\$ 48,108	\$ 271,990	\$ 266,911	\$ 48,108	\$ 48,108

See accompanying notes to the consolidated financial statements

ENVIRONMENTAL WASTE INTERNATIONAL INC.
NOTES TO THE RESTATED UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004

1. Going concern

These restated interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Recurring sources of revenue have not yet proven to be sufficient. The Company needs to obtain additional financing to enable it to continue its business. In the absence of additional financing, the Company may not have sufficient funds to meet its obligations. Management continues to monitor the cash needs and consider various alternatives to raise additional financing. However, there is no assurance that this will be successful.

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

2. Summary of Significant Accounting Policies and Restatement

These restated interim financial statements are based upon accounting principles consistent with those used and described in the audited Restated Consolidated Financial Statements for the year ended December 31, 2003. As disclosed in note 3, to those statements the major changes within these restated financial statements are changes in amortization rates for buildings and technology rights, the cancellation of prior accrued management fees, provision for uncollectible GST input credits and the recognition of stock based compensation. The restatement presented herein has portrayed those changes where applicable within each of the 2004 quarters and the comparative 2003 periods. The previously filed information is disclosed to enable the reader to compare the restated financial statements to what was previously provided. The effect on earnings is disclosed for each period on the statement of income/(loss). The Company's management recommends that readers of these financial statements familiarize themselves with the notes to the Restated Consolidated Financial Statements for the year ended December 31, 2003. The previously provided interim financial statements for these periods covered by these interim quarterly financial statements are hereby rescinded and replaced.

These restated interim financial statements reflect all significant recurring and other adjustments which in the opinion of management are necessary to present fairly the financial positions of the Company at each period end and the results of its operations and cash flows for the periods presented. The remainder of the notes including this note deal with only the most significant changes in accounting principles and significant changes from the previously provided interim financial statements for the periods covered.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized over its estimated useful lives at the following rates:

Buildings	5%	declining balance method
Equipment	30%	declining balance method

Buildings were previously amortized on straight-line basis over ten years.

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Technology rights

Technology rights are recorded at estimated value and amortized equally over a 10 year period commencing January 2003, the estimated useful life of these rights. Previously no amortization had been recorded.

Stock based compensation

Retroactive to January 1, 2003 the Company has adopted the fair value method of accounting for employee stock options. Pursuant to new rules related to accounting for stock based compensation, the Company chose to record compensation expense for all employee stock options granted on or after January 1, 2003 with a corresponding increase to contributed surplus. Compensation expense for options granted is determined based on the estimated fair value of the option at the time of the grant, the cost of which is recognized over the vesting period of the respective options using the Black Scholes option pricing method. All options issued up to and including September 30, 2004 vest immediately. Prior to January 1, 2003, the Company accounted for its employee stock options using the settlement method and no compensation expense was recognized.

3. Property, plant and equipment

Commencing January 1, 2003, the rate of amortization for buildings was changed from 10% straight line to 5% declining balance. No change was made to prior years.

March 31, 2004	Cost	Accumulated amortization	2004 Net carrying value	2003 Net carrying Value
Land	\$ 331,125	\$ -	\$ 331,125	\$ 331,125
Buildings	1,036,078	180,610	855,468	859,816
Equipment	20,426	11,765	8,661	11,386
	\$ 1,387,629	\$ 192,375	\$ 1,195,254	\$ 1,202,327

June 30, 2004	Cost	Accumulated amortization	2004 Net carrying value	2003 Net carrying Value
Land	\$ 331,125	\$ -	\$ 331,125	\$ 331,125
Buildings	1,036,078	191,303	844,775	908,331
Equipment	20,426	11,873	8,552	11,244
	\$ 1,387,629	\$ 203,176	\$ 1,184,452	\$ 1,250,699

September 30, 2004	Cost	Accumulated amortization	2004 Net carrying value	2003 Net carrying Value
Land	\$ 331,125	\$ -	\$ 331,125	\$ 331,125
Buildings	1,037,810	201,884	835,926	924,653
Equipment	20,426	11,981	8,445	11,103
	\$ 1,389,361	\$ 213,865	\$ 1,175,496	\$ 1,266,881

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4. Technology rights

	2002 value	Accumulated amortization	2004 Net carrying value	2003 Net carrying Value
March 31, 2004	\$ 500,000	\$ 62,500	\$ 437,500	\$ 487,500
June 30, 2004	500,000	75,000	425,000	475,000
September 30, 2004	500,000	87,500	412,500	462,500

5. Loans payable

March 31, 2004

2004 **2003**

Loan from a relative of the president of the Company bearing interest at 12% per annum convertible for common shares at the rate of \$0.35 per share until June 30, 2004 (converted at maturity). Interest payable monthly.

\$315,000 \$270,000

Loans bearing interest at 12% per annum. \$140,000 is due on June 30, 2004 or is convertible to common shares at the rate of \$0.35 per share until June 30, 2004 (converted at maturity). Interest payable monthly. \$100,000 is due September 2004.

240,000 -

Loan with interest payable monthly at 12.5% with no fixed repayment terms, due July 2003.

- 181,295

Due in one year

\$555,000 **\$451,295**

June 30, 2004

2004 **2003**

Loan from a relative of the president of the Company bearing interest at 12% per annum convertible for common shares at the rate of \$0.35 per share until June 30, 2004 (converted at maturity). Interest payable monthly.

- \$285,000

Loans bearing interest at 12% per annum. Interest payable monthly..

- 20,000

Non interest bearing loan from president

- 5,000

Loan bearing interest at 12% per annum. Interest payable monthly. Due September 2004.

100,000 -

Loan with interest payable monthly at 12.5% with no fixed repayment terms.

- 181,295

Due in one year

\$100,000 **\$491,295**

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5 Loans payable (continues)

<u>September 30, 2004</u>	<u>2004</u>	<u>2003</u>
Loan from a relative of the president of the Company bearing interest at 12% per annum convertible for common shares at the rate of \$0.50 per share. Interest payable monthly. Loan matures on September, 2005. The prior years loan bore interest at 12% and was convertible to common shares at \$0.35 per share.	\$300,000	\$315,000
Loans bearing interest at 12% per annum. Interest payable monthly.	-	35,000
Loan bearing interest at 12% per annum. \$140,000 was converted to common shares at the rate of \$0.35 per share. Interest payable monthly. Term extended from December 2004 to December 2005	100,000	240,000
Loan from Director bearing interest at 12% per annum convertible to common shares at the rate of \$0.50 per share. Interest payable monthly. Due September 2005.	80,000	-
Loan from Director bearing interest at 12% per annum convertible to common shares at the rate of \$0.50 per share. Interest payable monthly. Due September 2005.	50,000	-
Due in one year	<u>\$530,000</u>	<u>\$590,000</u>

6. Share Capital

- a) **Authorized:** Unlimited common shares
b) **Issued:**

	#	2004 \$	#	2003 \$
Balance, beginning of period, January 1	58,645,316	\$33,980,012	57,210,316	\$33,605,492
Issued for cash:				
Employee stock options	-	-	450,000	82,500
Balance, March 31	58,645,316	\$33,980,012	57,660,316	\$33,687,992
Issued for cash:				
Private placements	1,000,000	400,000	-	-
Exercise of warrants	25,000	4,000	50,000	8,000
Employee stock options	25,000	8,000	5,000	5,600
Debt conversion	1,300,000	455,000	-	-
Balance, June 30	60,995,316	\$ 34,847,012	57,715,316	\$ 33,701,592
Issued for cash:				
Employee stock options	100,000	27,500	555,000	136,500
Stock based compensation related to exercise of options	-	14,395	-	-
Balance, September 30	61,095,316	\$ 34,888,907	58,270,316	\$ 33,838,092

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c) **Stock Options**

	#	Weighted Average Exercise Price 2004	#	Weighted Average Exercise Price 2003
Balance, January 1,	4,149,500	\$0.38	3,670,000	\$0.29
Granted	0	0	1,250,000	0.53
Expired	-6,000	-0.27	-56,000	-0.33
Exercised	0	0	-450,000	-0.18
Balance, March 31	4,143,500	\$0.38	4,414,000	\$0.37
Granted	1,272,500	0.39	167,500	0.30
Expired	-57,000	-0.3	-52,000	-0.32
Exercised	-25,000	-0.32	-30,000	-0.32
Balance, June 30	5,334,000	\$0.38	4,499,500	\$0.37
Granted	245,000	0.35	985,000	0.33
Expired	-100,000	-0.28	-220,000	-0.44
Exercised	-325,000	-0.34	-530,000	-0.25
Balance, September 30	5,154,000	\$0.39	4,734,500	\$0.37

d) **Contributed surplus**

The Company has adopted CICA 3870 "Stock Based Compensation and Other Stock Based Payments" which requires that all stock based awards granted must be accounted for at fair value. The transitional rules encourage, but do not require, the use of this method prior to 2004. However, the Company has adopted this method retroactive to January 1, 2003 and has disclosed the cost of employee stock options using the fair value method. The Company has used the Black Scholes method with estimated volatility of 145% (2003-150%) and estimated a risk free interest rate of 3.51% (2003-3.22%).

	2004	2003
Balance, January 1	\$ 466,962	\$ -
Stock based compensation charged to earnings	-	210,235
Balance March 31	466,962	210,235
Stock based compensation charged to earnings	399,840	14,392
Balance, June 30	866,802	224,627
Stock based compensation charged to earnings	62,496	208,225
Stock based compensation related to options exercised	- 14,395	-
Balance, September 30	\$ 914,903	\$ 432,852