

ANNUAL
REPORT
1995





**Exxadon
Technology Corporation**

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Ontario, L1S 1S3, Canada

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Dear Shareholder:

Our meteoric growth... our partnership with new possibilities, new alliances... our re-affirmation of our most audacious goals, has been almost too much to absorb this past year. The excitement is tangible! It envelops our plant in Ajax where testing goes like clockwork and commercialization defies even bold expectation. It surrounds our meetings with delegations and dignitaries from the four corners of the globe, who stare in wonder at our success. It spread through Globe 96 in Vancouver, Canada where visitors marvelled at new tires produced from our reclaimed carbon black. It encircles this office where new developments... new opportunities are discussed with mind boggling regularity.

Although share prices may have been slower than expected to respond to our unbridled excitement, the reality of our leading edge technology and its capability is unquestionable. It is here... now! Take a moment to read about our accomplishments this year. They are, to a large measure, due to your continued support and unwavering confidence in our goals.

Exxadon/EWMC has developed strategic alliances which have enhanced our technology and its capability. These partnerships have opened new applications for existing systems. They have expanded our world wide reach, both broadening and deepening it. They have accelerated new opportunities.

At the same time Exxadon/EWMC has made tremendous progress toward commercialization of existing technologies. Several recent events merit brief detailing:

- Contractual agreements with BOC - British Oxygen Corporation (formely Canox) have been expanded, updated and enlarged
- Enercon America Distributors Ltd., our major U.S. distributor, has ordered two completely outfitted tire plants
- United Medical of Brazil has expanded its rights to include tires as well as medical waste systems and has also extended its rights to geographically include all of Latin America
- A new division of EWMC - Jaguar Carbon Sales Ltd. - will be formed by the time this Annual Report is received and it holds a firm order for 40,000 tonnes of carbon black
- Jaguar Carbon Sales Ltd. is prepared to buy back carbon black from the machines that are sold in the marketplace
- Exxadon/EWMC is opening an electronic division to manufacture software for our process control (This division is being opened due to the proliferation of application possibilities)

The list of achievements goes on and on... Suffice to say we anticipate this coming year to be one of unimagined possibilities and unparalleled successes.

We look forward to your partnership in these possibilities and these successes.

Sincerely,

A handwritten signature in black ink that reads "Thomas Fairfull". The signature is written in a cursive, flowing style.

Thomas Fairfull
Chairman

EWMC MICROWAVE TECHNOLOGY

MODEL M1 TEST UNIT

The First "Reverse Polymerization" Success

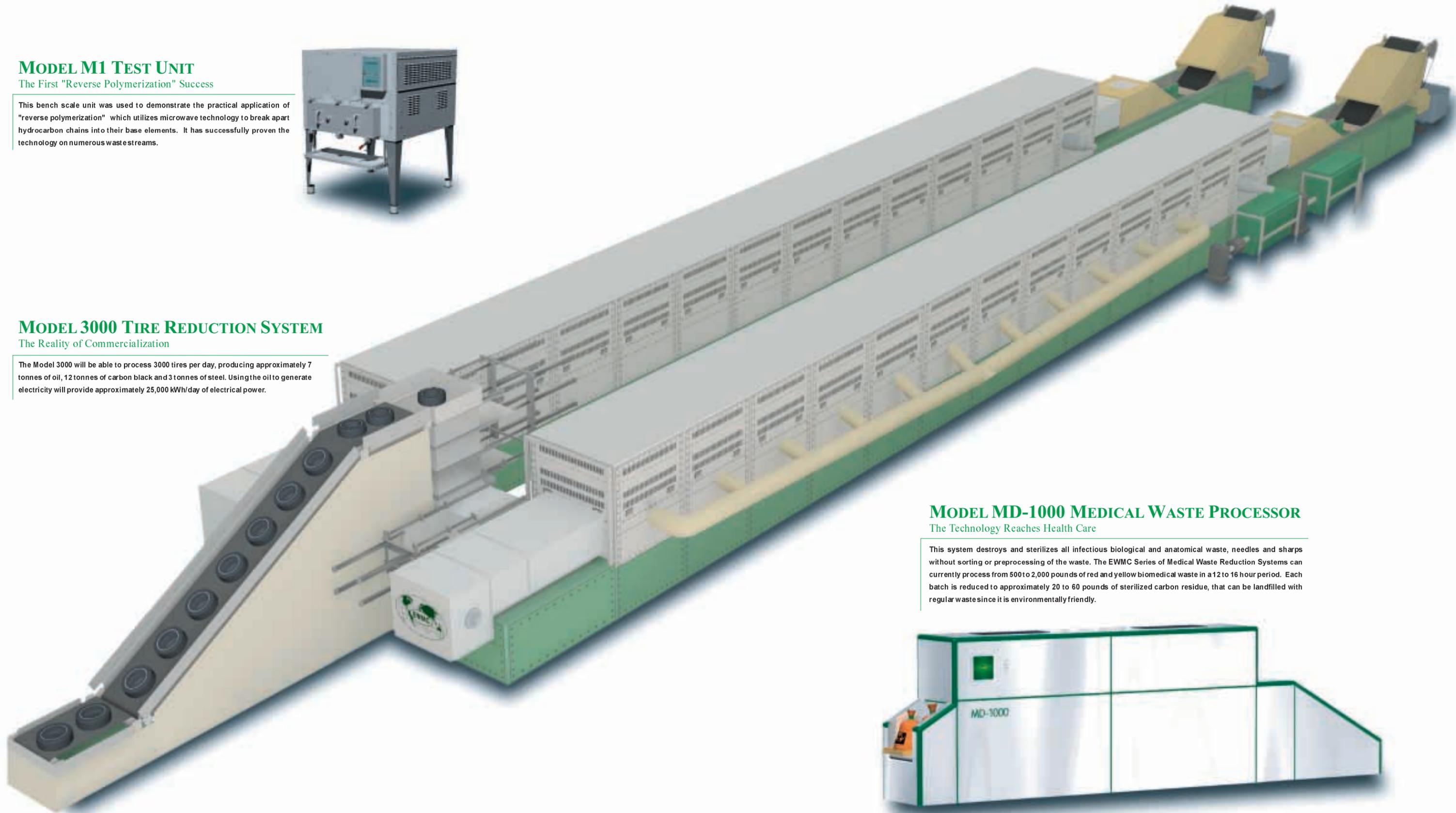
This bench scale unit was used to demonstrate the practical application of "reverse polymerization" which utilizes microwave technology to break apart hydrocarbon chains into their base elements. It has successfully proven the technology on numerous waste streams.



MODEL 3000 TIRE REDUCTION SYSTEM

The Reality of Commercialization

The Model 3000 will be able to process 3000 tires per day, producing approximately 7 tonnes of oil, 12 tonnes of carbon black and 3 tonnes of steel. Using the oil to generate electricity will provide approximately 25,000 kWh/day of electrical power.



MODEL MD-1000 MEDICAL WASTE PROCESSOR

The Technology Reaches Health Care

This system destroys and sterilizes all infectious biological and anatomical waste, needles and sharps without sorting or preprocessing of the waste. The EWMC Series of Medical Waste Reduction Systems can currently process from 500 to 2,000 pounds of red and yellow biomedical waste in a 12 to 16 hour period. Each batch is reduced to approximately 20 to 60 pounds of sterilized carbon residue, that can be landfilled with regular waste since it is environmentally friendly.



RIGHT HERE . . . RIGHT NOW . . .

EVOLVING TECHNOLOGIES

The Future Is On Our Doorstep



Financial Position as of December 31, 1995

The Company's cash position at December 31, 1995 was approximately 721,000 resulting from increases due to new issuances (including stock options and private placements), and revenues from licensing fee sales and outflows from reinvestment into its start up operating losses and pilot plant expenditures. This position is an increase over the previous year.

Revenues from licensing fees were approximately 835,000. Sales included separate licensing arrangements in three territories, including two very significant transactions completed September 21, 1995 and December 20, 1995.

Depreciation and amortization of capital equipment and the pilot plant was 977,000, an increase from 541,000 in 1994. (Lower depreciation in 1994 was the result of revenue production for only the last six months in that year.)

The Company salaries and wages expense was 892,000 in 1995 (compared to 444,000 in 1994). Salaried positions included those in marketing, product protection, product development and related engineering and management costs.

The Company continues to enjoy a beneficial working relationship with Emery International Teoranta, the company which holds and controls licensing rights for all applications of the Emery Microwave Technology, with the exception of those specifically held by Exxadon/EWMC. The company has recently entered into an agreement with Emery International to acquire the rights to exploit the Emery Microwave Technology with respect to application to medical waste in Brazil in exchange for 500,000 common shares of Exxadon. Exxadon also has a right of first refusal from Emery International to acquire the rights to additional applications, as may be required.

The Company incurred approximately 1.4 million in losses related to research, technology and pilot plant development. A substantial percentage of this loss was also related to the marketing development, production and infrastructure building necessary to support the sale of new technologies.

Technology Investment

Significant time, commitment and financial resources were expended to continue the development of the microwave technology. Successful highlights include:

- Development of more cost effective microwave technology processes, in particular, utilization of less energy to create the same output result.
- Development of technology to harness and control exothermic energy from tire machines. Increased energy output increases the revenue potential to the end users.
- Improvement in operation of medical waste unit to a continuous batch processing routine from a single batch process. The improved process provides more efficiency and cost effectiveness.
- Improvement to external and internal processes of each machine, including a new, improved design which speeds up cooling process as well as new methods for tracking and analyzing output results.
- Completion of design modifications to the tire machine for commercialization and market development.
- In-house design engineering and computer related design (CAD) system capability has been enhanced. CAD department is so advanced it is now a Beta test site for Autocad™.

- Two tire machines have been purchased by Enercon America Distributors Ltd. (Dec. 95). It is expected that the first tire machine will be installed and fully operational by early 97.
- Testing processes have established that the high quality carbon black produced by the microwave process in tire machines is marketable. Many applications and products have already been identified. The advantage of recycling with a marketable output provides a significant advantage over potential competitive products.

Marketing and sales of the tire processing machines and their by-products (carbon black), and sales of the medical waste reduction units continue to remain the immediate focus of the Company's efforts.

The Company remains committed to the development of a positive cash flow and its reinvestment for the continued development of new products and processes.

Strategic Partnerships

The Company has realized that critical to its growth and development is its alignment with partners capable of enhancing the Company's products and systems.

The Company has formed strategic partnerships with the following four companies:

- With British Oxygen Corporation (BOC) the Company has signed a joint marketing agreement. Its purpose is to assist EWMC and its distributors on a world wide basis.
- With Toromont/Caterpillar, the Company is utilizing Toromont's diesel generator engines to produce electrical power to control output.
- With Reimelt G of Germany, to manufacture the Company's medical waste reduction units for Europe.
- With Ceilcote Air Pollution Control, the Company is utilizing Ceilcote's scrubbing systems for the treatment of vapors and gases in its medical waste and tire machines.

Market Strategy

Interest in the Company's products and capabilities has developed rapidly as a result of participation at the Globe 96 Trade Show in March 1996. Daily inquiries are still being received and appointments have been made with key government and industry leaders.

The Company's products, economically viable and environmentally safe, as of now still have no direct competition in the marketplace.

Efforts at band-aid solutions such as crumbed and chipped rubber used in highway construction or recycled products and the construction of large tire burning or waste reduction facilities have not met with success. They remain hazardous to the environment (roadway fires) and uneconomical (too large and too expensive).

As governments focus more vigilantly on improved disposal of their medical waste, the growing world wide market for medical waste rehabilitation remains the domain of the Exxadon/EWMC alone.

Carbon black by-product offers another large market for exploitation. Initial tests and research confirm both its viability and its profitability.

Research into new applications for use in existing products and into new products will continue. The Company's commitment to its shareholders is reinforced by the positive developments outlined here. The commitment remains to continually improve the profile of the Company on a world wide basis. We want to thank you, our shareholders, for your continued support through our early growth stages. We strongly believe you will be well rewarded for your vision and belief in our company.



The Honourable Jon Gerrard, Secretary of State (Science, Research and Development) inspects the world's first recycled tire at the EWMC booth at GLOBE 96, Vancouver, Canada

Consolidated Financial Statements of



years ended December 31, 1995 and 1994



AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Exxadon Technology Corporation as at December 31, 1995 and December 31, 1994 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and December 31, 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG Peat Marwick Thorne". The signature is written in a cursive, flowing style.

Chartered Accountants

Richmond Hill, Canada

February 2, 1996

EXXADON TECHNOLOGY CORPORATION

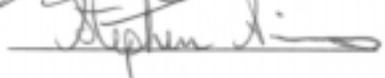
Consolidated Balance Sheet

December 31, 1995 and 1994

	1995	1994
Assets		
Current assets:		
Cash	\$ 721,766	\$ 508,670
Accounts receivable	57,469	23,475
Prepaid expenses	197,936	29,261
	<u>977,171</u>	<u>561,406</u>
Pilot plant and other equipment (note 2)	3,992,509	3,240,676
Patents and technology (net of accumulated amortization of \$465,000)	3,635,000	2,945,000
	<u>\$ 8,604,680</u>	<u>\$ 6,747,082</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,052,465	\$ 536,309
Deferred revenue	124,880	-
Capital lease obligation - current portion	9,168	-
	<u>1,186,513</u>	<u>536,309</u>
Capital lease obligation	15,443	-
Shareholders' equity:		
Share capital (note 3)	12,693,276	8,980,787
Deficit	(5,290,552)	(2,770,014)
	<u>7,402,724</u>	<u>6,210,773</u>
Commitments (note 4)		
Contingency (note 9)		
	<u>\$ 8,604,680</u>	<u>\$ 6,747,082</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
 Director

EXXADON TECHNOLOGY CORPORATION

Consolidated Statement of Operations and Deficit

Years ended December 31, 1995 and 1994

	1995	1994
Revenue:		
Licensing fees	\$ 835,760	\$ 276,760
Interest income	20,000	16,713
	<u>855,760</u>	<u>293,473</u>
Expenses:		
Depreciation and amortization	977,357	541,417
Wages, salaries and benefits	892,009	444,008
Advertising and promotion	236,939	376,596
Professional fees	182,034	228,602
Office and general	308,943	159,966
Royalties (note 6)	342,340	138,380
Research and development	174,112	—
Consulting	68,990	88,970
Security	26,182	43,443
Utilities	44,713	33,722
Automobile	29,483	27,094
Telephone	34,917	22,970
Registrar's fees	15,258	13,120
Insurance	14,597	10,277
Capital taxes	8,441	9,448
Repairs and maintenance	9,838	6,912
Software	10,145	2,292
	<u>3,376,298</u>	<u>2,147,217</u>
Net loss	2,520,538	1,853,744
Deficit, beginning of year	2,770,014	916,270
Deficit, end of year	\$ 5,290,552	\$ 2,770,014
Loss per share (note 5)	\$ 0.18	\$ 0.15

See accompanying notes to financial statements.

EXXADON TECHNOLOGY CORPORATION

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1995 and 1994

	1995	1994
Cash provided by (used in):		
Operations:		
Net loss	\$ (2,520,538)	\$ (1,853,744)
Depreciation which does not involve cash	977,357	541,417
Changes in non-cash operating working capital		
Accounts receivable	(33,994)	111,017
Prepaid expenses	(168,675)	(6,067)
Accounts payable and accrued liabilities	516,156	291,788
Deferred revenue	124,880	—
	<u>(1,104,814)</u>	<u>(915,589)</u>
Financing:		
Capital lease obligation	24,611	—
Repayment of loans payable	—	(71,097)
Issue of share capital:		
For cash	2,712,489	1,594,199
For acquisition of patents and technology	1,000,000	3,100,000
	<u>3,737,100</u>	<u>4,623,102</u>
Investments:		
Expenditures on pilot plant and other equipment	(1,419,190)	(1,868,318)
Patents and technology	(1,000,000)	(3,100,000)
	<u>(2,419,190)</u>	<u>(4,968,318)</u>
Increase (decrease) in cash position	213,096	(1,260,805)
Cash, beginning of year	508,670	1,769,475
Cash, end of year	\$ 721,766	\$ 508,670

See accompanying notes to financial statements.

EXXADON TECHNOLOGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 1995 and 1994

The Company has long-term agreements that allow it to license and develop uses for certain technology that has application in the manufacture of machines which reduce various waste material to their original component state and/or carbon black. The Company's principal business is the licensing and sale of this technology and related machines throughout the world.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary Environmental Waste Management Corporation ("EWMC").

The Company has a long-term agreement to use technology that has not yet been proven as to its economic viability. The recoverability of pilot plant and other equipment and patents and technology is dependent upon the company entering into economically viable revenue producing activities.

(b) Pilot plant and other equipment:

Pilot plant and other equipment are stated at cost. The pilot plant did not become fully operational until 1994 and accordingly depreciation expense on it was not recorded in prior years. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
Pilot plant	Straight-line	10 years
Computer equipment	Declining balance	30%
Equipment and furniture	Declining balance	20%
Forklift	Declining balance	20%
Vehicle	Declining balance	30%
Leasehold improvements	Straight-line	5 years

(c) Patents and technology:

Patents and technology are recorded at cost and amortized over a ten year period not to exceed the life of the patent.

EXXADON TECHNOLOGY CORPORATION

Notes to Consolidated Financial Statements, Page 2

Years ended December 31, 1995 and 1994

2. Pilot plant and other equipment:

			1995
	Cost	Accumulated depreciation	Net book value
Pilot plant	\$ 3,189,650	\$ 379,935	\$ 2,809,715
Computer equipment	396,211	145,427	250,784
Equipment and furniture	398,094	158,755	239,339
Forklift	8,245	3,496	4,749
Vehicle	46,990	19,031	27,959
Leasehold improvements	1,117,739	457,776	659,963
	<u>\$ 5,156,929</u>	<u>\$ 1,164,420</u>	<u>\$ 3,992,509</u>

			1994
	Cost	Accumulated depreciation	Net book value
Pilot plant	\$ 2,044,160	\$ 102,208	\$ 1,941,952
Computer equipment	268,933	65,222	203,711
Equipment and furniture	381,465	100,999	280,466
Forklift	8,245	2,308	5,937
Vehicle	46,990	7,049	39,941
Leasehold improvements	987,947	219,278	768,669
	<u>\$ 3,737,740</u>	<u>\$ 497,064</u>	<u>\$ 3,240,676</u>

EXXADON TECHNOLOGY CORPORATION

Notes to Consolidated Financial Statements, Page 3

Years ended December 31, 1995 and 1994

3. Share capital:

	1995		1994	
	Number	Amount	Number	Amount
Authorized:				
Unlimited number of common shares				
Issued and outstanding:				
Balance, beginning of year	14,043,605	\$ 8,980,787	12,114,800	\$ 4,286,588
Issued in exchange for reduction in future royalty payments (note 6)	500,000	1,000,000	1,000,000	3,100,000
Issued for cash:				
Private placement	185,397	370,794	47,619	142,500
Under option agreements	1,223,179	2,341,695	881,186	1,451,699
Balance, end of year	15,952,181	\$ 12,693,276	14,043,605	\$ 8,980,787

During 1995 and 1994, the Company granted options to Company directors and others to purchase 3,018,061 common shares. Of the options issued in 1995 and 1994 and prior years, 1,363,164 remain outstanding at December 31, 1995 at prices ranging from \$1.25 to \$3.40 per share. These options expire at varying dates during 1996 and 1997.

The Company has assigned warrants to purchase 500,000 common shares at a price of \$8.00 per share for a period of three years (note 6). The Company also assigned 23,810 warrants as part of the private placement noted above to purchase 47,619 common shares at a price of \$3.60 per share until June 1996.

Subsequent to December 31, 1995 the Company granted 1,530,000 additional options at exercise prices ranging from \$2.30 to \$3.40.

EXXADON TECHNOLOGY CORPORATION

Notes to Consolidated Financial Statements, Page 4

Years ended December 31, 1995 and 1994

4. Commitments:

The Company is committed to future minimum lease payments under an operating lease, expiring July 31, 2003, for premises as follows:

1996	\$	29,020
1997		40,628
1998		43,528
1999		104,468
2000		104,468
Thereafter		269,875
		<hr/>
		\$ 591,987

5. Loss per share:

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. Stock options and warrants do not have a dilutive effect on loss per share.

6. Significant agreements:

The Company has entered into an agreement with an unrelated company, CLE Management Inc. ("CLE") to use certain technology, patents and other information owned by CLE. The Company has agreed to make royalty payments to CLE totalling 50% of any licensing fees received and 20% on the net cost of each machine up to \$250,000 per machine sold, 15% on the net cost of each machine between \$250,000 and \$500,000 and 10% on the net cost of each machine in excess of \$500,000. This agreement runs in perpetuity, has no minimum performance requirement and covers North America, Europe and the Middle East countries. The Company purchased its pilot plant from CLE to assist in the marketing of this technology and patents.

In 1994 the Company issued 1,000,000 common shares at an assigned value of \$3,100,000 and assigned warrants to purchase 500,000 common shares at a price of \$8.00 in exchange for a reduction in the royalty rates to those described above and to purchase the rights to Auto Shredder Residue (ASR) for North America.

In 1995, the Company issued 500,000 common shares at an assigned value of \$1,000,000 to purchase the licensing rights for medical waste technology for a South American country.

7. Related party transactions:

During the year ended December 31, 1995 the Company purchased marketing and other materials for approximately \$35,650 from a company controlled by a person related to the president (1994 - \$88,000).

EXXADON TECHNOLOGY CORPORATION

Notes to Consolidated Financial Statements, Page 5

Years ended December 31, 1995 and 1994

8. Income taxes:

The Company and its subsidiary have losses for income tax purposes of approximately \$4,358,000 available to offset future taxable income, the benefit of which has not been reflected in these financial statements. These losses substantially expire in the year 2000, 2001 and 2002. In addition, the Company has assets for which deductions available in future years exceed the recorded net book values by approximately \$157,000.

9. Contingency:

The Company has been named as a defendant in a lawsuit for breach of contract. The Company has filed a counter claim seeking damages for amounts in excess of the amount sought by the plaintiff. The amount of any loss or gain cannot be determined at this time. Any settlement resulting from the resolution of the contingency would be accounted for as a prior period adjustment.

10. Segmented information:

Licensing fees by country are as follows:

	1995	1994
Canada	\$ 139,100	\$ -
United States	545,580	-
Brazil	151,080	-
England	-	276,760
	<u>\$ 835,760</u>	<u>\$ 276,760</u>