MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2005

Nature of Business

Environmental Waste International Inc.'s (EWI or the "Company") business is the design, development and sale of environmentally friendly devices that deal with waste treatment and disposal. The cornerstone of EWI's product lines is the patented Reverse Polymerization Process (RP) and delivery system. EWI has designed systems for the safe disposal or recycling of four different waste streams, and believes that its processes will have many future applications. The FD Series sterilizes and dehydrates food waste for safe storage and disposal without the formation of fermented gases. The FS Series sterilizes liquid biological waste without the need to filter out small solid particles. The TR Series has been designed to break down rubber tires into usable byproducts that can be used in new products. The MD Series is designed to fully sterilize and carbonize infectious medical and animal waste leaving a residue that is safe for handling and disposal.

The Company believes that these RP applications will ultimately achieve widespread acceptance. The public, governments and industries worldwide are recognizing the need for technology to deal with the disposal of waste and with the treatment of waste products in environmentally safe ways. EWI provides unique and effective solutions.

FD Series – Food Waste Dehydrator and Sterilizer

In July 2005 the Company was contracted to build a prototype food waste dehydrator/sterilizer for review by the United Kingdom Ministry of Defense for use on naval vessels. The prototype system was built and delivered in September 2005 to a special land-based test facility to confirm the systems' ability to sterilize the food waste and allow for the safe storage of the treated waste for up to 45 days.

FS Series – Liquid Biological Waste System

In February 2003, the Company was awarded a contract from the United States Department of Agriculture (USDA) to design, build and install a liquid biological waste processor. The unit was designed for the National Plant Germplasm Quarantine Center in Maryland, and was officially commissioned in January 2005. EWI was also given a 5-year warranty agreement.

MD Series – Medical Waste Systems

Work on the medical waste system (MD1000) culminated in June 2002 when Precision Analysis (a 3rd party lab) released its report on the efficiency of EWI's MD1000 and its environmentally sound manner of sterilizing infected clinical waste. EWI is currently in discussions with parties who have expressed interest in these systems, especially since the successful completion of the FS installation and USDA approval.

TR Series – Tire Processor System

EWI is working with several groups interested in purchasing a tire processing system or in establishing a showpiece system for the local North American market.

Highlights of 2005

The Company had its first commercial system officially commissioned in January 2005. The installation is in a high profile environment, and is generating substantial attention. The USDA has requested additional contract work on the operation. The five-year warranty agreement with the USDA came into being in the 1st quarter, and the Company is now recognizing a monthly income from this contract. The Company has been requested to present its technology to a number of interested parties and has also received requests for specific quotes on upcoming projects. These matters are ongoing.

In July 2005, the Company was contracted to build a prototype food waste dehydrator/sterilizer for review by the United Kingdom Ministry of Defense (MoD). The unit is targeted for use on naval vessels where there is a need to store the waste for up to 45 days without any fermentation. EWI designed, manufactured, assembled, programmed and shipped the system in just over 2 months. Upon delivery in September 2005, the system was immediately put into use at a special land-based test facility to confirm its ability to meet the navy's need. The client was impressed with the Company's ability to build the system in such a short timeframe and all initial test results appear to be positive. Although there is no guarantee of future business from this group, EWI is hopeful that this will lead to future sales. EWI was also contracted to perform additional testing of our RP system on other waste streams and has completed those tests and submitted the reports for review. EWI is presently awaiting the MoD's decision on whether these results will lead to future business opportunities.

In October 2005, the Company announced its participation in a new research project along with the University of Ottawa and University of Waterloo Civil Engineering Departments. The project will investigate the effects of microwaves on municipal sludge to enhance biogas and green house gas recovery. The project has been awarded a government grant of $326,000 from Natural Sciences and Engineering Research Council of Canada (NSERC) to conduct a three-year study. EWI believes this project will allow it to continue to expand its product line and target markets.

EWI successfully completed its application to the Government of Canada for monies resulting from scientific research and development for work conducted in 2004. Refunds totaling $67,000 were approved and received subsequent to the year-end.

MD&A and Accounting Policies

Management's discussion and analysis of the financial condition and results of operations ("MD&A") for the year ended December 31, 2005 should be read in conjunction with the Company's fiscal 2005 audited financial statements (the "financial statements") which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Additional information relating to the Company is available on SEDAR at www.sedar.com, and also on the Company's website. The Canadian dollar is the reporting currency in this MD&A and in the Company's financial statements.

EWI's accounting policies are important to understanding its historical and future performance as well as areas involving management's judgments and estimates. These policies are set out in note 2 to the financial statements. Sales cycles of EWI's patented Microwave Process and delivery systems involve unusually lengthy periods of time which can have a direct affect on the profitability of sales through changes in component costs, market conditions, exchange rates and other costs outside the Company's control. Consequently, future projections based on previous financial statements using historical costs or profitability may not necessarily be reliable.

Forward-looking Statements

This MD&A contains forward-looking statements, including statements about projected future revenues, expenses and cash flows, and possible plans to raise additional capital, and other statements about the Company's plans, objectives and expectations. Forward-looking statements are based on the opinions and estimates of management at the time the statements are made and are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated. The words "anticipate," "believe," "expect," "intend," variations of such words, and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. A further discussion of Risks and Uncertainties can be found nearer the end in this document.

Outlook & Growth Strategy

EWI is pursing sales opportunities worldwide. The Company is presently working with several government agencies and companies to supply quotes and system designs on a number of potential projects and installations, which may develop into future orders.

EWI is presently working on obtaining financing to build a local TR tire facility that would be self-sustaining, and could subsequently be used as a showpiece for its technology. EWI is presently working closely with one group that is spearheading this project and will hopefully be in a position to begin construction in 2006.

The long-term success of EWI depends upon its ability to deliver its systems and know-how, in the form of practically proven, and complete solutions.

The Company has incurred significant operating losses since inception. It has a working capital deficit that impedes its manner of operations and the working capital is not adequate to support current operating levels and growth objectives for the next twelve months. The Company's ability to achieve its goal of sustained profitability remains contingent upon its continued progress on a number of fronts which includes obtaining additional financing either through sales or equity, and achieving profitable levels of operations.

Date of MD&A

The information contained herein is current as at the date of filing of the December 31, 2005 financial statements with Auditor's Report attached dated April 24, 2005, and is completed as of that date.

Selected Annual Information

Summary of Quarterly Balance Sheets (Unaudited)

	2005				2004			
($ 000's)	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Current Assets	680	304	706	340	168	234	333	987
Current Liabilities	563	197	54	263	2,835	2,345	2,418	805
Shareholders' Equity	563	197	54	61	(1,751)	(1,219)	(1,214)	911

ENVIRONMENTAL WASTE INTERNATIONAL

Selected Financial Information *(continued)*

Summary of Quarterly Statements of Income (Loss) (Unaudited)

($ 000's except per share amounts)	2005 Qtr 1	2005 Qtr 2	2005 Qtr 3	2005 Qtr 4	2004 Qtr 1	2004 Qtr 2	2004 Qtr 3	2004 Qtr 4
Revenue	42	56	287	(157)	94	78	330	1,424
Total Expenses incl. Stock Based Comp & Amort.	390	421	422	406	704	813	415	(407)
Stock Based Compensation	0	0	6	220	0	400	62	37
Amortization	23	23	23	25	23	23	29	21
Net Income (Loss)	(348)	(366)	(135)	(562)	(609)	(735)	(85)	1,831
Weighted Ave.# of Shares	63,308	63,308	63,308	63,308	58,645	59,970	61,045	61,208
Income (Loss) per share	(.006)	(.006)	(.002)	(.0044)	(.0104)	(.0123)	(.0014)	.0299

Summary of Quarterly Statements of Cash Flow (Unaudited)

($ 000's)	2005 Qtr 1	2005 Qtr 2	2005 Qtr 3	2005 Qtr 4	2004 Qtr 1	2004 Qtr 2	2004 Qtr 3	2004 Qtr 4
Operations	(25)	49	(216)	(258)	(113)	(351)	(346)	(379)
Investing Activities	0	0	0	0	0	0	(8)	2
Financing Activities	0	(6)	449	(12)	(3)	409	457	355
Cash at Beginning	250	225	263	546	227	111	169	272
Cash at End	225	263	546	232	111	169	272	250

Comparison of Fiscal Years ended December 31

($ 000's)	2005	2004	2003	2002	2001
Total Assets	1,819	2,567	1,929	2,637	6,508
Total Liabilities	1,758	1,656	3,070	2,767	2,623
Shareholders' Equity	61	911	(1,141)	(130)	4,903
Shares Issued	62,720	62,720	58,645	57,210	
Total Revenues	228	1,927	765	0	196
Total Expenses incl. Stock Based Comp & Amort	1,639	1,525	2618	2,954	3,325
Stock Based Compensation	226	499	504	*0	*0
Write downs	0	0	0	2735	95
Net Income (Loss)	(1,411)	402	(1,853)	(5,689)	(3,225)
Net Income (Loss) per Share	($0.0184)	$0.0067	($0.0320)	($0.1040)	($0.060)
Cash Dividends Declared (per share)	$0.00	$0.00	$0.00	$0.00	$0.00

*The Company changed its policy in 2003 to commence recording stock based compensation.

Revenue

Revenues are generally derived from sales of systems. Each individual sale can be of significant value. As a result of each sale having a long lead-time before the sale is consummated, and then a long period of planning, engineering, manufacture, shipping, installation and commissioning, revenues from operations can fluctuate dramatically.

In the current year, revenues consisted of the completed FD prototype shipped to the UK, additional work related to FS Series at the USDA, recognition of the monthly warranty fees and a government GST refund for prior years. The warranty fee for a five-year period (2005 through 2010) was invoiced and collected in the 1st quarter, and this revenue is being recognized on a monthly basis throughout the warranty period. No additional expenses are accrued, as Company employees will perform these services as part of their regular duties.

In the prior year, revenues reported consisted of additional percentage of completion billings on the FS Series to the USDA and the recognition of existing deposits as income since all criteria were met on each project, the deposits were not refundable, and the projects were not expected to proceed further.

Revenue by quarter for the current and preceding year is set out in the accompanying charts.

Segmented Information - Revenue

($ 000's)	2005	2004
Geographical Revenue		
USA	70	455
Europe	134	1,150
Asia	0	272

As previously mentioned, sale negotiations are ongoing in many parts of the world. However, the geographic source of revenue is not significant in determining profitability. The Company hopes to eventually have its products installed all over the world. Each sale, regardless of model or series, is of sufficient magnitude to have a positive effect on the Company.

% of Sales and deposits realized	2005	2004
Product Line		
TR Series	0 %	76 %
FS Series	65 %	9 %
MD Series	0 %	15 %
FD Series	35 %	0 %

Manufacturing Expenses and Cost of Sales

EWI expenses all expenditures as incurred, unless such expenditures can be directly related to a specific future billing. Because of the prototype nature of the FD project, a cost of sales calculation is not meaningful. The importance of the project to the Company was in demonstrating its technology for a new application.

There is no additional direct cost of warranty and service work to be performed in 2006. Existing employees performed these services as part of their regular duties. If in the future, these duties comprise a significant and identifiable expense, the direct costs will be allocated.

Salaries and Consulting

Due to the lack of current sustainable revenue achieved by the Company, employee head counts and associated overhead have been reduced and are being controlled tightly. Where appropriate, employee costs are included in research and development.

Scientific Research and Development

Research and development costs incurred in the advancement of products and projects are allocated to research and development in the financials statements. These costs include wages and materials. An active research and development program is continuously ongoing.

On January 1, 2004, the income tax status of EWI changed under the Income Tax Act of Canada to that of a public company. As a result claims made to Governmental authorities for these types of expenditures, if approved after submission, will result in a reduction of future federal income taxes payable, in addition to a lesser amount of provincial refund, rather than a refund of a portion of these expenditures as was previously the case.

Currency of Expenses

The majority of goods and services obtained by the Company, save immaterial amounts and expenses incurred on site during installation and commissioning, are incurred in Canada and with CAN $.

Management has attempted to maintain a tight control on expenses, which will remain in place until revenue increases to a level that justifies increases in overhead.

Stock Based Compensation

In the 2003 financial statements and subsequent, the Company adopted the fair value method of accounting for employee stock options. Options give the holder the right, for a specified period, to obtain from the Company (upon the payment of the exercise price) a fully paid share of common stock, regardless of the market price of the stock at the time of the payment of the exercise price.

The fair value method calculates the value of each option granted by using a formula (the Black Scholes option pricing model) intended to establish a fair value for each option, which is the estimated value of the option over and above the exercise price. The details used in the calculation are set out in note 2 to the annual financial statements, and the effects are detailed herein by year and by quarter.

Although the Black Scholes formula is generally recognized as a method of calculating stock based compensation, it is based upon certain universal factors, which can cause difficulties in understanding the result. For example, the length of the term of options granted (the amount of time the option is valid in the future) will cause the calculation to take in to account an identical length of time in the past to judge the volatility in the price of EWI's publicly traded stock, which has a dramatic effect on the valuation. Although, the events of the past cannot be an accurate gauge of an identical period in the future, they are the best available yardsticks.

The value calculated by the Black Scholes formula is recorded as an expense by the Company on the day the option vests, even though options would almost never normally be exercised on or around that day. That means the day that the option is granted, the total calculated amount is recognized in full as an expense, even though the holder may have that option for years to come without paying the exercise price, and even though on the day of the grant, the exercise price is at, or in many cases substantially greater than, the trading price of the stock.

Stock Based Compensation *(Continued)*

The value of holding this right to buy a share over a period in the future, because that share may escalate in price, is established by this valuation method. Components of the valuation include the value of interest for the period the option is held without the need to put up cash ("risk free period"), the theory that the option right has value whether or not exercised, and an assumption that the grantor would not issue worthless paper.

The Company has never granted options with an exercise price below current market value, and in many cases, options granted have exercise prices that substantially exceed market value at the time of grant. Therefore at the time the option is vested, an option holder would not normally exercise his option, as the price of obtaining a share of EWI in this manner would be more expensive than simply buying a share in the open market.

The Company is following this generally accepted method of valuation, even though it believes that it may result in a distortion of its reported results. Once an option is valued in this way, it remains a permanent entry in the records. If an option expires for any reason and becomes valueless, no adjustment is made to the original cost of the stock based compensation. Many options granted are never exercised, thereby rendering them valueless. This method assigns no value for the benefit to the Company of having granted options to key employees, directors and consultants that are intended to induce the holder to strive to create added value for the Company.

In summary:

- The length of the term of options granted (the amount of time the option is valid in the future) will cause the calculation to take in to account an identical length of time in the past to judge the volatility in the price of EWI's stock
- An option vested is recorded as an expense of the Company on the day that the option vests, even though options would almost never be exercised on or around that day
- Many options granted are never exercised, thereby rendering them valueless.
- The Company has never granted options with an exercise price below current market value; in many cases options granted have exercise prices that substantially exceed market value at the time of grant.

In 2005 $226,502 was recognized as stock based compensation expenses compared with $499,489 in 2004.

Depreciation and Amortization

The Company records amortization on its building on a 5% per annum diminishing balance basis, and on equipment on a 30% per annum diminishing balance basis.

The value of technology rights were written down to $500,000 in fiscal 2002, which amount is being amortized on a straight line basis at $50,000 per annum based on an estimated life of 10 years. This asset is reviewed each year for any impairment of value. In the event that impairment is judged to have occurred, the value of this asset will be written down to the new determined value.

Income Taxes

The Company has $14,000,000 in loss carry forwards for income tax purposes that may be utilized to offset taxable income of future years. These losses are reduced by the amount of the scientific research and development credits received. Approximately $5 million of these losses were incurred by the Company's subsidiaries. Approximately $300,000 of these losses will expire at the end of the 2006 fiscal year. It is not determinable at this time whether the Company will generate sufficient income to utilize these loss carry forwards.

Interest on Debt

Interest on debt remains comparable year to year, and is described in greater detail under the heading 'Liquidity and Capital Resources', and in the annual financial statements.

The first mortgage on the Company's real estate was renewed in late 2004. A new second mortgage was placed on the property in the fourth quarter of 2005. They bear interest at annual rates and amounts payable as set out in the financial statements. Further interest expense is generated by loans obtained by the Company that are necessary to sustain the Company until the Company achieves a positive cash flow.

Net Income (Loss)

EWI had a loss of $1,184,862 before stock based compensation compared with a profit of $901,624 in 2004. This loss arises from normal operating expenses exceeding revenues as the Company develops its product lines and attempts to market its products.

Based on the current level of interest in EWI's products, the Company is hopeful that a profitable level of operations can be established in the near future.

Customer Reliance

A significant amount of the revenue in 2005 was from a new customer, while the 2004 revenue was from the USDA and a group that failed to complete their purchase. The ongoing work with both the USDA and the UK clients represent an initial step in increasing market depth and building a more stable business model for the Company to rely on. Interest in the Company's products is now being expressed from a variety of potential customers. However, in the event that the USDA or UK facility ceases operation or ceases the operation of the EWI equipment therein, it could have a negative effect on the Company's future sales efforts.

Liquidity and Capital Resources

EWI in the current and comparative years suffers from a lack of working capital and reserves.

($ 000's)	2005	2004	2003	2002
Working Capital (Deficiency)	76	181	(2,080)	(1,104)
Current Mortgage Debt	1,128	850	725	752
Customer Deposits	0	0	1,429	937

In 2005, the working capital deficiency increased over 2004. The increase was primarily due to funding ongoing operations but was mitigated through the addition of a second mortgage for an additional $450,000 as well as the completion of the FD unit for the UK, the USDA prepayment of the 5-year warranty payment and the receipt of a GST Refund from 2000 to 2003. In 2004, working capital had improved, primarily from the taking into income of deposits previously recorded, the receipt of substantial government assistance. Other sources of cash in 2004 included the exercising of options for the Company's common stock, private placements of Company common stock, debt conversion of existing debt into Company common stock as well as an increase in the first mortgage.

Until EWI is able to generate working capital from profitable operations, raising capital from the exercise of options, private placements, and loans will continue to be important to the Company's financing.

In recent years working capital inadequacies have been funded by loans from directors and arms length investors. These loans are detailed in the financial statements in each year. All of these loans have been at commercial rates, and generally contained conversion privileges to convert to common shares of EWI at a conversion price that was greater than the fair market value at the time the loan.

Working Capital Shortages

The Company believes that working capital shortages will be met in the short term by:

- New sales orders currently under negotiation.
- Exercising of existing share options.
- If necessary, further private placements.
- Sale of real estate holdings.

There is no guarantee that necessary working capital will be realized in this manner.

Issued Shares and Share Data, Options and Warrants

	December 31, 2005	Average Exercise Price	Average Term Remaining (years)	Dec 31, 2004	Average Exercise Price	Average Term Remaining (yrs)
Issued Common Shares	63,308,324			63,308,324		
Options outstanding	4,269,000	$0.30	2.4	4,994,500	$0.39	2.3
Warrants Outstanding	500,000	$0.60	.3	500,000	$0.60	1.3

Related Party Transactions

Loans from related parties bore interest as follows:

($ 000's)	2005	2004
Interest Paid on Loans to Related Parties	68	42

Loans from related parties and conversion privileges attached thereto are reviewed and approved by the directors of the Company and by the Audit Committee. The Board of Directors is comprised of a majority of independent directors, and the Audit Committee is comprised of all independent directors.

Commitments, Contractual Obligations and Contingent Liabilities

Other than the mortgage debt and the loans payable, the Company has no contractual obligations other than in the normal course of business. The Company is committed to certain options and warrants on its common stock in the normal course of business as detailed herein.

As noted in the December 31, 2005 financial statements, an ongoing claim by a supplier for $60,000 remains unsettled while EWI is countersuing for a greater amount, as the product was defective. Two former officers have outstanding litigations against the company. The Company denies liability in both cases and views the claims as frivolous and has made no provisions for these claims.

Off-Balance Sheet Arrangements

The Company does not enter into off-balance sheet arrangements as a matter of practice. Lease arrangements in place are for equipment and are not material. In accordance with GAAP, neither the lease liability nor the underlying asset is carried on the Balance Sheet, as the terms of the leases do not meet the criteria for capitalization.

Critical Accounting Policies, Estimates and Accounting Changes

There have not been any changes to these policies except as specified in the notes accompanying the Audited Financial Statements for the year ended December 31, 2005.

The Company has implemented the generally accepted accounting policy for the treatment of convertible debt. For accounting purposes any debt that carries a convertible option is treated as containing a liability and an equity component. The Company has allocated an amount to the liability and equity components proportionately based on their respective fair value.

Subsequent Events

Subsequent to year end the Company issued a private placement for 4,000,000 units. Each unit consists of one common share at $.12 and one half of a share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one additional share at $.16 for a period of two years from the date of issue.

The Company has begun efficacy testing with a third party lab on its wastewater sterilization system.

Currency & Exchange Rate Uncertainty Risk

EWI enters into agreements throughout the world. There can be an extended period between the time a contract is entered into and the time that payments are made. Therefore there may be periods in which currency fluctuations could have a negative affect on operations.

Most international contracts are related to the US $, and there is a potential for uncertainty because of its fluctuation. For accounting purposes, business done in foreign currencies is converted to CAN $ at the time the transaction occurs. Any variance from this amount when money is received is charged to foreign exchange. Balances of assets or liabilities maintained in foreign currencies are converted as at the balance sheet date to CAN $. Most EWI expenditures are made in Canada in CAN $; therefore, the Company does not perceive material risk in this regard. The effect of all currency fluctuations is recognized in the financial statements of the Company as a current operating revenue or expense.

Risks and Uncertainties

The future of the Company is dependent upon many factors, particularly the successful acquisition of new sales orders. Failure to achieve further sales could imperil the continued operation of the Company. In the absence of further sales, the Company will not have sufficient cash reserves and will be forced to seek additional equity or debt, thereby either diluting the shareholders, or incurring further interest expense.

Although the Company considers its products and systems very safe environmentally, their installation usually requires substantial and detailed regulatory inspection and approval. There is no assurance that this will not delay installations or sales, or prevent sales and installations in certain jurisdictions. The Company believes its systems to be safe and adequately tested. However there is no assurance that mechanical or system failure will not be harmful in certain circumstances.

The Company strives to obtain adequate insurance coverage in locations in which work is being performed. However, given the complexity of regulations in many jurisdictions, and the limited resources of the Company, no assurance can be given that the Company and its employees are adequately protected.

The Company's success depends in part, on its proprietary technology. While the Company believes that it has adequately protected its rights, patents, and trade secrets, there can be no assurance that these will not be challenged, or that competitive technologies will not arise.

Due to the size and complexity of each individual sale, should any problem arise, it could have a sizeable affect on the Company and its future sales efforts. The Company believes that its continuing relationships with the USDA and its UK client are important to near term sales prospects.

Other factors that could affect the Company's actual results, include, but are not limited to, (i) management's ability to manage the Company's cash flow, including anticipation of any significant capital expenditures; (ii) the ability to sell the Company's products profitably; (iii) changes in exchange rates or material costs that could affect the profitability of the sales of the Company's systems; (iv) the potential need to liquidate assets at or below the Company's cost in order to fund operating expenses; (v) the ability to secure future financing to build and deliver systems to customers, and (vii) the ability to raise additional capital if required to cover the day to day operating expenses of the Company.

While EWI made notable progress in 2005, there is no assurance that this will result in continued progress, or in profitability.

The preceding list is not exhaustive of all possible factors, and all factors should be considered carefully when making decisions with respect to the Company.

Fourth Quarter Analysis

The operating results of the 4th quarter of 2005 and the 2004 comparatives are contained within the quarterly charts included above. The results of the 4th quarter of 2005 include yearend adjustments by the Company's external auditors that are mainly related to presentation. Impacting last year's fourth quarter was the recognition of deposits as revenue and the recognition of Government assistance with regard to scientific research and development claims. The recognition of stock compensation expense occurs at the date of vesting of options, which for EWI is generally the date of grant.

Revenue

Revenues in the 4th quarter of 2005 were negative due primarily to a reallocation of a GST refund of $146,776 from revenues to expenses. Included in revenue was the amortization of the warranty contract for the USDA. Last year's fourth quarter revenues were unusually high as they included $1,424,000 of deposits on various contracts which became income of EWI as a result of contracts and contract extensions expiring, with no further obligation on the part of the Company.

Expenses

Similarly, the reallocation of the GST refund from revenues to expenses reduced expenses for the quarter. The reporting of expenses in the 4th quarter of 2004 was affected by the inclusion in that period of the scientific research and development revenue of $632,819, which caused the expenses for the 4th quarter to be reported as a negative expense (a revenue).

Expenses excluding this unusual amount were consistent with the other quarters.

Stock Based Compensation

Stock based compensation in the 4th quarter of 2005 was $220,000, and in the 2004 comparative period was $37,000.

Net Income (Loss)

The fourth quarter of 2005 incurred a loss of $562,000. As can be seen from the accompanying charts, EWI achieved an unusual net income of $1,831,000 in the 2004 fourth quarter. This occurred because of the recognition in this quarter of deposits as revenue and the recognition of the Government assistance because of virtual certainty.

Management Responsibility for Financial Reporting

The Company's December 31, 2005 financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and have been approved by the board of directors. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, EWI's management maintains a system of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, management has chosen those it deems the most appropriate in the circumstances. The financial statements may contain certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects.

The board of directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The board carries out this responsibility principally through its audit committee. The audit committee is appointed by the board and has at least one financial expert, and none of its members are involved in the daily operations of the Company. The Committee meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements with the external auditors.

The committee reports its findings to the board for consideration when approving the financial statements for issuance to the shareholders. The committee also considers, for recommendation by the board and approval by the shareholders, the reappointment of the external auditors.

The financial statements have been audited on behalf of the shareholders by Harvey Cantor LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the audit committee with respect to their findings concerning the fairness of the financial reporting and the adequacy of internal controls.