MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2006

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 five different waste streams, and believes that its processes will have many future applications. 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 FD Series sterilizes and dehydrates food waste for safe storage and disposal without the formation of fermented gases. The MD and AW Series are 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.

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 (FS-6000). The unit was designed for the National Plant Germplasm Quarantine Center in Maryland, and was officially commissioned in January 2005. EWI was also awarded a 5-year warranty agreement.

In October 2006, the company introduced its newest product, the FS-POD, an under-the-counter laboratory version of the FS-6000 unit. On November 15, 2006 the Company announced that is had received an order from Abbott Laboratories for an EWI FS-POD unit. Both the FS-6000 and the FS-POD are based on a batch process for the sterilization of effluents based on the Company's patented microwave delivery system.

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. Pro-forma economic models have consistently demonstrated annual rates of return on EWI tire processing systems of 25% to 60%. Factors affecting the returns include system size and market price for the end products, primarily carbon black, oil and steel.

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. The UK naval group ascertained that the unit exceeded the required treatment and storage specifications with almost twice the stipulated efficiency. The company has received ongoing interest in this and other marine applications.

MD & AW Series – Medical & Animal Waste Systems

In June 2002, 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. Recently EWI has received interest in both the medical waste and animal waste applications. The majority of this interest is centered on world events that have created the need to dispose of infected animal carcasses and associated medical supplies.

Highlights of 2006

FS-POD Wastewater Sterilization

In October 2006 EWI officially introduced the FS-POD wastewater sterilization unit. EWI began contacting design and engineering firms to introduce them to this product. Other interested parties, including several end-users were also approached. The initial interest and requests for presentations, meetings and system quotations has been encouraging. These smaller, "under the counter" units present the Company with an opportunity to enter a potentially lucrative worldwide market.

As mentioned above, on November 15, 2006 the Company announced that is had received an order from Abbott Laboratories for an EWI FS-POD unit. The FS-POD is a batch processor for the sterilization of effluents based on the Company's patented microwave delivery system. Please see the Subsequent Events section for additional discussion.

The unit's small size, operating features and competitive price met Abbott's needs. The corporate engineering and research divisions of Abbott conducted a review of EWI including discussions with personnel at the US Department of Agriculture's APHIS facility to confirm their satisfaction with EWI, its products and service record. Abbott issued the purchase order based partly on this positive feedback.

The FS-POD is EWI's newest product; it was designed to meet the needs of the wastewater sterilization market. The base system is priced under $100,000 US and is small enough to fit under a laboratory countertop yet robust enough to sterilize the effluents from any Biological Safety Level (BSL) facility. The system allows the contaminated liquids to be sterilized onsite without the need for the larger and more costly central processing unit. The FS-POD is ideal for retrofitting laboratories, research centers, hospitals and university labs to allow them to meet current standards for the disposal of most biological agents. The system also gives tremendous flexibility to the design and engineering teams working on new facilities. Initial interest and feedback has been very positive. EWI believes that this new product will be quickly accepted in the marketplace.

Sale of Real Estate

On December 20, 2006 the Company closed a transaction for the sale of the land and building located at 283 Station St. in Ajax, Ontario to an arm's length third party for $1,765,000. EWI remains at the location and has entered into a lease for office and lab space. The sale proceeds repaid the first and second mortgages as well as secured loans. Annual operating expenses, net of the new lease, have been reduced by over $200,000.

During the past three years, EWI has established solid working relationships and strategic alliances with key manufacturers that have allowed EWI to streamline operations and substantially reduce working capital and space requirements. EWI's present needs are limited to space for sales and marketing, service and technical support, design engineering and product testing and demonstration.

Laboratory Results

In June 2006 the Company announced the results of tests performed by an independent third party lab on EWI's microwave biological wastewater system. GAP EnviroMicrobial Services (GAP), a division of Conestoga-Rovers and Associates Ltd. confirmed that EWI's microwave biological wastewater system sterilizes all tested microorganisms more efficiently and effectively than heat alone.

EWI believes that these results positively position its system for consideration in the design of future laboratories and university research centers. The results have been distributed to various government agencies that oversee the treatment and disposal of biologically infected wastewater.

Private Placements

On March 14, 2006 the Company received regulatory approval to issue 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. All members of the Board of Directors and the CFO participated in the placement.

On November 7, 2006 the Company announced that it had received regulatory approval for a private placement for 2,500.000 units at $.10 with 2,500,000 warrants at $.20 valid until October 31, 2008. The placement was closed with three participants purchasing the placement units for a total dollar value of $250,000. Funds are earmarked for ongoing research and development projects and for general working capital purposes.

Other Matters

On August 28, 2006 the Company received $110,000 plus interest that had previously been withheld in March 2005 by federal taxation authorities. These monies related to EWI's 2002 "SRED" claim. At the same time the Company received its 2005 Ontario Innovation ITC.

The wastewater system commissioned in January 2005 continues to generate substantial attention. The Company recognizes monthly income from the five-year warranty agreement with the USDA. The Company has presented its technology to a number of other interested parties and has also received requests for quotes for several upcoming projects. These matters are ongoing.

In late 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 is investigating 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) for the three-year study. EWI believes this project will allow it to continue to expand its product line and target markets.

In March 2006, the Company exhibited at the Tradeline International Conference on Biocontainment Facilities in Clearwater, Florida. This conference included research laboratories, government agencies and academic departments. As noted in the subsequent events section, EWI participated in the March 2007 trade show held in San Diego, California. EWI's technology generated significant interest and the Company is working with a number of interested parties.

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, 2006 should be read in conjunction with the Company's fiscal 2006 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 www.ewmc.com. 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 3 to the financial statements. Sales cycles for some of EWI's patented RP 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 continually pursues sales opportunities worldwide and is presently working with several government agencies and companies to supply quotes and system designs on a number of potential projects and installations.

EWI is presently working on obtaining financing to build a local TR tire facility that would be self-sustaining, profitable and could subsequently be used as a showpiece for its technology. EWI remains hopeful that work on this project will begin shortly.

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, 2006 financial statements with Auditor's Report attached dated April 12, 2007, and is completed as of that date.

ENVIRONMENTAL WASTE INTERNATIONAL

Selected Annual Information

Summary of Quarterly Balance Sheets (Unaudited)

($ 000's)	2006 Qtr 1	2006 Qtr 2	2006 Qtr 3	2006 Qtr 4	2005 Qtr 1	2005 Qtr 2	2005 Qtr 3	2005 Qtr 4
Current Assets	421	111	156	475	680	304	706	340
Current Liabilities	189	215	329	714	821	786	857	263
Shareholders' Equity	193	(167)	(260)	(106)	563	197	54	61

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

($ 000's except per share amounts)	2006 Qtr 1	2006 Qtr 2	2006 Qtr 3	2006 Qtr 4	2005 Qtr1	2005 Qtr 2	2005 Qtr 3	2005 Qtr 4
Revenue	18	10	228	(181)	42	56	287	(157)
Total Expenses incl. Stock Based Comp & Amort.	365	606	353	(49)	390	421	422	406
Stock Based Compensation	0	229	33	(118)	0	0	6	220
Amortization	23	23	23	21	23	23	23	25
Net Income (Loss)	(348)	(596)	(126)	242	(348)	(366)	(135)	(562)
Weighted Ave.# of Shares	64,641	65,720	66,053	66,318	63,308	63,308	63,308	62,720
Income (Loss) per share	(.005)	(.009)	(.002)	.0036	(.006)	(.006)	(.002)	(.0044)

Summary of Quarterly Statements of Cash Flow (Unaudited)

($ 000's)	2006 Qtr 1	2006 Qtr 2	2006 Qtr 3	2006 Qtr 4	2005 Qtr 1	2005 Qtr 2	2005 Qtr 3	2005 Qtr 4
Operations	(276)	(319)	(42)	(216)	(25)	49	(216)	(258)
Investing Activities	0	0	0	1,701	0	0	0	0
Financing Activities	438	26	75	(1,198)	0	(6)	499	(12)
Cash at Beginning	232	393	100	132	250	225	263	546
Cash at End	393	100	132	420	225	263	546	232

Comparison of Fiscal Years ended December 31

($ 000's)	2006	2005	2004	2003	2002
Total Assets	780	1,819	2,567	1,929	2,637
Total Liabilities	887	1,758	1,656	3,070	2,767
Shareholders' Equity	(106)	61	911	(1,141)	(130)
Shares Issued	69,248	62,748	62,720	58,645	57,210
Total Revenues	75	228	1,927	765	0
Total Expenses incl. Stock Based Comp & Amort	1,275	1,639	1,525	2618	2,954

Selected Annual Information *(continued)* ($ 000's)	2006	2005	2004	2003	2002
Stock Based Compensation	144	226	499	504	*0
Write downs	0	0	0	0	2735
Net Income (Loss)	(828)	(1,411)	402	(1,853)	(5,689)
Net Income (Loss) per Share	(.012)	($0.022)	$0.0067	($0.0320)	($0.1040)
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 mainly of consulting fees and the monthly warranty fees for the USDA contract that is being recognized throughout the five-year warranty period (2005 through 2010). No additional expenses are accrued, as Company employees will perform these services as part of their regular duties.

In the prior 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.

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

Segmented Information – Revenue

($ 000's) **Geographical Revenue**	2006	2005
United Kingdom	0	134
North America	72	70

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	2006	2005
Revenue Source		
TR Series and other	40%	0%
FD Series	0 %	35%
FS Series	60 %	65%

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 overheads 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 $.

Stock Based Compensation

Commencing with the 2003 financial statements, the Company adopted the fair value method of accounting for employee stock options. During the normal course of operations, stock options are granted to employees, directors, officers, and consultants. Under this plan, the Company may grant total options to a maximum of 10% of the issued and outstanding common shares on a non-diluted basis. The exercise price is equal to or above the market price of the Company's stock on the day prior to the date of grant and the options have a maximum term of five years. Options vest when issued, although there is a four-month TSXV restriction on options being exercised and traded from the date of issue.

Canadian GAAP requires companies to record a compensation expense for stock options. The value of these options is calculated using the Black-Scholes valuation model and expensed over the period in which the options vest. For the year ended December 31, 2006, the amount of the expense recorded was $ 143,698 compared with $226,502 for the year ended December 31, 2005. The calculation was based on the estimated volatility at 141 % (2005 – 137%) and an average risk free interest rate of 4.1% (2005 – 3.70%).

Depreciation and Amortization

The Company recorded 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 approximately $14,312,000 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. An amount in the order of $ 2,182,000 of these losses will expire at the end of the 2007 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 has increased year over year, and is described in greater detail under the heading 'Liquidity and Capital Resources', and in the annual financial statements. The mortgages on the Company's real estate were retired in late 2006 with the sale of the real estate. 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 ($828,356), down from ($1,411,364) from the previous year. Total operating expenses fell by $364,469 over the previous year. Reductions in payroll contributed to a savings of almost $180,000. This was partially offset by a lawsuit settlement of $37,383 as noted in the Contingent Liabilities section below.

The sale of real estate resulted in a gain of $409,019 recognized in the current year as well as $1,304 that relates to the amortization of the deferred gain as explained in notes 6(a) and 11 of the 2006 audited financial statements. Further, the disposal of the property should yield future annual savings of approximately $200,000 per year.

The 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

The ongoing work with the USDA, Abbott Laboratories 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 above noted entities either cease operations or cease 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)	**2006**	**2005**	**2004**	**2003**
Working Capital (Deficiency)	(239)	76	181	(2,080)
Current Mortgage Debt	0	1,128	850	725
Customer Deposits	67	0	0	1,429

Working capital in 2006 decreased by $314,781 over 2005. Loans payable of $367,000, previously classified as long term are now current. As well, as explained in Notes 6 (a) and 11 to the financial statements, current liabilities include $43,407 representing the current portion of the deferred gain on the sale-leaseback transaction. The decrease in working capital was mitigated by private placements in the first and fourth quarters of 2006. This resulted in proceeds to the Company of $730,000.

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.

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

Issued Shares and Share Data, Options and Warrants

	December 31, 2006	Average Exercise Price	Average Term Remaining (years)	December 31, 2005	Average Exercise Price	Average Term Remaining (years)
Issued Common Shares	69,248,324			62,748,324		
Options outstanding	5,085,000	$0.23	2.07	4,269,000	$0.30	2.4
Warrants Outstanding	4,500,000	$0.18	1.55	500,000	$0.60	.3

During the year the Company issued an additional 6,500,000 common shares and warrants as part of two private placements resulting in a total number of issued and outstanding shares of 69,248,324.

Related Party Transactions

Loans from related parties bore interest as follows:

($ 000's)	2006	2005
Interest Paid on Loans to Related Parties	52	68

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 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.

The Company reached a mediated settlement with one of its suppliers over an outstanding invoice. The Company agreed to pay $37,383 (plus GST) over a twelve-month period. 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, 2006.

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 (Chronological order)

On January 23, 2007 the Company announced that its board of directors, on the recommendation of its Audit Committee had requested and received the resignation of its independent registered public accounting firm, Harvey Cantor Professional Corporation, effective January 17, 2007. The board of directors has also accepted the audit committee's recommendation to appoint the firm of Rich Rotstein Chartered Accountants as EWI's new independent registered public accounting firm.

In March 2007, the Company exhibited at the 2007 International Conference on Biocontainment Facilities held in San Diego, California. Our target market of research laboratories and government and academic departments displayed significant interest.

Also, in March 2007, the Company attended the Canada – Unites States BioEnergy Forum at the invitation of the Consulate General of Canada in Detroit that represents Canada in the states of Indiana, Kentucky, Michigan and Ohio.

In April 2007 the company completed the assembly and testing of the FS-POD unit ordered by Abbott Laboratories. The unit was delivered to Abbott's Chicago facility at the end of April and is presently being commissioned.

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, Abbott Laboratories 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 has made notable progress in 2006, 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 2006 and the 2005 comparatives are contained within the quarterly charts included above. The results of the 4th quarter of 2006 include year-end adjustments by the Company's external auditors that are mainly related to presentation. 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 quarters of 2006 and 2005 were negative primarily due to a reallocation of Scientific Research and Experimental Development (SR&ED) refunds (2006) and a reallocation of a GST refund of $146,776 from revenues to expenses (2005). Included in revenue was the amortization of the warranty contract for the USDA.

Expenses

Similarly, the reallocations mentioned above from revenues to expenses reduced expenses for the fourth quarters in 2006 and 2005. In the fourth quarter of 2006, a change in the application of the Black Scholes formula contributed to a reduction in the stock based compensation previously charged to operations. Further, the fourth quarter of 2006 reflects the reduction of staff that was affected on June 30, 2006 as compared to the fourth quarter of 2005.

Expenses excluding these unusual amounts were consistent with the other quarters.

Stock Based Compensation

Stock based compensation in the 4th quarter of 2006 was (($118,000)-see above commentary), and in the 2005 comparative period was $220,000.

Net Income (Loss)

The fourth quarter of 2006 incurred reflects net income of $242,000, mainly as a result of the sale of real estate, versus a net loss of ($562,000) a year earlier. .

Management Responsibility for Financial Reporting

The Company's December 31, 2006 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 ensure 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 Rich Rotstein Chartered Accountants, 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.

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