Environmental Waste International Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

YEARS ENDED DECEMBER 31, 2012 AND 2011 as at April 26, 2013

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The following Management's Discussion and Analysis (MD&A) of the results of operations and financial condition of Environmental Waste International Inc. (the "Company" or "EWS") are based on and derived from and should be read in conjunction with the annual audited consolidated financial statements and notes to the financial statements for the year ended December 31, 2012 and 2011.

A. Caution Regarding Forward-looking Statements

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Company's goal of creating shareholder value; its ability to meet its operating costs for the year ended December 31, 2013; the plans, costs, and timing for future research and development of the Company's current and future technologies, including the costs and potential impact of complying with existing and proposed laws and regulations; management's outlook regarding future trends; sensitivity analysis on financial instruments that may vary from amounts disclosed; prices and price volatility of the Company's products; and general business and economic conditions.

By their nature forward-looking statements are subject to known and unknown risks, uncertainties, and other factors which may cause actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among other things, the Company's stage of development, long-term capital requirements and future ability to fund operations, future developments in the Company's markets and the markets in which it expects to compete, risks associated with its strategic alliances and the impact of entering new markets on the Company's operations. Each factor should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements. See "Risk Factors."

The Company disclaims any intention or obligation to update or revise these forward-looking statements, resulting from new information, future events or otherwise.

B. MD&A and Accounting Policies

The following Management's Discussion and Analysis ("MD&A") covers the operations, financial position and operating results of Environmental Waste International Inc. (the "Company" or "EWS") for the year ended December 31, 2012 and December 31, 2011, and updates information from the Company's fiscal 2011 MD&A, and is intended to help readers better understand operations and key financial results, as they are, in our opinion, at the date of this report. The MD&A has been prepared in accordance with National Instrument 51-102F1, Continuous Disclosure Obligations, and should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended December 31, 2012 and December 31, 2011 and the accompanying notes. Those audited annual consolidated financial statements have been reviewed by the Audit Committee of the Company and have been approved by its Board of Directors. Additional information relating to the Company is available on SEDAR at www.sedar.com, as well as the Company's Web site at www.ewmc.com.

These statements are essentially forward-looking and are subject to risks and uncertainties, as described in the "Risks and Uncertainties" section, below. Actual results, levels of activity, performance or achievements could differ materially from those projected, discussed or contemplated herein and are dependent upon on a number of factors, including the successful and timely completion of research and development initiatives, the uncertainties related to the market acceptance, and the commercialization of our products thereafter.

The Canadian dollar is the reporting currency.

EWS's accounting policies are set out in note 4 to the financial statements.

Basis of Consolidation of Special Purpose Entity ("SPE")

- Environmental Waste International Limited Partnership ("EWILP"):

During fiscal 2007, EWILP, a limited partnership, was formed to hold the Company's intellectual property and to license certain intellectual property back to the Company by way of license agreement. Because the Company has the power to govern the financial and operating policies of EWILP by way of management services agreement and because, in substance, the activities of EWILP are being conducted on behalf of the Company such that the Company primarily benefits from EWILP's operations, management concluded that the Company controls this entity and therefore has consolidated the entity in these consolidated financial statements.

- Ellsin:

In 2010, the Company had consolidated Ellsin as a Variable Interest Entity (a Special Purpose Entity under IFRS) effective November 1, 2010. The Company, which legally acquired 100% of Ellsin on January 27, 2011, changed the date of consolidation to the date of the closing of the transaction and in 2011 restated the December 31, 2010 statements. The transaction is being accounted for using the purchase method of consolidation. A gain of $611,145 resulted from the re-measurement of the Company's equity interest in Ellsin.

C. Nature of Business

EWS develops innovative products for waste treatment and disposal. EWS researches, designs, develops, sells, and maintains technologically advanced products based on the patented Reverse Polymerization ™ Process (RP) and proprietary delivery system. The Company believes that these, as well as new RP applications, will ultimately achieve widespread acceptance. The public, governments and industries worldwide are recognizing the need for technology to deal with the processing, treatment and eventual disposal of organic items in an environmentally safe and responsible manner. EWS provides unique and effective solutions to many of these challenges.

To date, EWS has designed solutions for the safe disposal, recycling and/or recapture of useable byproducts for the following waste streams:

1. Used Tires;
2. Liquid Biological Waste Systems;
3. Food Waste;
4. Medical Waste and Animal Waste.

D. The TR900 Pilot Plant Tire System

The TR900 pilot plant is designed to break the molecular bonds in a tire, reducing it to its base components: carbon black (CB), steel and hydrocarbon vapours. The off-gas system processes the vapours to recover the oil and then treats and scrubs the remaining gas for use as a fuel in the power generation system. The CB and steel are collected at the exit portion of the System.

Last year, EWS completed the installation, calibration and testing of the TR900 and all of its subsystems. Subsequently, the Ministry of Environment gave the approval to begin testing and operation of the complete TR900 System. In addition, Ellsin, a wholly owned subsidiary, was granted conditional processor status by the Ontario Tire Stewardship, which provided a supply of tires during the testing and commissioning phase. To be granted permanent processor status Ellsin must have contracts with purchasers for the byproducts. The TR900 is producing CB that appears to be better than any previously recovered and tested from earlier EWS systems. The TR900 has successfully produced electrical power blending tire gas with natural gas.

- In March 2012, the Company's Chief Operating Officer, Valdis Martinsons, hired three new engineers. The new engineering team has made solid progress in identifying and rectifying several areas requiring modification, adjustment and redesign to allow for prolonged operation of the TR900.
- In June 2012, EWS announced that it successfully completed several runs of the TR900 Pilot Plant, which were conducted to test recent modifications to the system and to allow a third party consultant to collect data on the systems' operating parameters. At this time, EWS was informed by the gas generator provider that contrary to its prior representations, the generator's emissions require post combustion treatment to meet the Ministry of Environment's (MOE) permitted air emissions. EWS and its environmental consultant submitted at this time an application for an amended permit to allow for the additional emission equipment. EWS used this time to modify the system and begin initial design work on a commercial plant.
- On November 13, 2012 the Company issued a press release with an update on its recent activities relating to the TR900. The release noted that EWS has not received the new permit but anticipates receipt shortly. Potential buyers have requested to see the TR900 in operation, which led EWS to seek approval from the MOE to operate the TR900 in advance of the new permit. Permission was granted for operation on various dates during September and October 2012. The system operated very well, meeting the processing parameters it was designed for.
- The Company announced on December 24, 2012 that it had received its new Environmental Compliance Approval (ECA) permit from the Ontario Ministry of Environment. EWS will resume

at will operation of the system after the required post combustion treatment for the power processor is installed and operational.

- On January 31, 2013, the Company announced the installation of the post combustion equipment to the power generator. EWS continues to conduct operational testing and tuning of the equipment to achieve the desired generator emission levels. During this period, EWS continues to operate the TR900 for viewing by interested parties.

E. History and Background of Each of Our Five Systems and University Research Project

1. TR Series – Tire Processor System

The TR Series breaks down rubber tires into several byproducts that can be used in new products. EWS is working with groups interested in purchasing tire-processing systems. Pro-forma economic models indicate attractive rates of return for the EWS tire processing systems. (See Section "**D**" above)

2. FS Series – Liquid Biological Waste Systems

EWS designed and built the FS series of products in response to a growing need to sterilize biologically contaminated effluents from research facilities. The Company delivered and installed its first FS6000 system to the United States Department of Agriculture (USDA) and continues to work with the USDA.

EWS designed the FSPOD unit for in lab effluent sterilization. The base system can fit under a laboratory countertop yet is robust enough to sterilize the effluents from any Biological Safety Level (BSL) facility. The FS-POD is ideal for retrofitting research centers as well as hospital, university and other types of laboratories. The Company has installed and commissioned an FS-POD unit at Abbott Laboratories in Chicago, IL.

3. FD Series – Food Waste Dehydrator and Sterilizer Systems

The FD Series sterilizes and dehydrates food waste for safe storage and disposal without the formation of fermented gases or odors. The first prototype system was for the naval military marketplace but recent interest has been found in the cruise ship sector as well. The prototype system has undergone testing that confirms the system's ability to sterilize food waste and allow for the safe storage of the treated waste for up to 45 days.

4. MD & AW Series – Medical and Animal Waste Systems

The MD Series is designed to fully sterilize and carbonize infectious medical waste, leaving a residue that is safe for handling and disposal. Precision Analysis, a third party lab, published a report on the efficacy of EWS's MD1000 system and its environmentally sound manner of sterilizing infected clinical waste.

The AW animal waste series is similar to the medical waste series. Most interest is focused on the safe disposal of infected animal carcasses and any associated bedding.

5. Research Projects

EWS continues to participate and support research projects with academic, government and corporate entities investigating new and novel applications of its microwave process.

F. Highlights of 2012

- **Progress on the TR900 Pilot Plant Tire System: See section "D" above**
- On January 10, 2012 EWS announced the appointment of Mr. Valdis Martinsons to the position of Chief Operating Officer (COO). Mr. Martinsons will oversee the completion of the TR900 Pilot Plant in Sault Ste. Marie and lead the engineering team that implements the system design and advancements for commercial models of the TR Series.
- On January 30, 2012, EWS announced that the December 30, 2011 private placement of 8,000,000 units was fully subscribed for by a group of funds managed by Porter Orlin LLC. Each unit consists of one common share and 0.375 of a share purchase warrant. A whole share purchase warrant entitles the holder to purchase one additional common share of EWS at a price of $0.50 through January 30, 2014. The shares and share purchase warrants were subject to a TSXV four month hold that expired on May 30, 2012.
- On February 16, 2012 EWS announced that it had received the Tire Technology International Award for Innovation and Excellence 2012 in the category of Environmental Achievement. The award selection and presentation was organized and sponsored by Tire Technology International magazine. The presentation was held on February 15, 2012 before over 500 tire industry professionals attending the Tire Technology Expo in Cologne, Germany.
- On April 4, 2012 EWS announced that it had extended the maturity date of $196,000 of convertible loans. These loans, which were due April 9, 2012, are now due April 30, 2013 and can be converted into common shares at the rate of $0.25 per share.
- On June 23, 2012 EWS issued options to purchase 1,020,000 common shares at an exercise price of $0.25 per share and valid for five years. Directors were issued 750,000 options.
- On December 24, 2012, EWS received its new Environmental Compliance Approval (ECA) permit from the Ontario ministry of environment.

G. Outlook & Growth Strategy

The Company is currently focused on securing sales of its Tire Reduction (TR series) system. As of December 2012, with the completion of operational modifications of the system in Sault Saint Marie and approval of a new operating permit by the Ministry of Environment, Management increased its sales efforts significantly. With a system now in place that continues to operate reliably the Company is actively pursuing sales orders with interested parties in various countries around the world. While focusing on sales efforts and refining the final product, Management continues to investigate alternate sources of interim funding through private equity markets. The Company is actively pursuing alternatives for the necessary funding in the short term while it launches the TR series commercially.

H. Selected Annual Information

(The accounting framework is IFRS unless otherwise stated)

1. Summary of Quarterly Balance Sheets (Unaudited)

	2012				2011			
($ 000's)	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**
Current Assets	1,766	1,110	1,300	747	1,338	699	802	480
Current Liabilities	1,193	1,109	1,183	1,514	1,899	1,858	1,562	1,318
Shareholders' Equity	2,172	1,534	1,459	412	(235)	(466)	114	944

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

($ 000's except per share amounts)	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Revenue and other income	10	54	21	93	13	13	13	517
Total Expenses incl. Stock Based Comp &Amort.	781	885	106	1,267	1,116	522	544	1,165
Stock Based Compensation	0	0	0	282	0	5	0	371
Amortization	204	206	211	199	14	14	14	718
Net Income (Loss)	(771)	(831)	(75)	(1,180)	(1,098)	(509)	(529)	(650)
Weighted Ave.# of Shares	95,200	101,859	102,744	101,474	83,678	87,245	89,911	89,404
Income (Loss) per share	(0.008)	(0.008)	(0.001)	(.010)	(0.013)	(0.019)	(0.024)	0.025

3. Summary of Quarterly Statements of Cash Flow (Unaudited)

	2012				2011			
($ 000's)	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Operations	(696)	(749)	166	(450)	(1,614)	(917)	(997)	1,018
Investing Activities	(18)	(138)	(15)	126	(435)	(5)	(56)	(303)
Financing Activities	2,000	192	0	(132)	2,762	277	1,110	(933)
Cash at Beginning	388	1,674	979	1,129	462	1,176	530	588
Cash at End	1,674	979	1,129	674	1,176	530	588	388

4. Comparison of Fiscal Years ended December 31

($ 000's except per share amounts)	2012	2011	2010	2009	2008 CGAAP
Total Assets	4,509	5,017	2,312	2,274	613
Total Liabilities	4,097	4,072	2,988	1,777	1,259
Shareholders' Equity	412	944	(676)	(496)	(645)
Shares Issued	102,344	93,860	78,958	78,008	71,398
Total revenues and other income	177	556	3,069	803	210
Total Expenses incl. Stock Based Comp & Amortization	3,039	3,347	3,908	2,253	1,108
Stock Based Compensation	282	376	488	273	78
Net Income (Loss)	(2,857)	(2,786)	(1,282)	(851)	(494)
Net Income (Loss) per Share	(0.03)	(0.03)	(0.02)	(0.01)	(0.01)
Cash Dividends Declared (per share)	$0.00	$0.00	$0.00	$0.00	$0.00

I. <u>Revenue</u>

Revenues will be derived from sales of systems once commercialization is complete. Each sale can be of significant value. As a result of each sale having a long lead-time and then a long period of planning, engineering, manufacture, shipping, installation and commissioning, revenues from operations can fluctuate dramatically. Revenues in 2012 include fees for a service contract for the USDA. Revenue by quarter for the current and preceding year is set out in the accompanying charts.

J. Segmented Information – Revenue

($ 000's) **Geographical Revenue**	**2012**	**2011**
Canada	48	491
United States	129	65

The geographic source of revenue is not significant in determining profitability. The Company intends on having its products used on all continents.

Percentage of Sales	**2012**	**2011**
TR Series and other	27%	88%
FS Series	73%	12%

K. Manufacturing Expenses and Cost of Sales

EWS expenses all costs as incurred unless such costs are directly related to specific ongoing projects. Costs associated with EWS's prototype projects are not identified separately as this information would not be meaningful to calculating future profitability.

L. Salaries and Consulting

Due to the lack of current sustainable revenue from all applications, employee head counts and associated overheads continue to remain at reduced levels and are being tightly controlled. Where appropriate, employee costs are included in research and development.

M. Scientific Research and Development

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

N. 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 with Canadian dollars.

O. Stock Based Compensation

The Company uses the fair value method of accounting for employee stock options that are granted to employees, directors, officers, and consultants. The Company may grant 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 price 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. In 2007 shareholders approved a resolution requiring a vesting period of six months on all new options issued under the Stock Option Plan.

IFRS require 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, 2012, the amount of the expense recorded was $281,689 compared with $376,250 for the year ended December 31, 2011. The calculation was based on the estimated volatility of 158% to 162% and an average risk free interest rate of 1.3%.

P. Depreciation and Amortization

Amortization is provided annually on property and equipment, other than land, at rates designed to charge the cost of the assets over their estimated useful lives. As previously reported, all rights to EWS's patents, proprietary software and system design portfolio, except for tire and wastewater applications, were sold in 2007 to EWILP, which is consolidated in these financial statements. In 2002 the value of technology rights were written down to $500,000, and amortized on a straight-line basis at $50,000 per annum based on an estimated life of 10 years. This policy continues for the consolidated statements.

In 2011, intangible assets were acquired when EWS purchased the remaining 62.5% of Ellsin that they did not already own. Management has determined that these intangible assets relate to the TR900 pilot plant and the marketing rights reacquired from Ellsin and have an enduring benefit of five years. As a result, intangible assets are being amortized over a five year period.

Q. Income Taxes

The Company has approximately $9,217,348 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. It is not determinable at this time whether the Company will generate sufficient income to utilize all of these loss carry forwards.

R. Interest on Debt

Interest on convertible debt decreased year over year as interest accretion was complete in April, 2012. Please refer to "Liquidity and Capital Resources," and the audited annual financial statements for additional disclosures.

S. Net Loss

The Company incurred a net loss of $2,856,910 for the year ending December 31, 2012 versus a net loss of $2,786,007 for the same period in 2011.

The following chart explains the main year over year variances:

	2012	2011	Variance	Note
Revenue and other income	177,604	555,867	(378,263)	1
Manufacturing costs of the TR900	(178,752)	(999,064)	820,312	2
Wages and benefits	(1,101,865)	(706,824)	(395,041)	3
Stock-based compensation	(281,689)	(376,250)	94,561	
Professional fees, insurance, marketing, travel	(962,025)	(734,186)	(227,839)	4
SR&ED	871,594	64,795	806,799	5
Operations	(282,947)	(192,384)	(90,563)	
Amortization	(819,921)	(760,894)	(59,027)	
Finance expense	(240,128)	(257,720)	17,592	
Gain on remeasurement of investment in associate	-	611,145	(611,145)	6
All other income and expense items	(38,781)	9,508	(48,289)	
Net loss for the year	(2,856,910)	(2,786,007)	(70,903)	

Notes

1. Revenues included $297,595 consulting fees in 2011 from Ellsin when it was a third party prior to the acquisition of Ellsin.
2. Costs of TR900 included only operational modifications in 2012.
3. Wages and benefits increased with 4 new hires in 2012.
4. Increase in year is due to increase in professional fees, and sales and marketing efforts involved with preparing the Company for the commercialization of its technology.
5. SR&ED refund in 2012 includes significant amount relating to an investment tax credit claim made from Ellsin prior to acquisition by EWS.

6. Amount resulted from the acquisition of remaining shares of Ellsin in the prior year.

T. Liquidity and Capital Resources

($ 000's)	2012	2011	2010	2009
Working Capital (Deficiency)	(766)	(837)	(341)	(251)

Since inception, the Company has financed its operations from sales of equity, the exercise of warrants and stock options, interest income on funds available for investment and government grants and tax credits. The Company's primary capital needs are for funds to support the commercialization efforts of it Tire Series technology, for administrative costs and those costs related to being a public company, and for working capital.

The Company's cash and cash equivalents totalled $673,578 at December 31 2012 compared to $388,646 in the prior year. The increase in cash and cash equivalents is due to the receipt of a significant amount of SRED tax credits received towards the end of fiscal 2012 compared to last year.

For year ended December 31, 2012, there was a net cash outflow from operating activities of $1,729,468 compared to $2,490,152 for the year ended December 31, 2011. The net cash outflows from operating activities were higher in the prior year due to a higher net cash loss after deducting the one time gain on measurement of equity investment of $611,145 which was a non cash item.

Cash used in investing activities decreased by $753,106 from $798,757 to $45,651. The cash used in 2011 represented the purchase of property and equipment from the acquisition of Ellsin. Cash provided by financing activities was $2,060,051 in 2012 compared to $3,215,699 the prior year. The decrease of $1,155,647 was due to proceeds of $1,303,000 received in 2011from the issuance of common stock on the exercise of warrants that year.

U. Going Concern Assumption

These consolidated financial statements have been prepared on a basis that assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business and do not incorporate material adjustments that may be necessary should the Company be unable to continue as a going concern. The Company has incurred a net loss of $2,856,910 during the year ended December 31, 2012 and as at that date had a working capital deficiency of $766,222, and a cumulative deficit of $45,973,960. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is in progress. In the absence of additional funding, the Company may not have sufficient funds to meet its obligations. Management continues to monitor the cash needs and is considering various alternatives to raise additional financing.

Until EWS is able to generate working capital from profitable operations, raising capital from the exercise of options and warrants, private placements, and loans will continue to be important to the Company's financing. In recent years, working capital inadequacies have been overwhelmingly funded by arm's length transactions with outside investors.

ENVIRONMENTAL WASTE INTERNATIONAL

V. Issued Shares and Share Data, Options and Warrants

	December 31, 2012	Average Exercise Price	Average Term Remaining (years)	December 31, 2011	Average Exercise Price	Average Term Remaining (years)
Issued Common Shares	102,344,797			93,859,797		
Options outstanding	6,560,000	$0.27	2.59	6,505,000	$0.26	2.48
Warrants Outstanding	5,500,000	$0.50	0.62	2,500,000	$0.50	1.07

As at December 31, 2012, the number of outstanding shares was 102,344,797 (December 31, 2011 – 93,859,797). During the year ended December 31, 2012, 8,000,000 shares were issued in a private placement financing and 485,000 shares were issued upon the exercise of stock options. Subsequent to the end of the fiscal year, 4,425,000 shares were issued in a private placement. As at April 26, 2013 the number of outstanding shares was 106,769,797.

As at December 31, 2012, the Company had 6,560,000 outstanding share purchase options (December 31, 2011 – 6,505,000). During the year ended December 31, 2012, the Company issued 1,500,000 new options, 485,000 options were exercised and 960,000 options were cancelled or expired. Subsequent to the end of the fiscal year, the Company issued 1,000,000 new options to management exercisable at $0.20 and vesting 33% after six months, 33% after twelve months and 34% after eighteen months, and expiring five years after issuance. As at April 26, 2013 the number of outstanding options was 7,560,000.

As at December 31, 2012 the Company had 5,500,000 outstanding share purchase warrants (December 31, 2011 – 2,500,000). During the year ended December 31, 2012, the Company issued 3,000,000 warrants for the purchase of one common share at an exercise price of $0.50, with expiration in 24 months. These issuances were part of the private placement financing completed on January 30, 2012.

W. Related Party Transactions

[1] Subsidiaries and ultimate parent

The consolidated financial statements include the results of the Company and the following subsidiaries: Environmental Waste Management Corporation [100% equity interest], Jaguar Carbon Sales Limited [100% equity interest], Ellsin [100% equity interest], EWI Rubber Inc. [100% equity interest], 2228641 Ontario Limited [100% equity interest] and EWILP [Company is primary beneficiary]. The ultimate parent of the Company is Environmental Waste International Inc.

[2] Transactions with related parties other than key management personnel

During the year, the Company engaged in transactions in the normal course of operations with the following related parties. All of these transactions have been accounted for at the exchange amount agreed to by the transacting parties as follows:

Interest and distributions paid to the directors totaled $12,250 [2011 - $12,250] and to a relative of the President of the Company totaled $30,100 [2011 - $30,100].

[3] Transactions with key management personnel
Interest paid to a key management personnel totalled $7,350 [2011 - $7,350].

The Company recognized as an expense during the year ended December 31, 2012 short-term employee benefits of $469,750 [2011 - $326,997] and share-based payment transactions of $163, 276 [2011 - $131,250].

In addition, the Company has a provision outstanding of $294,758 on the Consolidated Statements of Financial Position. This provision balance is comprised of an accrual for retroactive salary to senior management. There is uncertainty with respect to the amount of this provision, and also with respect to the timing of payment of this provision, which is dependent on the cash flows of the Company.

[4] Other Transactions

During the year, the Company loaned $90,000 to the President of the Company and $30,000 to a director of the Company to purchase shares from the Company from treasury. These loans bear interest at 1% per annum and mature on June 27, 2017. Since these loans can be settled by the President and director by surrendering a fixed amount of shares, the Company does not have the right to receive cash or another financial asset and as a result these loans have not been recognized as receivables on the consolidated statement of financial position. These loans have been accounted for as share based payment transactions as they represent contracts that give the holders the right, but not the obligation to subscribe to the Company's shares at a fixed price for a specified period of time. The amount recorded as stock based compensation expense during the year relating to these transactions is $76,000.

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.

X. Commitments, Contractual Obligations and Contingent Liabilities

The Company has no contractual obligations other than in the normal course of business.

[a] Commitments
The Company is committed under a long-term lease for premises which expires on August 31, 2017.

Future approximate minimum lease payments for the ensuing five years including estimated tenant's share of operating expenses and realty taxes required under leases for the rental of premises are as follows:

	$
2013	85,624
2014	85,624
2015	85,624
2016	85,624
2017	57,082

[b] Contingencies

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 consolidated financial statements with respect to any indemnifications.

During the ordinary course of business activities, the Company may be party to claims and may be contingently liable for litigation. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

Y. Off-Balance Sheet Arrangements

The Company does not enter into off-balance sheet arrangements as a matter of practice. Lease arrangements for equipment are not material. In accordance with IFRS, neither the lease liability nor the underlying assets are carried on the Balance Sheet.

Z. Subsequent Events

- For an update on the TR900 subsequent events, please see Section "**D”** above.
- On March 4, 2013, EWS announced that Dr. Daniel Kaute was appointed its President and Chief Executive Officer with management skills required for the commercialization of the Company’s reverse polymerization technology.
- On March 14, 2013, EWS concluded a private placement of 4,425,000 units at $0.20 per unit, for gross proceeds of $885,000. Each Unit consists of one common share and one share purchase warrant, to purchase one half of a common share. Two share purchase warrants entitle the holder to purchase one additional common share of the Company at an exercise price of $0.35 through March 14, 2015. The proceeds will be used for general working capital purposes.

AA. Fourth Quarter Analysis

The operating results of the fourth quarter of 2012 and 2011 comparatives are contained within the quarterly charts included above. The higher loss in the fourth quarter of 2012 compared to the fourth quarter of 2011 is primarily due to the inclusion in 2011 of a one-time gain relating to the acquisition of the remaining shares of Ellsin as well as higher labour and administration costs in 2012.

BB. Critical Accounting Policies, Estimates and Accounting Changes

The preparation of the financial statements in conformity with IFRS requires the Company to select from possible alternative accounting principles and to make estimates based on assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reported period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based upon information available at the time these estimates and assumptions are made. Estimates and assumptions may be revised as new information is acquired, and are subject to change. A summary of the Company's significant accounting policies and significant accounting judgements, estimates and assumptions under IFRS are found in Notes 4 and 5 to the Company's audited consolidated financial statements for the year ended December 31, 2012.

In addition to the going concern assumptions described earlier, management believes that its most critical accounting policies and estimates relate to the following areas:

Share Based Payment Tranactions

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

CC. Currency & Exchange Rate Uncertainty Risk

EWS hopes to enter into agreements throughout the world. As a result, the Company will be exposed to currency fluctuations, which could negatively affect operations.

DD. Internal Controls Over Financial Reporting

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), and Chief Financial Officer ("CFO") and its Audit Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

The Corporation will file certifications, signed by the Corporation's CEO and CFO, with the TSX Venture Exchange. In those filings, the Corporation's CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Corporation's CEO and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those interim filings, the Corporation's CEO and CFO also certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit Committee reviewed this MD&A and the audited consolidated financial statements and the Corporation's Board of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under National Instrument 52-109) and the Corporation's internal controls over financial reporting (as defined under National Instrument 52-109). Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2012, the Corporation's internal controls were adequate, except those relating to complex accounting issues which will require further strengthening.

Each of the above standards has a different effective date for required adoption. Please refer to financial statement note 6 for more details.

EE. Management Responsibility for Financial Reporting

The Company's December 31, 2012 audited financial statements have been prepared by Management in accordance with IFRS, 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.

EWS 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. The financial statements may contain certain amounts based on estimates and judgments.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its audit committee. The Audit Committee 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 financial reporting and auditing matters.

The Committee reports to the board for approval of the financial statements as well as to shareholders for the reappointment of the external auditors.

For reference purposes, please refer to the December 31, 2012 year-end financial statements, which have been audited on behalf of the shareholders by Ernst & Young LLP Chartered Accountants, the external auditors. 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.

FF. Future Accounting Standards

The following IFRS Standards have been issued but are not yet effective:
IFRS 9-Financial Instrument-Classification and Measurement
IFRS 10-Consolidated Financial Statements
IFRS 11-Joint Arrangements
IFRS 12-Disclosure of Interests in Other Entities
IFRS 13-Fair Value Measurement
IAS 27-Separate Financial Statements
IAS 28-Investments in Associates and Joint Ventures
IAS 19-Employee Benefits

A detailed explanation of the Company's IFRS standards issued but not yet effective, are found in Note 6 to the Company's audited consolidated financial statements for the year ended December 31, 2012.

GG. Risks and Uncertainties

Lack of Revenues; History of Operating Losses; Going Concern Assumption

The Company has a limited operational history. The Company has never paid dividends and has no present intention to pay dividends. The Company is in the early commercialization stage of its business and therefore will be subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability and the need to raise additional funding. The Company will be committing, and for the foreseeable future will continue to commit, significant financial resources to marketing and product development. The Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. Such risks include the evolving and unpredictable nature of the Company's business, the Company's ability to anticipate and adapt to a developing market, acceptance by consumers of the Company's products and the ability to identify, attract and retain qualified personnel. There can be no assurance that the Company will be successful in doing what is necessary to address these risks.

Sales Cycle

Sales cycles for some of EWS's patented RP Process and delivery systems involve unusually lengthy periods of time that can have a direct effect on the profitability of sales through changes in component costs, market conditions, exchange rates, and other costs outside the Company's control.

Dependence on Key Personnel

The success of the Company may be dependent on the services of its senior management and consultants. The experience of these individuals may be a factor contributing to the Company's continued success and growth. The loss of one or more of its key employees or consultants could have a material adverse effect on the Company's operations and business prospects. In addition, the Company's future success will depend in large part on its ability to attract and retain additional highly skilled technical, management, sales and marketing personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the failure to do so could have a material adverse effect on the Company's business, operating results and financial condition.

Additional Financing Requirements and Access to Capital

In order to launch the Company's technology on a commercial level, it will need to raise additional funds from lenders and equity markets in the future. There can be no assurance that the Company will be able to raise additional capital on commercially reasonable terms to finance its objectives. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of common shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

Protection of Intellectual Property

Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company or that any such assertions or prosecutions will not materially adversely affect the Company's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof which could have a material adverse affect on the Company's business, financial condition or results of operations. The Company’s performance and ability to compete are dependent to a significant degree on its proprietary technology.

While the Company will endeavor to protect its intellectual property, there can be no assurance that the steps taken by the Company will prevent misappropriation of its technology or that agreements entered into for that purpose will be enforceable. The laws of other countries may afford the Company little or no effective protection of its intellectual property. While the Company's technology is developed and owned by the Company, it may in the future also rely on technology licenses from third parties. There can be no assurance that these third party licenses will be, or will continue to be, available to the Company on commercially reasonable terms. The loss of, or inability of the Company to maintain, any of these technology licenses’ could result in delays in completing its product enhancements and new developments until equivalent technology could be identified, licensed, or developed and integrated. Any such delays would materially adversely affect the Company's business, results of operations and financial condition.

Competition

The Company may not be able to compete successfully against current and future competitors, and the competitive pressures the Company could face could harm its business and prospects. The reverse polymerization of tires is a technology that is new to the market. New technologies and the expansion of existing technologies may increase competitive pressures on the Company. Increased competition may result in reduced operating margins as well as loss of potential market share. This could result in decreased usage of the Company's technology and may have a material adverse affect on the Company's business, financial condition and results of operations.

Partnerships for Development and Commercialization of Technology

The Company may need, but be unable to obtain partners to support the commercialization of its technology. Equity financings alone may not be sufficient to fund the cost of developing products, and we may need to rely on our ability to reach partnering arrangements to provide financial support for these efforts.

Negative Cash Flow and Absence of Profits

The Company has not earned any profits to date and there is no assurance that it will earn any profits in the future, or that profitability, if achieved, will be sustained. A significant portion of the Company's financial resources in the short term will be to support the efforts to commercialize the TR900 System. The success of the Company will ultimately depend on its ability to generate revenues from its sales of the TR900 and other systems such that the business development and marketing activities may be financed by revenues from operations instead of external financing. There is no assurance that future revenues will be sufficient to generate the required funds to continue such business development and marketing activities.

Conflicts of Interest

Certain proposed directors and officers of the Company may become associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the *Canada Business Corporations Act*, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Company, as the case may be. Certain of the directors have either other employment or other business or time restrictions placed on them and accordingly, these directors will only be able to devote part of their time to the affairs of the Company.

Share Price Volatility

A number of factors could influence the volatility in the trading price of the common shares of the Company including changes in the economy or in the financial markets, industry related developments, and the impact of changes in our operations. Each of these factors could lead to increased volatility in the market price of common shares.

Dilution

There may be future dilution due to additional future equity financing events by the Company. If outstanding options and warrants of the Company are exercised into common shares, there will be additional dilution.