

**ENVIRONMENTAL WASTE INTERNATIONAL INC.
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2005**

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Unaudited Interim Financial Statements
For The Six Month Period Ended June 30, 2005

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ENVIRONMENTAL WASTE INTERNATIONAL INC.
Unaudited Interim Financial Statements
For The Six Month Period Ended June 30, 2005

Responsibility for consolidated unaudited interim financial statements

The accompanying financial statements for Environmental Waste International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2004 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
August 26, 2005

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Balance Sheet
As At June 30, 2005 and December 31, 2004

	As at June 30 2005 (Unaudited)	As at December 31 2004 (Audited)
ASSETS		
CURRENT		
Cash	\$ 267,743	\$ 250,174
Accounts receivable	25,565	60,084
Prepaid expenses	11,111	43,920
Government assistance receivable (Note 10)		632,819
	304,419	986,997
PROPERTY, PLANT AND EQUIPMENT (Note 3)	1,141,596	1,163,593
TECHNOLOGY RIGHTS (Note 4)	375,000	400,000
DEFERRED CHARGES	13,278	16,445
	\$ 1,834,293	\$ 2,567,035
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	\$ 92,479	\$ 209,547
Loans payable (Note 5)	530,000	530,000
Due to director (Note 7)	60,100	66,295
Deferred revenue	104,293	
	786,872	805,842
MORTGAGES PAYABLE (Note 6)	850,000	850,000
	1,636,872	1,655,842
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	35,145,408	35,145,408
Contributed surplus (Note 8)	952,056	952,056
Deficit	(35,900,043)	(35,186,271)
	197,421	911,193
	\$ 1,834,293	\$ 2,567,035

ON BEHALF OF THE BOARD

_____"William Bateman"_____, Director

_____"Stephen Simms"_____, Director

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Statement of Operations
For The Three & Six Month Periods Ended June 30, 2005 and 2004

	Three months ended June 30		Six months ended June 30	
	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)
REVENUE				
Sales	\$ 55,654	\$ 78,164	\$ 97,554	\$ 172,690
Other	71		95	
	<u>55,725</u>	<u>78,164</u>	<u>97,649</u>	<u>172,690</u>
EXPENSES				
Manufacturing expenses	25,687	62,852	29,400	392,825
Research & development	118,546		190,249	
Salaries, wages & benefits	128,082	186,650	247,307	395,624
Stock compensation expense		399,840		399,840
Operations, general and administration	103,006	110,304	241,280	222,107
Foreign exchange	(14,522)		(16,831)	
Interest on long term debt	21,572	30,126	41,218	60,284
Interest on short term debt	15,900		31,800	
Amortization of property, equip. & technology rights	23,499	23,304	46,998	46,742
	<u>421,770</u>	<u>813,076</u>	<u>811,421</u>	<u>1,517,422</u>
NET INCOME (LOSS)	<u>\$ (366,045)</u>	<u>\$ (734,912)</u>	<u>\$ (713,772)</u>	<u>\$ (1,344,732)</u>
Income (loss) per share	<u>\$ (0.006)</u>	<u>\$ (0.012)</u>	<u>\$ (0.011)</u>	<u>\$ (0.023)</u>
Weighted average number of common shares outstanding	63,308,324	59,970,316	63,308,324	59,045,316

Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Statement of Operations
For The Three & Six Month Periods Ended June 30, 2005 and 2004

	Six months ended	
	June 30	June 30
	2005	2004
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
DEFICIT - BEGINNING OF PERIOD	\$ (35,186,271)	\$ (35,588,407)
Net income (Loss) for the period	<u>(713,772)</u>	<u>(1,344,732)</u>
DEFICIT - END OF PERIOD	<u><u>\$ (35,900,043)</u></u>	<u><u>\$ (36,933,139)</u></u>

Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Statement of Cash Flows
For The Three & Six Month Periods Ended June 30, 2005 and 2004

	Three months ended June 30		Six months ended June 30	
	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)
OPERATING ACTIVITIES				
Net income (loss)	\$ (366,045)	\$ (734,912)	\$ (713,772)	\$ (1,344,732)
Items not involving cash:				
Amortization of property, plant and equipment & technology rights	23,499	23,304	46,998	46,742
Stock based compensation expense	-	399,840	-	399,840
Amortization of deferred charges	1,583		3,166	-
	<u>(340,963)</u>	<u>(311,768)</u>	<u>(663,608)</u>	<u>(898,150)</u>
Changes in non-cash working capital:				
Accounts receivable	87,513	(6,718)	31,716	(19,993)
Accounts payable & accrued	(16,833)	(59,370)	(111,143)	161,660
Prepaid expenses	25,303		35,023	
Deferred revenue	(5,794)		104,293	
Government assistance	304,955		632,819	
Deposits		26,499		292,500
Other	(5,336)		(5,336)	
	<u>389,808</u>	<u>(39,589)</u>	<u>687,372</u>	<u>434,167</u>
Cash flow used by operating activities	<u>48,845</u>	<u>(351,357)</u>	<u>23,764</u>	<u>(463,983)</u>
INVESTING ACTIVITIES				
Increase (decrease) in capital items	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FINANCING ACTIVITIES				
Proceed from long term financing	(6,195)	(457,882)	(6,195)	(460,863)
Issuance of shares		867,000		867,000
Provided by financing activities	<u>(6,195)</u>	<u>409,118</u>	<u>(6,195)</u>	<u>406,137</u>
CASH INCREASE (DECREASE)	42,650	57,761	17,569	(57,846)
Cash - beginning of period	<u>225,093</u>	<u>111,259</u>	<u>250,174</u>	<u>226,866</u>
CASH - END OF PERIOD	\$ 267,743	\$ 169,020	\$ 267,743	\$ 169,020

Prepared by Management - without audit

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Consolidated Statement of Cash Flows
For The Three & Six Month Periods Ended June 30, 2005 and 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, EWMC Environmental Waste Management Corporation and Jaguar Carbon Sales Limited. All inter-company 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 related to property, plant and equipment are treated as a reduction of cost.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 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 recognized as revenue if certain contractual obligations on the part of the customer are not met.

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.

Stock based compensation

The Company has adopted the fair value method of accounting for employee stock options with retroactive 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.

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ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 2004

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

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 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 period met the criteria for deferral.

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	June 30 2005 Net carrying value	December 31 2004 Net carrying value
<i>Land</i>	\$ 331,125	\$ -	\$ 331,125	\$ 331,125
<i>Buildings</i>	1,036,078	233,671	802,407	822,981
<i>Equipment</i>	25,209	17,145	8,064	9,487
	\$ 1,392,412	\$ 250,816	\$ 1,141,596	\$ 1,163,593

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 2004

4 TECHNOLOGY RIGHTS

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
2002 Value	\$ 500,000	\$ 500,000
Accumulated amortization	<u>(125,000)</u>	<u>(100,000)</u>
	<u>\$ 375,000</u>	<u>\$ 400,000</u>

5 LOANS PAYABLE

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Loan from a relative of an officer 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	\$ 300,000
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
Loans from directors bearing interest at 12% per annum convertible for common shares at the rate of \$0.50 per share. Interest payable monthly. The loans mature September 30, 2005.	<u>130,000</u>	<u>130,000</u>
Due in one year	<u>\$ 530,000</u>	<u>\$ 530,000</u>

As disclosed above, the Company issued convertible loans of \$430,000 during the 2004 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 shareholder's equity as an equity component of convertible debt.

6 MORTGAGE PAYABLE

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
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
	<u>850,000</u>	<u>850,000</u>
Amounts payable within one year	-	-
	<u>\$ 850,000</u>	<u>\$ 850,000</u>

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 2004

7 DUE TO DIRECTOR

<u>June 30, 2005</u>	<u>December 31, 2004</u>
\$ 60,100	\$ 66,295

The amounts due to the director have no fixed 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 periods ended June 30, 2005 and December 31, 2004:

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>
Issued and Outstanding:				
Balance, beginning of period	63,308,324	\$ 35,145,408	59,233,324	\$ 33,980,012
Issued for Cash:				
Private placements			2,300,000	608,000
Employee stock options			425,000	88,000
Debt conversion			1,300,000	455,000
Stock based compensation related to exercise of options				14,396
Shares issued 2004 for payment received in 2003			50,000	
Balance, end of period	63,308,324	\$ 35,145,408	63,308,324	\$ 35,145,408

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

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 or the date of the grant if issued after the market has closed. All options issued up to and including June 30, 2005 fully vest 4 months after issue.

The weighted average fair value of the options granted for the period year was \$NIL, and for the year ended December 31, 2004 was \$0.278.

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 2004

8 SHARE CAPITAL (continued)

Stock option activity for the 6 months June 30, 2005 and year ended December 31, 2004 is presented below:

	Weighted average exercise price 6month June 30, 2005		Weighted average exercise price year-ended 2004	
	#	\$	#	\$
Balance, beginning of year	4,994,000	0.39	4,149,500	0.38
Granted	32,500	0.25	1,797,500	0.36
Cancelled and expired	(77,500)	(0.31)	(528,000)	(0.33)
Exercised	0	0.00	(425,000)	(0.21)
Outstanding at end of period	4,949,000	0.39	4,994,000	0.39

The following table summarizes information about the outstanding exercisable options expiring up to June 22, 2009.

Range of Prices	#	Weighted Average Remaining Life in Years	Weighted Average Exercise Price
Less than .31	1,466,500	1.36	0.27
0.32 - 0.44	2,532,500	2.61	0.39
0.60	950,000	0.5	0.6
	4,949,000	1.83	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 \$0 in the 6 months ended June 30, 2005 & \$499,489 in the year ended December 31, 2004 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

	June 30, 2005	December 31, 2004
Balance, beginning of period	\$ 952,056	\$ 466,962
Stock based compensation charge to earnings	-	499,489
Stock based compensation related to options exercised	-	(14,395)
Balance, end of period	\$ 952,056	\$ 952,056

9 NON-CAPITAL TAX LOSSES CARRIED FORWARD

The Company has incurred losses for income 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:

ENVIRONMENTAL WASTE INTERNATIONAL INC.
Notes to Consolidated Financial Statements
For The Three & Six Month Periods Ended June 30, 2005 and 2004

9 NON-CAPITAL TAX LOSSES CARRIED FORWARD (continued)

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

In 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 extinguishable 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 chose 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.

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