

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Audited Financial Statements
Years Ended December 31, 2004 and 2003



HARVEY CANTOR
Professional Corporation

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Index to Consolidated Financial Statements

Years Ended December 31, 2004 and 2003

| | Page |
|--|--------|
| AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Consolidated Balance Sheet | 2 |
| Consolidated Statement of Operations | 3 |
| Consolidated Statement of Deficit | 4 |
| Consolidated Statement of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6 - 14 |





AUDITOR'S REPORT

To the Shareholders of Environmental Waste International Inc.

I have audited the accompanying consolidated balance sheet of Environmental Waste International Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations, deficit and cash flow for the years then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
April 15, 2005

Chartered Accountant

ENVIRONMENTAL WASTE INTERNATIONAL INC.**Consolidated Balance Sheet**

Years ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 250,174 | \$ 226,866 |
| Accounts receivable | 60,084 | 24,247 |
| Prepaid expenses | 43,920 | 21,531 |
| Government assistance receivable (Note 10) | 632,819 | - |
| | 986,997 | 272,644 |
| PROPERTY, PLANT AND EQUIPMENT (Note 3) | 1,163,593 | 1,206,191 |
| TECHNOLOGY RIGHTS (Note 4) | 400,000 | 450,000 |
| DEFERRED FINANCING CHARGES | 16,445 | - |
| | \$ 2,567,035 | \$ 1,928,835 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 209,547 | \$ 280,280 |
| Loans payable (Note 5) | 530,000 | 555,000 |
| Due to director (Note 7) | 66,295 | 81,500 |
| Deposits | - | 1,428,725 |
| Current portion of long term debt (Note 6) | - | 6,899 |
| | 805,842 | 2,352,404 |
| MORTGAGES PAYABLE (Note 6) | 850,000 | 717,864 |
| | 1,655,842 | 3,070,268 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 8) | 35,145,408 | 33,980,012 |
| Contributed surplus (Note 8) | 952,056 | 466,962 |
| Deficit | (35,186,271) | (35,588,407) |
| | 911,193 | (1,141,433) |
| | \$ 2,567,035 | \$ 1,928,835 |

ON BEHALF OF THE BOARD

"Stephen Simms" Director

"Wm. Bateman" Director



ENVIRONMENTAL WASTE INTERNATIONAL INC.**Consolidated Statement of Operations**

Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|-------------------|-----------------------|
| REVENUE | | |
| Sales and deposits realized | \$ 1,876,993 | \$ 753,960 |
| Foreign exchange gain | 49,750 | 10,819 |
| Interest income | 76 | 191 |
| | <u>1,926,819</u> | <u>764,970</u> |
| EXPENSES | | |
| Manufacturing expenses | 90,540 | 219,490 |
| Research and development costs | 511,439 | 714,850 |
| Government assistance (<i>Note 10</i>) | (632,819) | - |
| Salaries, wages & benefits, consulting | 404,041 | 555,850 |
| Stock based compensation expense | 499,489 | 503,882 |
| Operations, general and administration | 436,463 | 411,163 |
| Interest on long term debt | 52,602 | 54,031 |
| Interest on short term debt | 65,547 | 59,208 |
| Amortization of property, plant and equipment and technology rights | 97,381 | 99,353 |
| | <u>1,524,683</u> | <u>2,617,827</u> |
| NET INCOME (LOSS) | <u>\$ 402,136</u> | <u>\$ (1,852,857)</u> |
| Income (loss) per share | \$ 0.0067 | \$ (0.0320) |
| Weighted average number of common shares outstanding | 60,195,000 | 57,950,000 |

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Consolidated Statement of Deficit

Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|------------------------------------|-------------------------------|-------------------------------|
| DEFICIT - BEGINNING OF YEAR | \$ (35,588,407) | \$ (33,735,550) |
| Net income (loss) for the year | <u>402,136</u> | <u>(1,852,857)</u> |
| DEFICIT - END OF YEAR | <u>\$ (35,186,271)</u> | <u>\$ (35,588,407)</u> |



HARVEY CANTOR
Professional Corporation

ENVIRONMENTAL WASTE INTERNATIONAL INC.**Consolidated Statement of Cash Flows**

Years Ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 402,136 | \$ (1,852,857) |
| Items not involving cash: | | |
| Amortization of property, plant and equipment and technology rights | 97,381 | 99,353 |
| Stock based compensation expense | 499,489 | 503,882 |
| Amortization of deferred financing charges | 1,056 | - |
| Deposits realized | <u>(1,428,725)</u> | <u>-</u> |
| | <u>(428,663)</u> | <u>(1,249,622)</u> |
| Changes in non-cash working capital: | | |
| Accounts receivable | (35,837) | 210,754 |
| Accounts payable and accrued liabilities | (70,733) | (212,663) |
| Prepaid expenses | (22,389) | (21,531) |
| Government assistance | (632,819) | - |
| Deposits | <u>-</u> | <u>491,633</u> |
| | <u>(761,778)</u> | <u>468,193</u> |
| Cash flow used by operating activities | <u>(1,190,441)</u> | <u>(781,429)</u> |
| INVESTING ACTIVITY | | |
| Purchase of equipment | <u>(4,783)</u> | <u>(42,203)</u> |
| Cash flow used by investing activity | <u>(4,783)</u> | <u>(42,203)</u> |
| FINANCING ACTIVITIES | | |
| Repayments of loan to director | (15,205) | (52,500) |
| Long term financing charges | (17,500) | - |
| Proceeds from loans | 430,000 | 380,000 |
| Proceeds from long term financing | 850,000 | - |
| Repayments of loans by conversion to capital | (455,000) | (276,295) |
| Repayments of long term debt | (724,763) | (26,948) |
| Issuance of common shares | <u>1,151,000</u> | <u>337,600</u> |
| Cash flow from financing activities | <u>1,218,532</u> | <u>361,857</u> |
| INCREASE (DECREASE) IN CASH FLOW | 23,308 | (461,775) |
| Cash - beginning of year | <u>226,866</u> | <u>688,641</u> |
| CASH - END OF YEAR | <u>\$ 250,174</u> | <u>\$ 226,866</u> |

**HARVEY CANTOR**
Professional Corporation

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

1. GOING CONCERN

These 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 period reported in these financial statements.

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's business is the design, development and sale of environmentally sound devices utilizing Environmental Waste International's patented Microwave Process and dealing with environmental waste disposal, including the development, advancing, licensing and sale of its technology and related machines throughout the world.

Basis of consolidation

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

Measurement uncertainty

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

Property, plant and equipment

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

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

The Company regularly reviews its property, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of property, plant and equipment cost.

(continues)

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Technology rights

Technology represents the cost of acquired technology. The technology rights valuation is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In 2002, the Company incurred a charge of \$2,659,587 representing recognition of impairment. Commencing January 1, 2003, the remaining unamortized technology rights balance is being amortized equally over a 10 year period, the estimated useful life of these rights.

Foreign currency translation

Current monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange prevailing on the transaction date. Any resulting exchange gains and losses are included in the determination of earnings.

Revenue recognition

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 customer when certain contractual obligations are not met and are brought into revenue.

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

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

(continues)

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock based compensation

The Company has adopted the fair value method of accounting for employee stock options with retro-active effect to January 1, 2003. Pursuant to the 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 after January 1, 2003 has been determined based on the estimated fair value's at the time of the grant, the cost of which is recognized over the vesting period of the respective options. Prior to January 1, 2003, the Company accounted for its employee stock options using the settlement method and no compensation expense was recognized.

Stock options granted after January 1, 2003 are valued on the date of vesting using the Black Scholes option pricing model.

Basic and diluted loss per share

Basic loss per share has been computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted loss per share has been computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options, only if dilutive. The number of additional shares is calculated by assuming that outstanding dilutive securities were exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

Investment tax credits "ITCs"

ITCs and other incentives relating to the acquisition of capital assets, including capital assets acquired for research and development, are deducted from the cost of the assets. ITCs and other incentives relating to current research and development expenditures are disclosed as government assistance on the statement of earnings. The Company recognizes ITCs and other incentives when earned and when there is reasonable assurance of realization.

Research and development costs

Research costs are expensed as incurred. Development costs that meet the criteria for deferral under Canadian generally accepted accounting principles and that are expected to provide future benefits with reasonable certainty are deferred and amortized over the sales revenue of the products. In the opinion of management, no such costs incurred in the year met the criteria for deferral.

(continues)

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

2. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated amortization | 2004 Net carrying value | 2003 Net carrying value |
|-----------|---------------------|-----------------------------|-------------------------------|-------------------------------|
| Land | \$ 331,125 | \$ - | \$ 331,125 | \$ 331,125 |
| Buildings | 1,036,078 | 213,097 | 822,981 | 866,296 |
| Equipment | 25,209 | 15,722 | 9,487 | 8,770 |
| | <u>\$ 1,392,412</u> | <u>\$ 228,819</u> | <u>\$ 1,163,593</u> | <u>\$ 1,206,191</u> |

4. TECHNOLOGY RIGHTS

| | 2004 | 2003 |
|--------------------------|-------------------|-------------------|
| 2002 Value | \$ 500,000 | \$ 500,000 |
| Accumulated amortization | (100,000) | (50,000) |
| | <u>\$ 400,000</u> | <u>\$ 450,000</u> |

5. LOANS PAYABLE

| | 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 \$0.50 per share. Interest payable monthly. Loan matures on September 30, 2005. | \$ 300,000 | |
| Prior years loan (converted to common shares during the 2004 year at \$0.35 per share.) | | \$ 315,000 |
| | | (continues) |

ENVIRONMENTAL WASTE INTERNATIONAL INC.**Notes to Consolidated Financial Statements****Year Ended December 31, 2004**5. LOANS PAYABLE *(continued)*

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| Loan bearing interest at 12% per annum. Interest payable monthly. Original maturity date was September 2004. The maturity date was extended to December 8, 2005. | 100,000 | 100,000 |
| Prior years loan (converted to common shares during the 2004 year at \$0.35) | | 140,000 |
| Loan bearing interest at 12% per annum convertible for common shares at the rate of \$0.50 per share. Interest payable monthly. The loan matures on September 30, 2005. | 80,000 | - |
| Loan bearing interest at 12% per annum convertible for common shares at the rate of \$0.50 per share. Interest payable monthly. The loan matures on September 30, 2005. | 50,000 | - |
| Due in one year | \$ 530,000 | \$ 555,000 |

As disclosed above, the Company has issued convertible loans of \$430,000 during the year. The CICA handbook requires the recognition of any equity component. As the value of the stream of payments required to satisfy the debt is equal to the Company's normal estimated interest cost, there is no estimated value to the right of conversion and no amount has been included in the shareholders' equity as an equity component of convertible debt.

6. MORTGAGE PAYABLE

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| Mortgage bearing interest at 7.5% per annum, repayable in monthly blended payments of \$5,496. The loan matured on September 15, 2004 and was secured by all assets of the Company. | \$ - | \$ 724,763 |
| Mortgage bearing an effective interest of 8.75% per annum, repayable in monthly payments interest only. The loan matures on November 12, 2007 and is secured by land and building. | 850,000 | - |
| | 850,000 | 724,763 |
| Amounts payable within one year | - | (6,899) |
| | \$ 850,000 | \$ 717,864 |



ENVIRONMENTAL WASTE INTERNATIONAL INC.**Notes to Consolidated Financial Statements****Year Ended December 31, 2004**

7. DUE TO DIRECTOR

| | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|
| | \$ 66,295 | \$ 81,500 |

The amounts due to the director are non-interest bearing and have no repayment terms.

8. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The following details the changes in the issued shares for the years ended December 31, 2004 and 2003:

| | <u>2004</u> | | <u>2003</u> | |
|---|-------------------|----------------------|-------------------|----------------------|
| | <u>#</u> | <u>\$</u> | <u>#</u> | <u>\$</u> |
| Issued and Outstanding: | | | | |
| Balance, beginning of year | 58,645,316 | \$ 33,980,012 | 57,210,316 | \$ 33,605,492 |
| Issued for cash: | | | | |
| Private placements | 2,300,000 | 608,000 | 50,000 | 8,000 |
| Employee stock options | 425,000 | 88,000 | 1,385,000 | 329,600 |
| Debt conversion | 1,300,000 | 455,000 | - | - |
| Stock-based compensation related to exercise of options | - | 14,396 | - | 36,920 |
| Shares issued in 2004, payment received in 2003 | 50,000 | - | - | - |
| Balance, end of year | <u>62,720,316</u> | <u>\$ 35,145,408</u> | <u>58,645,316</u> | <u>\$ 33,980,012</u> |

During 2004 the Company issued a private placement for 1,000,000 units consisting of one common share at \$.40 and one half warrant. Each warrant entitles the holder to acquire one additional common share at \$.60 per share before April 27, 2006.

LOSS PER SHARE

As the effect on any exercise of options or warrants would be anti-dilutive, there is no disclosure in these financial statements of a diluted loss per share.

ENVIRONMENTAL WASTE INTERNATIONAL INC.**Notes to Consolidated Financial Statements****Year Ended December 31, 2004**

STOCK BASED COMPENSATION PLAN

The Company maintains a Stock Option Plan for designated officers, directors, consultants and employees. Under the plan the option term shall not exceed 5 years and each option shall be exercisable at a price not lower than the closing market price of the common share on the day immediately preceding the grant of the options. All options issued up to and including December 31, 2004 vest immediately.

The weighted average fair value of the options granted for the year was \$0.278 (2003 - \$0.217).

Stock option activity for 2004 and 2003 is presented below:

| | # | Weighted Average Exercise Price 2004 | # | Weighted Average Exercise Price 2003 |
|---|------------------|--|------------------|--|
| Balance, beginning of year | 4,149,500 | \$ 0.38 | 3,670,000 | \$ 0.29 |
| Granted | 1,797,500 | 0.36 | 2,317,500 | 0.43 |
| Cancelled and expired | (528,000) | (0.33) | (453,000) | (0.38) |
| Exercised | (425,000) | (0.21) | (1,385,000) | (0.24) |
| Outstanding and exercisable at end of year | 4,994,000 | \$ 0.39 | 4,149,500 | \$ 0.38 |

The following table summarizes information concerning outstanding exercisable options expiring up to June 25, 2008.

| Range of Prices | # | Weighted Average Remaining Life in Years | Weighted Average Exercise Price |
|-----------------|------------------|---|--|
| Less than .31 | 1,501,500 | 1.76 | 0.27 |
| 0.32 - 0.44 | 2,542,500 | 3.10 | 0.39 |
| 0.60 | 950,000 | 1.00 | 0.60 |
| | 4,994,000 | 2.30 | 0.39 |

As a result of the adoption of the new rules relating to the accounting of stock based compensation the Company has recognized a compensation expense of \$499,489 (2003 - \$503,882) using the Black Scholes method with estimated volatility at 145% (2003 - 150%) and an average risk free interest rate of 3.51% (2003 - 3.22%).

CONTRIBUTED SURPLUS

| | 2004 | 2003 |
|---|-------------------|-------------------|
| Balance, beginning of year | \$ 466,962 | \$ - |
| Stock based compensation charge to earnings | 499,489 | 503,882 |
| Stock based compensation related to options exercised | (14,395) | (36,920) |
| Balance, end of year | \$ 952,056 | \$ 466,962 |

ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

9. NON-CAPITAL TAX LOSSES CARRIED FORWARD

The Company has incurred losses for tax purposes which are available to reduce future taxable income. The potential benefits of these carry forward amounts, if any, are expected to approximate between 33 to 36%. The benefits will only be recognized in the tax provision in the year realized or when virtual certainty of application exists. The estimated losses and expiry dates are as follows:

| | |
|------------|----------------------|
| 2005 | \$ 2,500,000 |
| 2006 | 4,000,000 |
| 2007 | 2,400,000 |
| 2008 | 1,400,000 |
| 2009 | 1,500,000 |
| Thereafter | 4,300,000 |
| | <u>\$ 16,100,000</u> |

10. GOVERNMENT ASSISTANCE

During February 2005 the Company was reassessed in respect of 2002 to allow the Company's claim for Federal Scientific Research and Experimental Development "SR&ED" Investment Tax Credits, "ITCs" in respect of its 2002 development work. During March 2005, the Federal Taxation Authorities reduced their remittance by approximately \$110,000 in respect of penalties and interest related to Employee Source Deduction remittances in respect of 1999 and prior years of an inactive consolidated subsidiary company. The Company believed that it had no liability for these amounts, and if there would have been any liability, it had been extinguished as Federal Taxation Authorities had not pursued the Company for more than two years.

The Company is attempting to recover these funds from the taxation authorities. In recognition of the uncertainty of recovery and the expiry of appeal time limits, the Company has chosen to accrue the penalties and interest within the 2004 year. The SR&ED for the 2002 and 2003 years plus the related Ontario Innovation ITCs for those years net of the \$110,000 penalties is disclosed within Government Assistance Receivable and Government Assistance revenues.



ENVIRONMENTAL WASTE INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004

11. CONTINGENT LIABILITIES

In 2000, a former officer commenced a wrongful dismissal action against the Company for \$1,000,000 plus costs. In 2001, the former officer commenced a second claim against the Company relating to unpaid loans. The Company denies liability in either action, and has made no provision in the financial statements.

During the year three of the Company's suppliers commenced actions against the Company relating to unpaid amounts under contracts for components and services totalling approximately \$281,000. In the first action, the supplier contends that the Company contracted them to build 3 components. The Company disputes this on the basis that the components were never built or delivered. In the second action, the Company is counter suing for a greater amount as the product was defective. In the third action, the Company denies any liability as the services to be provided were never completed. As the outcome of these claims are not determinable no provision has been made within these financial statements.

During the 2004 year the Company recognized approximately \$1,700,000 as revenue related to non-refundable deposits. Subsequent to the year end one of the customers threatened legal action to recover approximately \$280,000 (US\$225,000). Management is of the opinion that the threatened action is without merit and has made no provision for the claim.

