MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP/NY
Form 10SB12G/A
October 28, 2002
Unknown;

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-SB/A

Amendment No. 2

GENERAL FORM FOR REGISTRATION OF SECURITIES OF SMALL BUSINESS ISSUERS UNDER

SECTION 12(b) OR 12(g) OF THE SECURITIES ACT OF 1934

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(Name of Small Business Issuer in Its Charter)

| | |
|---|---|
| Delaware | Applied For |
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |

TNO Environmental Technology Valley

Laan van Westenenk 501

7334 D T Apeldoorn, The Netherlands

(Address of Principal Executive Offices)

011 31 55 534 7040

(Company's Telephone Number, Including Area Code)

Securities to be registered pursuant to Section 12(b) of the Act:

| Title of Each Class To Be So Registered | Name Of Each Exchange On Which Each Class Is To Be Registered |
|---|---|

Securities to be registered pursuant to Section 12(g) of the Act:

Common stock, no par value

(Title of Class)

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PART III

## PART I

### Item 1. Description of Business.

The Company was formed to develop a proprietary technology for drying and treating animal manure and sludge.

The Company was originally incorporated in Colorado on December 10, 1997. On December 11, 1997 the Company sold 5,000,000 shares of common stock for $5,000 in cash. On December 26, 1997, Solutions Tek, Inc., a Colorado corporation acquired all of the Series L common stock of STB Corporation, a Colorado corporation. Pursuant to the "Plan of Share Exchange" the STB Corporation Series L common stock holders exchanged all of their Series L shares for common stock of Solutions Tek, Inc. on the basis of one share of Series L common stock of STB Corporation for one share of common stock of Solutions Tek, Inc. Solutions Tek, Inc. acquired no assets or business entity as a result of this transaction. The rights of the shareholders from the former STB Corp. significantly changed as shareholders of Solutions Tek, Inc. by reason that Series L shareholders were not subject to control features of STB Corp. as Series L shareholders.

Shares of Solutions Tek, Inc. common stock issued and outstanding which shares had rights to vote at the January 9, 1998 meeting. Notice was also given of dissenters rights pursuant to Colorado law pursuant to Section 7-113-101 through 7-113-303 of the Colorado Business Corporation Act. Solutions Tek, Inc. valued its shares at $0.001 per share for purposes of reimbursing any dissenters. The merger also required Solutions Tek, Inc. to change its corporate domicile to the State of Delaware and to change the Company name to Management of Environmental Solutions and Technologies Corp.

On January 9, 1998 pursuant to the notice provisions as described above, a majority of the shareholders of Solutions Tek, Inc. approved the plan of merger set forth in the December 26, 1997 notice by a majority vote. There were no dissenters and no funds were paid to dissenting shareholders. "As a result of the share for share exchange between the Series L shareholders of STB Corp. and Solutions Tek, Inc., no business, rights, tangible or intangible assets were acquired."

On December 18, 1997, counsel, William Hart, incorporated Management of Environmental Solutions & Technology Corp. in the State of Delaware under file number 971438081-Z635318 authorizing capital stock of 30,000,000 shares of common stock at .0001 par value and 5,000,000 shares of preferred stock at .0001 par value. The initial director was named in the Articles as Marieke Oudejans.
On December 26, 1997, Management of Solutions Tek, Inc. notified its shareholders of a special meeting of shareholders to be held in British Columbia on January 9, 1998 to consider a plan of merger between Solutions Tek, Inc. and Management of Environmental Solutions & Technology Corp. The significant features of the merger which occurred by way of special meeting of shareholders on January 9, 1998 follow.

Shareholder of Solutions Tek, Inc. by majority vote agreed to cancel all issued and outstanding stock in exchange for the issuance by MEST Corp, the Delaware corporation of its common stock to the shareholders of Solutions Tek, Inc. on the basis of one common share of MEST Corp. issued for each share of common stock of Solutions Tek, Inc. cancelled. MEST Corp. issued 5,175,456 shares to the shareholders of Solutions Tek, Inc. who cancelled its shares. Pursuant to the notice of the shareholders meeting of Solutions Tek, Inc. held

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on January 9, 1998, Solutions Tek, Inc. shareholders were notified of their right to exercise dissenters rights with respect to the proposed merger pursuant to Section 7-113-101 through 7-113-302 of the Colorado Business Corporation Act. Additionally, Solutions Tek, Inc. notified its shareholders that it would pay $0.001 per share to any shareholder dissenting from the merger. No shareholder made objection or dissented from the plan of merger at the January 9, 1998 special shareholder meeting.

On March 2, 1998 shareholders owning in excess of 50% of the Company's common stock approved a 1,000-for-1 reverse split of the Company's common stock.

On March 10, 1998 the Company sold 5,094,900 shares of common stock for $510.

On April 9, 1998 the Company issued 1,920,000 shares of its common stock in consideration for all issued and outstanding shares of M.E.S.T., B.V., a

Netherlands corporation. M.E.S.T., B.V. was acquired because it had certain data and technical information which the Company plans to use in its business. At the time of this acquisition, M.E.S.T., B.V. was controlled by the Company's President. See "Management - Transactions with Affiliates".

During 1998 the Company sold 299,980 shares of common stock for $3.00 per share.

Between December 16, 1998 and September 30, 1999 the Company sold 354,410 shares of its Series A Preferred stock for an average price of $3.92 per share (after currency translation adjustments).

a. MSTec, B.V. obtained an exclusive, non-transferable license with respect to patent number 1009619 dated July 10, 1999, Cost Effective Method for Treatment and/or Disposal of Water Containing Waste Streams based on application of zeolite for the further development and commercialization of the referenced patent application with a sub-licensing right which will be described hereafter.

b. MSTec, B.V. obtained a non-exclusive right to utilize all technical knowledge and experience with regard to the referenced patent application.

c. In the event patent applications were not successful, MSTec, B.V. obtained the right to utilize know-how regarding the patent applications to further its purposes as expressed above.

d. For the manufacturing and sales of manure conversion installations by MSTec, B.V., MSTec, B.V. is required to give a non-transferable exclusive sub-license regarding the referenced patent and the know-how embraced in that patent "against payment of royalties by MSTec, B.V.".

e. In the event the referenced patent cannot be exploited independently from TNO's patent entitled Method and Device for Heating and Cooling Food Products, TNO has agreed to prospectively award a license on patent number 1 in order to protect MSTec, B.V.'s commercial options as contemplated in the license agreement.

f. TNO was required to expand its patent on Method and Device for Heating and Cooling Food Products if licensee funds such an expansion.

Section 2 of the license agreement describes the consideration to be paid by MSTec, B.V. for the licensing right (2,000,000 Dutch Guilders excluding the AT). The same detailed provisions are included regarding the method, manure and account numbers at which such payment shall be made.

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Section 3 of the license agreement deals with patent protection and infringement rights and duties. MSTec, B.V. is required to pay for the application process and any expansion of the referenced patents by TNO. The party who discovers infringement is required to notify the other party. Both parties have maintained the right to protect their rights and/or interests in the referenced patent independently at its own expense.

Section 4 of the license agreement delineates TNO duties to transfer ownership of patents on the completion of certain payments. The license agreement includes non-disclosure provisions, delineates ownership of patents granted and not granted at term of the agreement and dispute resolution.

Global population growth, economic expansion, scarcity of available water resources, heightened public concern about water quality and growing regulatory and legislative requirements have resulted in the continued growth in demand for wastewater treatment. Government regulations require most companies and municipalities to treat outgoing wastewater.

In the opinion of management, government regulations regarding the disposal of industrial waste, as well as rising wastewater discharge fees and public concern regarding water pollution, have led to increased awareness on the part of businesses and public utilities as to the need for waste treatment.

Management provides a summary of a six-year study by a group of Dutch Business school graduates and associates involved in environmental issues related to agriculture production and pollution in the Netherlands included an in-depth survey of the various aspects of manure dumping in the Netherlands and the detrimental effects of this practice on land and water reserves. The survey was performed in close cooperation with the Dutch government and several scientific institutes. The outcome of this survey led to a follow-up study on the global possibilities of exporting organic fertilizer from countries with excess manure to regions with a shortage of fertilizer. This study was carried out in close cooperation with a variety of international organizations such the U.N. Food and Agriculture Organization (FAO) and revealed that many European countries and the United States - on an even larger scale - were facing excessive environmental problems from indiscriminate manure dumping by large livestock producers.

It is the opinion of management that farmers in many other countries are seeking clean, environmentally friendly solutions to improve crop production. They have little recourse but to use synthetic fertilizer, the continued use of which often damages the soil composition and adversely affects certain life forms, such as earthworms, which have a beneficial effect on soil composition.

Although untreated animal manure has long been used as fertilizer, it is unable to be economically shipped long distances due to the water content in the manure. In addition, many farmers are reluctant to use animal manure as fertilizer since untreated animal manure often contains weed seeds and micro-organisms that can cause crop disease.

Research into the application of zeolites for drying specific substances such as manure and sludge has been performed at The Netherlands Organization for Applied Scientific Research ("TNO") for a number of years. Experiments have been conducted under different conditions to investigate both the drying and further treatment of the sludge by incineration during the regeneration stage of the zeolite. The results of this research have been stated in various TNO reports and publications. Zeolite is a clay substance processed into various sizes with an extremely high water absorption capacity. The absorption of water creates extreme heat which is utilized in the absorption phase of materials processing for pasteurization.

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Using proprietary technology developed by TNO, the Company and TNO formed a corporation, known as Manure and Sludge Technology B.V. ("MST"), for the purpose of developing a process for use on commercial basis which would economically remove water from manure and sludge, refine the manure into pellets which could be sold as organic fertilizer and other products. MST is a Netherlands corporation. The Company and TNO each own 50% of the capital stock of MST.

TNO is a European contract research organization based in the Netherlands.

TNO employs approximately 5,100 highly skilled scientists, technical types and University professors for purposes of engaging in product development under collaborative arrangements. TNO has identified as its core areas of development the following: new materials research, product development and new production techniques; sustainable processes, use of energy and materials; defense; information and communications technology; electronic and physical systems; nutrition and food; prevention and health; labor and labor environment; transport and logistics; building and infrastructure; subsurface and natural resources; and innovation management. In 1999 TNO's operating income was

$468,604,000.00 Euro Dollars.

TNO has developed alliances with corporations from the United Kingdom and the European Continent.

TNO's process for the treatment of hog and/or poultry manure involves the following steps:

1. Raw manure containing approximately 10% solid material is pre-treated, if required, to avoid release into the air of nitrogen compounds (in particular ammonia) which may be present in the manure.

2. Part of the water present in the manure is removed by conventional technology yielding a concentrated manure containing approximately 25% solid material.

3. The concentrated manure is mixed in a vessel with zeolites in such a way that most of the water present in the manure is transferred to the zeolites. At the same time small solid manure particles are formed.

4. The manure particles are separated from the zeolites using existing technology.

5. The manure particles containing 85% solid material are reshaped into pellets for packaging and shipment. The pelletizing process takes away another 5% of the moisture, which leaves an organic fertilizer product with over 90% dry

material.

6. The zeolites are regenerated to remove the absorbed water and are recycled back to the drying vessel.

The Company is required to contribute $1,000,000 to the joint venture of which $590,000 has been paid as of September 30, 1999, and $410,000 of which is to be paid by January 2000. In February MEST Corp., through its subsidiary MSTec, B.V., paid $150,239.81. The balance of $259,760.19 has not nor will be paid. The Company mutually agreed with TNO not to pay 259.760.19 by reason that TNO did not complete certain technical requirements of the development contract. With the funds provided by the Company, TNO is performing a study to determine the feasibility of using zeolites for the treatment and processing of animal manure and/or sludge on a commercial basis. The joint venture's feasibility study involves four phases:

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Phase 1 - Determine the technical and economic feasibility of the zeolite technology for manure/sludge treatment on a commercial scale. During this stage a price range will be calculated which will be the basis for the decision concerning the continuation of the project.

Phase 2 - Design the components of the system. The different functional elements (manure/sludge pre-treatment, dryer, transport systems, zeolite, and regeneration unit/furnace, etc.) will be assessed individually in an experimental program. Product samples will be assessed as to their quality.

Phase 3 - Construct a large pilot-plant scale (200 kilograms per hour capacity) to determine if the technology in its entirety (i) functions properly, (ii) with adequate efficiency, and (iii) produces manure of good quality.

Phase 4 - Design, engineer and construct a fully operational plant (with a five ton per hour capacity) to fully test the technology.

As of June 30, 2001 Phases 1, 2 and 3, and 4 have been completed. The results of testing and operation of the pilot plant have demonstrated that pig poultry and cattle manure can be introduced into the MEST Corp. drying process, rapidly dried and then pelletized in order to form a value added product. Testing demonstrated that the absorptive material, zeolite, may be regenerated by a special reactor which heats the saturated zeolite thus enabling the zeolite to be utilized repeatedly.

Pursuant to the agreement dated February 1, 1999 between TNO and MSTec, B.V., as a part of the construction of the pilot plant with a capacity of 250 kg per hour processing capability, TNO is required to provide specifications, design format and engineering schematics for plants with production capacities of 5 tons per hour and 11 tons per hour. The engineering, design specifications and fabrication of the 250 kg pilot plant has been completed as of the first quarter of calendar year 1999. The design specifications for the 5 ton per hour and the 11 ton per hour have been completed by TNO. These specifications have been delivered to Industri Techniek Borculo (ITB), a Dutch enterprise, part of the Willems Groep, specializing in manufacture of machinery and equipment for the gas turbine industry. ITB has given price quotations for the manufacture of the proprietary zeolite drying process. Neither the Company nor ITB has undertaken the manufacture of either of the 5 ton per hour or 11 ton per hour device. The Company anticipates a manufacturing review for production devices prior to the manufacture of such production devices. The Company anticipates the commencement of production in 2002.

If TNO's study suggests that TNO's process will be commercially feasible, the Company will have the right to use TNO's technology to build manure/sludge treatment facilities for third parties. The Company's right to use this technology will expire fifteen years after the Company installs the first treatment facility using the TNO technology. In return for these rights, the Company is obligated to pay the joint venture royalty equal to:

(1) 15% of the manufacturing costs of the first ten treatment facilities installed by the Company

(2) 12.5% of the manufacturing costs for the next 15 treatment facilities, and

(3) 10% of the manufacturing costs for all remaining treatment facilities installed by the Company

Any net profits earned by the joint venture will be equally distributed between the Company and TNO.

TNO has reserved the right to use its technology for any purpose other than the treatment of manure and sludge.

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MEST Corp acquired all of the issued and outstanding stock of M.E.S.T.,B.V., a Netherlands Corporation from Marieke Oudejans on February 19, 1998. MEST-BV owns one half (20,000 shares) of Manure and Sludge Technology BV hereafter referred to as MSTec, B.V. a Netherlands corporation. The Dutch organization for applied scientific research (TNO) owns the other one half or 20,000 shares of MSTec, B.V. Between January 22, 1999 and February 1, 1999, TNO and MSTec, B.V. entered into a license agreement wherein TNO granted an exclusive non-transferable license for further development and commercialization with rights to sub-license under certain conditions the international patent "cost effective method for treatment and/or disposal of water containing (waste) streams (like sludge, sewage, dung, etc.) based on the application of zeolite". The license also granted to MSTec, B.V. the right to use on a non-exclusive basis all of the technical knowledge and experience contained in certain reports and publications relative to the patent described above. If the referenced patent application were not granted, then the agreement remains in force regarding the know-how involved in the patent application. The circumstances arise when the above referenced patent could not be exploited independently from international patent application #PCT/NL96/00215 entitled "Method and Device for Heating and Cooling Food Products" then TNO is required to grant another license to MSTec, B.V. to preserve M.E.S.T., B.V.'s "commercial options" for the purpose of the licensing agreement.

Once the patent regarding the treatment of waste and sludge has been granted, TNO is required to transfer ownership of the patent to MSTec, B.V. for consideration of one million Dutch Guilders. (Approximately $500,000.00 USD) TNO is required to prosecute the patent and transfer that patent to MSTec, B.V. on the payment of the consideration recited above. As MSTec, B.V. shares are owned by TNO and M.E.S.T.,B.V. equally and M.E.S.T.,B.V. is owned outright by MEST Corp, MEST Corp controls entirely the functions of M.E.S.T.,B.V. and MSTec, B.V. The administrative functions of commercializing and propagating the sludge and manure processing technology is controlled by MEST Corp. MEST Corp. will be entirely responsible for sub-licensing the technology for utilization domestically and internationally. There can be assurance that any patents will be issued. Furthermore, there is no assurance as to the scope and degree of protection any issued patents might afford TNO or the Company. Disputes may arise with third parties as to the scope, validity and ownership rights of a patent. Any defense of a patent could prove costly and time consuming and there can be no assurance that TNO and/or the Company will be successful in defending any such patents.

There can be no assurance that joint venture between the Company and TNO will be successful in developing the technology to a state where it is commercially feasible. There can be no assurance that the Company will receive any revenues from any technology developed by the joint venture.

The construction and operation of waste, sludge and manure treatment facilities has not yet been determined. The Company may sell production capacity treatment devices to operators for their own purposes. The Company may license distributors to sub-license the technology in define geographical areas or the Company may fabricate devices which will be company owned and derived compensation for production operations from processing and from production of pelletized products. Actual fabrication will likely occur on a contract basis by responsible fabricators and machine shops.

Operational obligations for the production of zeolite dehydration devices is being determined. In the event the Company sells outright a treatment facility, then the continuing operational obligations are negligible and relegated to warranty services. In the event the Company fabricates and operates treatment facilities in-house, then operational controls and obligations are comprehensive and envelop all states of raw materials procurement, processing, mechanical service maintenance and repair installation, sale of finished product and warranty work.

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Hog and Poultry Farms In the European Community an estimated 121,000,000 hogs are raised in hog farms each year generating million tons of hog manure each year. Hog farms breed and raise hogs in indoor pens. The pens are enclosed in barns which, in some cases, are as large as football fields. Metal grates are used as the floors for the pens. Hog manure is pushed through slats between the metal grates and flushed into pits or holding ponds known as lagoons. The manure in the lagoons is then buried in landfills. However, many fields surrounding hog farms are becoming so saturated that they cannot absorb all of the hog manure. In addition, lagoons have at times leaked and overflowed. As a result, the hog manure is beginning to contaminate ground water, drinking wells, lakes, streams and rivers and is causing air pollution as a result of odors from the hog barns and lagoons. Poultry farms dispose of their waste in a similar fashion resulting in the same pollution problem. The Company believes the process being developed by MEST can provide a solution to the hog and poultry waste problem by processing the manure into fertilizer on a continuous flow basis and thereby eliminating the need for the lagoons.

Sludge Disposal. Most wastewater treatment facilities treat wastewater through the use of bacteria. Wastewater is collected in tanks where bacteria consume the waste. The bacteria (i.e. "sludge") then settles to the bottom of the tank. Prior to discharge into rivers or lakes the treated wastewater is disinfected with chlorine or ultra-violet light. The sludge is buried in landfills. The Company believes the same TNO technology applicable to hog and poultry manure can be used to incinerate the sludge.

Since the completion of the 250 kg/hr pilot plant, TNO has processed sludge and manure to demonstrate feasibility for basic pretreatment practices, intake mechanisms, interaction between sludge, manure and zeolite, segregation of zeolite and dried material and pelletization. Initial tests concluded that dehydration of material reduced moisture content in sludge by approximately 80% or more. Sludge material was tested for combustion characteristics. The company has tested exhaust for chemical composition. Initial testing indicates that in excess of 90% of pollutants remain in the ash. The company makes no representation regarding the market applications and economic feasibility of utilizing dehydrated sludge for incineration purposes. The Company envisions selling such products to incineration facilities for commercial boilers, heat transfer or co-generation applications. Fly ash disposal will be effected in compliance with local disposal ordinances.

Sales and Marketing

The Company plans to market its proprietary process and fertilizer through sales personnel, manufacturers' representatives, distributors and licensees.

It is expected that the joint ventures manufacturer's representatives, distributors and licensees will be independent businesses which, in certain cases, will have the exclusive right to sell or use the joint venture's technology systems in a specified geographical area. The joint venture may be required to provide both engineering and marketing support to its manufacturer's representatives, distributors and licensees.

The Company has made no decision regarding the area of market focus. Preliminary hearing inquiries regarding the zeolite dehydration process have come from Belgium, the Netherlands and Alaska. The Company's marketing impetus will depend on the perceived ability of the Company to penetrate certain markets regardless of geographical orientation.

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Competition

The waste treatment industry is fragmented, with numerous regional participants in countries throughout the world which are limited in their geographic scope. This fragmentation is primarily due to local differences in water quality and supply, different levels of demand for water resulting from varying concentrations of industry and population, and local governmental regulation. Most participants in the waste treatment industry provide a limited number of treatment technologies, a limited number of products or services, or focus on a particular industry. The number of industry participants ranges from several large companies to hundreds of small local companies.

A large number of companies compete in the chemical fertilizer industry, most of which have greater financial and marketing resources than those of the Company.

Government Regulation

The United States Government, through the Clean Water Act and the Clean Air Act, regulate the processing, utilization and disposal of sludge, manure and organic wastes which would be generated by the Company's proprietary dewatering technology. Several phases of the dewatering process will involve local, state and federal regulations. Hauling or transporting raw sewage or manure, preprocessing storage, pre-dewatering segregation, air quality of processed material, zeolite segregation, zeolite reconstitution, pelletization and disposal of treated waste products may involve to a certain extent environmental regulation and permitting by local state and national authorities. For example, the United States Government regulates the quality of process sludge in terms of disease, chemical composition or the existence of the proprietary treatment material in the finished dewatered sludge product under 40 CFR 503 et seq. Waste water effluents reintroduced into sewage systems are governed by 40 CFR 403. 40 CFR 122 prescribes pretreatment rules if the volume of effluence constitutes a "significant source" under the applicable regulation.

If the materials processed by the Company's dewatering system constitutes hazardous waste, it may be regulated by the Resource Conservation Recovery Act. Non-hazardous waste substances are governed by 40 CFR 257 (materials without a garbage content) or 40 CFR 258 (bio-solids with a garbage content). Generally the United States federal regulations are secondary in consideration to municipal concerns expressed in local, municipal or city ordinances. Local ordinances will prescribe parameters for dewatering bio-solids, sludge and manure as part of the regulation process of landfills, utilization of human and animal waste products as fertilizers, sewage treatment plants (for reintroduction of segregated fluids) and local air quality controls through the permitting process.

MEST has not determined where the first dewatering processing system will be located. This determination will likely be made based upon the location of plants purchased by interested parties.

The actual construction of the proprietary dewatering process by MEST Corp or a duly licensed subcontractor has not revealed or invited regulatory concern. Mechanics of this system involve in-feed augers, hoppers, mixing chambers, vacuum equipment, a segregation unit, a thermal desorption unit (turbid reactor), air pumps, ventilation equipment, conveyors, pelletizers and other standard manufactured items. The Company's negotiations with potential manufacturing partners will include a requirement that manufacturing and the physical facility where production is located comply with local, state or provincial and applicable national regulations.

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Many governments regulate and enforce wastewater treatment as well. Continued promulgation and enforcement of similar regulations, or the failure to adopt or enforce such regulations could have a significant impact on the demand for any technology which may be developed by the Company's joint ventures with TNO.

The Company's offices are located at TNO Environmental Technology Valley Laan van Westenenk 501, 7334 D T Apeldoorn, The Netherlands. The Company's telephone number is 011 31 55 534 7040 and its facsimile number is 011 31 55 534 7532.

As of June 30, 2001, the Company has one full time employee, Mr. Greg Schmick who serves as President, Secretary and Director. Contingent upon the Company raising sufficient capital, the Company plans to hire additional employees as may be required by the level of the Company's operations. See "Use of Proceeds".

Item 2. Management's Discussion and Analysis or Plan of Operations

If TNO's study suggests that TNO's process will be commercially feasible, the Company plans to use TNO's technology to build manure/sludge treatment facilities for third parties. The Company anticipates that it will cost approximately $850,000 to $1,000,000 USD and require from four to six months to construct a plant capable of treating 11 tons per hour of manure.

During the nine month period ending September 30, 2002, the Company projects expenditures of approximately $2,610,000 in capital to fund ongoing research, construct a full scale dewatering device, fund operating and marketing expenses and to acquire the exclusive rights to use the process being developed by MST for processing sludge. The Company plans to raise additional capital through the sale of its common stock.

Current available funding will allow the Company to successfully operate for a period of twelve months as the Company is currently structured. In order to engage in activities designed to quantify energy costs for a variety of materials processed by the propriety dewatering device, engage in substantial marketing activities, construct production devices, additional capital will be required.

Current research and testing in collaboration with TNO after the development of the pre-production device is concentrated on the quantification of energy costs and procedures for processing a variety of materials. The Company has plans for expanding the application of its proprietary process to all types of animal manure and waste, various types of sludge, fish waste, pulp and paper mill byproducts, agricultural and food processing wastes. The Company has positioned itself in collaboration with TNO with the ability to economically expand testing plans and individual market research economically and efficiently. The pre-production unit is capable of demonstrating the feasibility of utilizing the Company's proprietary dewatering process for specific applications. While the Company does not anticipate generating significant revenues from research or basic testing endeavors, it does expect to cover costs of applied energy costs analysis as well as specific application testing.

The Company expects to market its 5 ton per hour or 11 ton per hour device and is currently entertaining several serious inquiries regarding the plan process and its application in Europe. The initial pre-production sales are expected to take longer than routine production because the Company anticipates resolving production engineering and volume processing issues. The Company also anticipates raising capital for in-house acquisition of production devices for



demonstration facilities, fertilizers production or potential partnering or organic waste processing. In order to facilitate the Company's plans for marketing and production partnering, the Company expects to increase the number of its employees to accommodate these specific objectives.

After the development of the 250 kg per hour pre-production device pursuant to the joint venture arrangement with TNO, the proprietary dewatering system has demonstrated the ability to process an ongoing stream of waste products. Preliminary data regarding the commercial feasibility indicates that the processing of manure may be commercially feasible in certain applications. Commercial feasibility is dependent upon costs for disposal of animal waste, potential for re-utilization of the dewatered product and administrative costs of managing environmental regulations. For example, the process may be economically viable for a commercial feed lot or hog operation and may not be feasible for an individual dairy farmer.

There can be no assurance that the TNO's treatment process will be commercially feasible, that the Company will be able to sell any treatment plants or that the Company will be able to raise any additional capital.

The Company anticipates that the target market for the Company's proprietary dewatering device will be high volume feed lots for hogs, poultry, beef cattle and dairy animals where the aggregation and disposal of manure is costly and highly regulated. Preliminary acceptance of the economically efficient drying process is almost universal. However, commercial feasibility and viability of processing bio-wastes has yet to be determined. Third party purchases will generally not require in-house funding. Purchase contracts will require installments calculated to cover manufacturing costs. The Company currently does not anticipate acquiring necessary tooling for production or pre-production purposes. The Company anticipates procuring additional funding through September 30, 2002 through public offerings or private placements.

Under enclosure 2 the Company has included an agreement with regard to the subordinated loan between M.E.S.T.,B.V. and MSTec, B.V. The referenced agreement acknowledges and contemplates MSTec, B.V.'s financial obligations to procure the licenses for the zeolite technology and patent procurement. MSTec, B.V. is required to pay the loan by remitting 50% of all positive operating profits commencing December 31, 1999. Any unpaid balance of the loan bears interest at the rate of 5% per annum. The interest is to be paid yearly. M.E.S.T.,B.V. agreed to subordinate MEST's repayment obligations for the benefit of Rabo Bank in Appledorn and the benefit of TNO so that MSTec, B.V. can pay all other debts except those that are "equal to both parties".

Item 3. Description of Property.

The Dutch Organization for Applied Scientific Research which is based at 2628VK DELFT Schoemakerstraat 97 (hereafter referred to as TNO) entered into a license agreement with Manure and Sludge Technology B.V. (Hereafter referred to as MSTec, B.V.). The data and technical information acquired in the MSTec, B.V. acquisition relates to basic research, compilations of statistical information from basic engineering and experimentation. TNO conducted research beginning in 1993 involving utilization of the zeolite technology for pasteurizing and drying food products. TNO applied for international patents for the use of zeolite in drying process under patent number PCT/NL96/00215 entitled Method and Device for Heating and Cooling Food Products. The zeolite application to the treatment of sludge and manure developed from the original application of the zeolite drying technology for certain food stuffs under an original application number NL/1000482 dated June 1, 1995.

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On July 10, 1998 TNO applied for another patent under number 1009619 entitled Cost Effective Method for Treatment and/or Disposal of Water Containing Waste Streams (like sludge, sewage, dung, etc. based upon the application of zeolite). The patents are still pending.

MSTec. B.V.'s license regarding the aforementioned TNO technologies are to further "develop and commercialize the unique zeolite drying process. Commensurate with such rights MSTec, B.V. has the right to utilize all "technical knowledge and experience" with regard to the patent applications. The Company acquired all of MSTec, B.V. license rights through the acquisition of M.E.S.T., B.V. which owns all of the shares of MSTec, B.V.

The MSTec, B.V. joint venture was formed with TNO on February 1, 1999. The material terms of the licensing agreement are contained in Section 1 of the license and are summarized here.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth the number of and percentage of outstanding shares of common stock beneficially owned by the Company's officers, directors and those shareholders owning more than 5% of the Company's common stock as of

June 30, 2001.

| Name and Address | Shares of Common Stock (1) | Percent of Class |
|---|---|---|
| Marieke Oudejans<br>#68 Willem Van Weldamme LAAN<br>P.C. 1082 KW<br>Amsterdam, The Netherlands | 2,260,000 (2) | 29.44% |
| Maurice Schelvis<br>Stadhouderskade 142<br>1074 BA Amsterdam<br>The Netherlands | 2,010,000 (2) | 26.19% |
| Eugene M. Larabie<br>507-595 Howe St.<br>Vancouver, British Columbia<br>Canada V6C 2T5 | -- | -- |
| Robert E. Johnson<br>L1901-1600 Beach Avenue<br>Vancouver, British Columbia<br>Canada V6G 7Y6 | -- | -- |

All Officers and Directors 4,270,000 55.63%

as a Group (4 persons)

(1) Does not include shares issuable upon the exercise of options held by the certain officers. See "Management - Transactions with Affiliates".

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Item 5. Directors, Executive Officers, Promoters and Control Persons.

The following sets forth certain information concerning the present management of the Company:

| Name | Age | Position with Company |
|---|---|---|
| Marieke Oudejans | 30 | President, Secretary, Director (12/97 to 4/01) |
| Greg Schmick | 51 | President, Secretary, Director (began April 2000 through date of last amendment) |

Maurice Schelvis 59 Vice President (through date of last amendment)

Eugene M. Larabie 61 Vice President

Robert E. Johnson 65 Chief Financial Officer and Vice President of Operations

Greg Schmick has been president and Secretary the Company since April, 2001. Mr. Schmick has been a Director since February of 2000. Mr. Schmick has been previously engaged as a principal of International Soil Sciences, Inc., a Oregon corporation, engaged in the business of recycling since 1998. For the past 5 years, Mr. Schmick has been an independent contractor consulting for various recycling operations in the Pacific Northwest.

Marieke Oudejans has been was formerly an Officer and Director of the Company from January 1998 to April 2001. Since June 1997 Ms. Oudejans as been the President of M.E.S.T., B.V., a corporation which was acquired by the Company in April 1998 until April 2001. Until June 1997 Ms. Oudejans was an assistant vice president for ATT-Unisource, a Company engaged in telecommunications.

Maurice Schelvis has been an officer and director of the Company since July 1998. For the past five years Mr. Schelvis has been an officer and director of a real estate trading company in Amsterdam, The Netherlands.

Eugene M. Larabie has been an Officer of the Company since February 1998. Since 1984 Mr. Larable has been the president of Laroth Engineering Ltd., a corporation providing consulting services to the mining industry.

Robert E. Johnson has been an Officer of the Company since February 1998. Mr. Johnson has been retired since 1993. From 1975 to 1993 Mr. Johnson was manager of customer services for the British Columbia Hydro and Power Authority.

Technical Advisor Jan Pranger is a process engineering consultant with extensive experience in manufacturing and design and has served as a technical advisor since March 1999. Mr. Pranger obtained his masters degree in Chemical Engineering (with distinction) from the Dutch University of Delft. Before starting his studies he gained several years research experience with the Company Tebodin Consultants and Engineers in the Hague. After obtaining his degree in chemical engineering, Mr. Pranger became a member of the Royal Institute of Engineers (Kivl).

Item 6. Executive Compensation.

The following table sets forth in summary form the compensation received by (i) Marieke Oudejans, the Company's Former President, (ii) Maurice Schelvis, Eugene Larabie and Robert Johnson, the Company's Vice Presidents and (iii) Greg Schmick, the Company's current President and Secretary and (iv) by each other executive officer of the Company who received compensation during the fiscal years ending December 31, 1997, 1998, 1999, 2000 and the six-month period ending June 30, 2001.

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| Name and Principal Position | Fiscal Year | Salary (1) | Bonus (2) | Other Annual Compensation (3) | Restricted Stock Awards (4) | Options Granted (5) |
| --- | --- | --- | --- | --- | --- | --- |
| Marieke Oudejans, | 1997 | -- | -- | -- | -- | -- |
| President | 1998 | -- | -- | -- | -- | 100,000 |
| | 1999 | | | | | 100,000 |
| | 2000 | $87,602 | -- | -- | -- | 100,000 |
| | 2001 | $29,200 | -- | -- | -- | 100,000 |
| | 06/02 | -- | -- | -- | -- | 50,000 |
| Maurice Schelvis, | 1997 | -- | -- | -- | -- | -- |
| Vice President | 1998 | -- | -- | -- | -- | 100,000 |
| | 1999 | -- | -- | -- | -- | 100,000 |
| | 2000 | -- | -- | -- | -- | 100,000 |
| | 2001 | -- | -- | -- | -- | 100,000 |
| | 06/02 | -- | -- | -- | -- | 50,000 |
| Greg Schmick, | 1997 | -- | -- | -- | -- | -- |
| President/Secretary | 1998 | -- | -- | -- | -- | -- |
| | 1999 | -- | -- | -- | -- | -- |
| | 2000 | $16,000 | -- | -- | -- | -- |
| | 2001 | $24,000 | -- | -- | -- | -- |
| | 06/02 | $12,000 | -- | -- | -- | -- |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Eugene Larabie, | 1997 | -- | -- | -- | -- | -- | |
| Vice President | 1998 | -- | -- | -- | -- | 15,000 | |
| | 1999 | -- | -- | -- | -- | -- | |
| | 2000 | -- | -- | -- | -- | -- | |
| | 2001 | -- | -- | -- | -- | -- | |
| | 06/02 | -- | -- | -- | -- | -- | |
| Robert Johnson, | 1997 | -- | -- | -- | -- | -- | |
| Vice President | 1998 | -- | -- | -- | -- | 15,000 | |
| | 1999 | -- | -- | -- | -- | -- | |
| | 2000 | -- | -- | -- | -- | -- | |
| | 2001 | -- | -- | -- | -- | -- | |
| | 06/02 | -- | -- | -- | -- | -- | |

(1) The dollar value of base salary (cash and non-cash) received.

(2) The dollar value of bonus (cash and non-cash) received.

(3) Any other annual compensation not properly categorized as salary or bonus, including perquisites and other personal benefits, securities or property. Amounts in the table represents automobile allowances.

(4) Amounts reflect the value of the shares of the Company's common stock issued as compensation for services.

(5) The shares of Common Stock to be received upon the exercise of all stock options granted during the year fiscal years shown in the table.

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The table below shows the number of shares of the Company's Common Stock owned by the officers listed above, and the value of such shares as of June 30, 2001.

| Name | Shares | Value |
|---|---|---|
| Marieke Oudejans | 2,260,000 | 2,260,000 * |
| Maurice Schelvis | 2,010,000 | 2,010,000 * |

* The Company's common stock did not begin to trade on the pink sheets until July 1999. From July, 1999 until June 2001, there has not been sufficient trading history or consistent market from which to base an opinion regarding the value of such shares. Please refer to footnote 1 on page 17.

The following shows the amounts which the Company expects to pay to its officers and technical advisor during the year ending December 31, 2001 and the time which the Company's executive officers and technical advisor plan to devote to the Company's business. The Company does not have employment agreements with any of its officers or technical advisor.

| Name | Proposed Compensation | Time to be Devoted To Company's Business |
|---|---|---|
| Marieke Oudejans | (1) | 100% (to 4/01) |
| Greg Schmick | $16,000(4) | 100% (from 4/01) |
| Maurice Schelvis | (2) | 50% |
| Eugene Larabie | (3) | 5% |
| Robert E. Johnson | (3) | 5% |
| Jan Pranger | (5) | 0% |

(1) The Company previously planned to issue 1,100,000 shares of its common stock to Ms. Oudejans for services rendered to the Company to April, 2000. The decision to issue such stock has not yet been made by the Board of Directors. Ms. Oudejans was compensated at the rate of $87,602 per year beginning in 2000 which terminated with her employment in April 2001.

(2) Subsequent to September 30, 1999 the Company issued 100,000 shares of its common stock to Mr. Schelvis for services provided to the Company. The Company also plans to compensate Mr. Schelvis with options for the purchase of shares of the Company's common stock.

(3) The Company plans to issue shares of its common stock, as well as options,

to this person for services provided to the Company.

(4) Mr. Schmick's stock option package is yet to be determined.

(5) Mr. Pranger's services are not anticipated to be required until 2002.

The Company's Board of Directors may increase the compensation paid to the Company's officers depending upon the results of the Company's future operations.

As of June 30, 2002 the Company had granted options for the purchase of the Company's common stock to the following persons:

| Name | Shares Subject To Option | Option Exercise Price | Expiration Date |
|---|---|---|---|
| Marieke Oudejens | 100,000/yr | $0.50 | July 31, 2002 |
| Maurice Schelvis | 100,000/yr | $0.50 | February 2, 2002 |
| Eugene M. Larabie | 15,000 | $0.50 | July 31, 2000 |
| Robert E. Johnson | 15,000 | $0.50 | July 31, 2000 |
| Frank J. Janssen | 50,000 | $0.50 | July 31, 2003 |
| Afris Holding B.V. | 50,000 | $0.50 | July 31, 2003 |

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| Name | Shares | No. of Securities | Value of Unexercised In-The-Money |
|---|---|---|---|

| | Acquired on Exercise | Value Realized | Underlying Unexercised SARs and FY-end Exercisable and Unexercisable | Options/ options/ SARs at FY-end (dollars) Exercisable/ Unexercisable |
|---|---|---|---|---|
| Marieke Oudejans | 0 | 0 | 450,000/500,000 | see footnote 1 |
| Maurice Schelvis | 0 | 0 | 450,000/500,000 | see footnote 1 |
| Eugene M. Larabie | 0 | 0 | 15,000/15,000 | see footnote 1 |
| Robert E. Johnson | 0 | 0 | 15,000/15,000 | see footnote 1 |
| Frank J. Janssen | 0 | 0 | 50,000/50,000 | see footnote 1 |
| Afris Holdings BU | 0 | 0 | 50,000/50,000 | see footnote 1 |

(1) The Company is unable to place a value of exercisable or unexercisable options due to the lack of historical or current market activity. However, footnote 11 on the Notes to Consolidated Financial Statements represented compensation costs to operations as follows: 1998 - $865,938; 1999 - $717,900; 2000 - $767,900.

In the opinion of Management and based upon the transactional history of stock sales of Registrant as of June 30, 2002, the estimated fair value of the Company's common stock is $7,320,806 USD indicating a per share price of Approximately $1.00 USD. The share price derives from NASD Pink Sheet transactional history. The value of shareholdings held by the Company's principals has been revised to indicate values on page 15 of the Amended filing. The statement explaining why registrant believes the valuations are estimates only. The fair value of the unexercised in-the-money options as of June 30, 2002 has been revised by the inclusion of Management's estimate of option values.

Accounting standards which consider standards for recognition of stock in stock options for purposes of compensating directors, officers, employees or advisers, are found in Statement of Financial Accounting Standards number 123 (SFAS 123). In accordance with SFAS 123, the options and/or stock compensation given to the individuals mentioned in the last table of item 6 follows: Options granted to Marieke Oudejans and Maurice Schelvis were deemed compensation for services rendered for founders efforts, forbearance from collecting wages or salaries and for compensation for loans or monies advanced. Options to Messrs. Larabie and Johnson were compensation for more limited activities benefiting the Company. Afris Holdings, Inc. received stock options pursuant to a request by Richard Van Bremmell who acted as general manager in 1998-1999 as part of a salary compensation package. Larabie and Johnson were each given options for 15,000 shares as part of a salary compensation package.

Item 7. Certain Relationships and Related Transactions.

The Company has issued shares of its common stock to the persons, in the amounts, and for the consideration set forth below:

| Name | Date | Number of Shares | Consideration |
|---|---|---|---|
| Marieke Oudejans | 4/9/98 | 1,920,000 | All of the issued |

| | | | |
|---|---|---|---|
| | | | and out-standing shares of M.E.S.T., B.V. |
| Marieke Oudejans | 4-08-98 | 2,100,000 | $25 and founder's services |
| Maurice Schelvis | 3-10-98 | 250,000 | $25 and founder's services |

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An accounting of the loans made by the Company's principals, Marieke Oudejans and Maurice Schelvis, appear in four related party transactions and Note 12 "Subsequent Events" which are attached to the consolidated financial statements for years ending December 31, 1998, 1999, and 2000. The loans, forgiveness of debt and reconciliation occurred May 15, 2001 and explanations have been made as a part of the audited accounting.

In March 1999 Marieke Oudejans transferred 1,760,000 of her shares of the Company's common stock to Maurice Schelvis in a private transaction. See Securities Ownership of Certain Beneficial Owners, above.

M.E.S.T., B.V. had issued previously 2,000 shares of its common stock to Marieke Oudejans which represented all of the issued and outstanding stock of M.E.S.T., B.V. At the time of the April 9, 1998 transaction, no attempt was made by M.E.S.T., B.V. to obtain an independent business appraisal or accounting opinion regarding the value of M.E.S.T., B.V. M.E.S.T., B.V.'s assets consisted of rights and duties it procured by virtue of the Licensing Agreement between TNO, MSTec, B.V. and M.E.S.T., B.V. with its attendant rights, duties and liabilities. The value of the proprietary dewatering system was not the subject of an independent business valuation or independent audit. Consequently, there were no representations made to shareholders, officers or directors of the Company in regards to the sale/acquisition of M.E.S.T., B.V. shares.

Item 8. Description of Securities.

Common Stock

The Company is authorized to issue 30,000,000 shares of Common Stock (the "Common Stock"). As of June 30, 2001 the Company had 7,320,055 shares of Common Stock issued and outstanding. Holders of Common Stock are each entitled to cast one vote for each share held of record on all matters presented to shareholders. Cumulative voting is not allowed; hence, the holders of a majority of the outstanding Common Stock can elect all directors.

Holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor and, in the event of liquidation, to share pro rata in any distribution of the Company's assets after payment of liabilities. The Board of Directors is not obligated to declare a dividend and it is not anticipated that dividends will be paid until the Company is in profit.

Holders of Common Stock do not have preemptive rights to subscribe to additional shares if issued by the Company. There are no conversion, redemption, sinking fund or similar provisions regarding the Common Stock. All of the outstanding shares of Common Stock are fully paid and non-assessable and all of the shares of Common stock offered hereby will be, upon issuance, fully paid and non-assessable.

The stock of the Company MEST Corp is considered a penny stock which has numerous trading restrictions by virtue of the Securities and Exchange Act of 1934. Please refer to Rule 15g-1 through 15g-9 (17 CFR 240.15 g-1 through 17 CFR 240.15 g-9). 17 CFR 240.15g-2 makes it unlawful for a broker or dealer to effect a penny stock transaction for or with the account of a customer unless he or she has furnished to the customer a document which contains the warnings and precautionary disclosures regarding the penny stock market contained in 17 CFR 240.15g-100, 15g, and a manually signed acknowledgment of receipt of these documents. Schedule 15g contains important information regarding penny stocks which include disclosures regarding the risk of investing in penny stocks, the financial remuneration of the sales person in regards to the stock purchased,

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rights to seek outside advice before buying any stock and rights with respect to redress through compliance officer for any problems which may have arisen regarding sales persons. Schedule 15g cautions investors regarding information which investors should obtain, offering price, selling prices and compensation charged by the selling and purchasing dealers. Potential investors are also cautioned regarding brokers' duties and customers' rights and remedies which include contact information for the NASD, NASAA and the SEC. Schedule 15g also informs investors regarding the role of the Securities and Exchange Commission with respect to the issuance or approval of such shares and provides further cautions regarding the timeliness of investment decisions, information concerning the company issuing the stock, risk of penny stock securities and the market and the credibility and reliability of the brokerage firm who is purveying the stock.

Rule 15g-3, 17 CFR 240.15g-3 requires a broker or dealer to reveal to prospective purchasers inside bid or offer quotations if such are available. Under certain circumstances the dealer is required to disclose its offer price for the security under conditions set forth in Rule 15g-3(a)(i)(A) and (C). Rule 15g-4 requires the broker or dealer to reveal the aggregate amount of any compensation received in connection with a transaction of penny stock and keep records regarding such disclosures. Rule 15g-5 requires a broker or dealer to reveal to its customer the aggregate amount of any cash compensation received as a part of a transaction and keep records of the same. Rule 15g-6 requires brokers and dealers to send a customer a written statement containing the information concerning price determinations and market and price information in accordance with Rule 15g-6(c)(d). Rule 15g-8 prohibits any person from selling or offering securities deposited and held in escrow or trust account pursuant to rule 419 under Securities Act of 1933 with certain exceptions. Rule 15g-9 restricts broker/dealers from selling any penny stocks to customers unless the transaction is exempt or the broker/dealer before the transaction has approved the person's account transactions involving penny stocks pursuant to Rule 15g-9(b) and the broker or dealer has received a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

The foregoing description is intended only as a summary of the restrictions on broker/dealers with respect to the promotion and sale of penny stock transactions. The two fold effect of compliance with all of the broker dealer regulations set forth above allows prospective purchasers to have valuable information regarding the financial motivations of the broker dealer purveying penny stock and restricts broker dealers with respect to the financial qualifications and informational requirements distributable to persons contemplating the acquisition of the company's shares. A copy of Rule 15g, read it carefully and consult with counsel if necessary.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock. The Company's Articles of Incorporation provide that the Board of Directors has the authority to divide the Preferred Stock into series and, within the limitations provided by Delaware statute, to fix by resolution the voting power, designations, preferences, and relative participation, special rights, and the qualifications, limitations or restrictions of the shares of any series so established. As the Board of Directors has authority to establish the terms of, and to issue, the Preferred Stock without shareholder approval, the Preferred Stock could be issued to defend against any attempted takeover of the Company.

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The Company's directors ratified Company activities to established the Company's Series A Preferred Stock and authorized the issuance of up to 1,000,000 shares of Series A Preferred Stock as part of this series. Each share of Series A Preferred Stock is entitled to a dividend at the rate of $0.30 per share when, as and if declared by the Board of Directors out of funds legally available for the payment of dividends. Dividends not declared by the Board of Directors do not cumulate. Upon any liquidation or dissolution of the Company, each outstanding share of the Series A Preferred Stock is entitled to distribution of $4.00 per share prior to any distribution to the holders of the Company's Common Stock. The holders of the Series A Preferred Stock are not entitled to any voting rights. Each share of the Series A Preferred Stock is convertible into one share of the Company's Common Stock at any time after June 1, 1999. Effective February 1, 2000 each Series A Preferred Share which is still outstanding will automatically be converted into one share of the Company's common stock.

As of June 30, 2002 the Company has sold 535,985 Series A Preferred Shares at an average price of $4.01 per share (after currency translation adjustments). The Company is currently converting all Series A Preferred Shares into Common Shares.

# PART II

Item 1. Market Price of and Dividends on the Company's Common Equity and Other Shareholder Matters.

As of June 30, 2001 there were 169 record owners of the Company's common stock and 141 record owners of the Company's Series A preferred stock. The Company's common stock is traded in the over-the-counter market. Set forth below are the range of high and low bid quotations for the periods indicated as reported by National Quotation Bureau. The market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions. The Company's common stock began trading in July 1999. There is no public market for the Company's Series A Preferred Stock.

| Quarter Ending | High | Low |
|---|---|---|
| September 30, 1999 | $ 4.50 | $4.43 |
| December 31, 1999 | -- | -- |
| March 31, 2000 | 4.00 | 2.00 |
| June 30, 2000 | -- | -- |
| September 30, 2000 | -- | -- |
| December 31, 2001 | 1.00 | 0.12 |
| March 31, 2001 | 1.04 | 0.98 |
| June 30, 2001 | -- | -- |

Holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor and, in the event of liquidation, to share pro rata in any distribution of the Company's assets after payment of liabilities. The Board of Directors is not obligated to declare a dividend. The Company has not paid any dividends on it's Common Stock and the Company does not have any current plans to pay any Common Stock dividends.

The provisions in the Company's Articles of Incorporation relating to the Company's Preferred Stock would allow the Company's directors to issue Preferred Stock with rights to multiple votes per share and dividends rights which would have priority over any dividends paid with respect to the Company's Common Stock. The issuance of Preferred Stock with such rights may make more difficult

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the removal of management even if such removal would be considered beneficial to shareholders generally, and will have the effect of limiting shareholder participation in certain transactions such as mergers or tender offers if such transactions are not favored by incumbent management.

Item 2. Legal Proceedings.

The company has been made aware of an inquiry from the COB Bourse Authority (Securities Regulators in France) published in the September 22, 1999 Extel Examiner (France). No communication regarding a complaint or claim has been made to the Company. The COB Bourse Authority will not share any information regarding the complaint or status of any investigation.

Item 3. Changes in and Disagreements with Accountants.

The Company changed Auditors from Arenthals En Partners (a Netherlands Accounting Firm) to Williams & Webster PS, Certified Public Accountants. To the extent the Consolidated Financial Statements for calendar years 1998, 1999 and 2000, together with the Quarterly Consolidated Financial Statements for quarters ending March 31, June 30 and September 30, 2000 and March 31 and June 30, 2001 differ from the Statements provided by Arenthals En Partners, Management disagrees with the Financial Statements provided by Arenthals En Partners.

Item 4. Recent Sales of Unregistered Securities.

| Shares outstanding | Common Stock |
|---|---|
| 1. On December 11, 1997 the Company sold 5,000,000 shares of common stock for $5,000 in cash. | 5,000,000 |

Please refer to the narrative contained in Item 1 "Description of Business". The December 11, 1997 transaction whereby Solutions Tek, Inc. sold 5,000,000 shares of common stock to Bona Vista Holdings, Inc. privately in an isolated transaction involving an accredited investor with no public solicitation Securities Act of 1933 Section 4 (6). Bona Vista Holdings, Inc. is an entity in which all of the shareholders (Martin Apps) were accredited investors by virtue of his status as director and executive. See 17 CFR 233.501(a) (4) and (8). Rule 502(b)(1) makes no mandatory disclosure of information to an accredited investor under Rule 505 or 506 exemptions. Rule 505 is available to the Solutions Tek, Inc. sale of 5,000,000 shares by virtue of the accredited status afforded to Bona Vista Holdings and its shareholder who was the director and executive officer and the fact that the aggregate amount of sales did not exceed $5,000,000.00. Rule 505 does not contain the exceptions listed under Rule 504 (a) (1), (2) and (3) which precludes the use of Rule 504 for "development stage company that either has no specific business plan or purpose". Note, these shares were subject to the reverse stock split described in number 3 below.

2. On December 26, 1997 the Company issued 175,456 shares 5,175,456
of its common stock in a share-for-share exchange
with the Series "L" shareholders of STB Corp.

The Company avails itself of the "exempted transaction" status of the Company's issuance of 175,456 common shares in a cashless, share for share exchange with the holders of Series L common shares of STB Corp. Section 4 of the Securities and Exchange Act of 1933 expressly provides that the registration requirements of the 1933 Act under Section 5 do not apply to transactions by an issuer NOT involving any public offering. The exchange involved no consideration other than stock. The Series L, STB shareholders had the opportunity to vote at the special meeting of shareholders, January 8, 1998. No single dissent vote was made. Aside from the Notice to Shareholders of special meeting, no general advertisement or solicitation was made by the Company to the public. Note, these shares were subject to the reverse stock split described in number 3 below.

| | |
|---|---|
| 3. On March 2, 1998 shareholders owning in excess of 50% of the Company's common stock approved a 1,000-for-1 reverse split of the Company's common stock. | 5,175 |
| 4. On April 9, 1998 the Company sold 5,094,900 shares of common stock for $510. | 5,100,075 |
| 5. On April 9, 1998 the Company issued 1,920,000 shares of its common stock in consideration for all issued and outstanding shares of M.E.S.T., B.V., a Netherlands corporation. | 7,020,075 |
| 6. Between June 8, 1998 and October 9, 1998 the Company sold 299,980 shares of its common stock for $3.00 per share. | 7,320,055 |

Between June 8, 1998 and October 9, 1998, the Company sold 299,980 common shares pursuant to an exemption under 17 CFR 230:504 (Regulation D 504 of the Securities and Exchange act of 1933) and Regulation S. The Company directly solicited investors at $3.00 USD per share. The Company received and accepted 146 subscriptions and raised a total of $899,940.00 which was reported to the

SEC on the standardized Regulation D Report Form. All of the shareholders who purchased common stock were solicited offshore as that term is defined and utilized under Regulation S (17 CFR 233:902). There was no direct or indirect selling effort made in the United States by the Company, a Company affiliate or an agent representing the Company or affiliate. The offering amount qualified it for an exemption from registration pursuant to Regulation D, Rule 504 of the 1933 Act.

| Shares outstanding | Preferred Stock |
| --- | --- |
| 1. From December 7, 1998 to June 30, 2000 the Company sold 535,985 preferred shares and raised a total of $2,147,185. | 535,985 |

Between December 7, 1998 and June 30, 2000, the Company sold 535,985 preferred shares pursuant to an exemption under 17 CFR 230:903 (Regulation S). The Company directly solicited foreign investors at $4.01 USD per share. The Company received and accepted 141 subscriptions and raised a total of $2,147,185. All of the shareholders who purchased preferred stock were solicited offshore as that term is defined and utilized under Regulation S (17 CFR 233:902). There were no direct selling efforts made in the United States by the Company, a Company affiliate or an agent representing the Company or affiliate.

The sale of the Company's Series A preferred stock was exempt pursuant to the provisions of Regulation S of the Securities and Exchange Commission. No offering or sale of the Series A preferred stock was made to any U.S. person. The Series A preferred stock and the shares issuable upon the conversion of Series A preferred stock are restricted securities as that term is defined in Rule 144 of the Securities and Exchange Commission. Neither the Series A preferred shares or any shares issuable upon the conversion of the Series A preferred shares can be sold or transferred to any U.S. person, unless registered for public resale, prior to the end of the restricted period required by Regulation S.

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Item 5. Indemnification of Directors and Officers.

The Delaware General Corporation Law and the Company's Bylaws provide that the Company may indemnify any and all of its officers, directors, employees or agents or former officers, directors, employees or agents, against expenses actually and necessarily incurred by them, in connection with the defense of any legal proceeding or threatened legal proceeding, except as to matters in which such persons shall be determined not to have acted in good faith and in the best interest of the Company. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

PART F/S

MANAGEMENT OF ENVIRONMENTAL

SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

WILLIAMS & WEBSTER PS

CERTIFIED PUBLIC ACCOUNTANTS

BANK OF AMERICA FINANCIAL CENTER

601 W. RIVERSIDE, SUITE 1940

SPOKANE, WA 99201

(509) 838-5111

MANAGEMENT OF ENVIRONMENTAL

SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

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Board of Directors

Management of Environmental Solutions & Technology Corp.

APELDOORN,

The Netherlands

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated balance sheets of Management of Environmental Solutions & Technology Corp. (a development stage company) as of December 31, 2000, 1999, and 1998 and the related consolidated statements of operations and comprehensive income (LOSS), stockholders' equity, and cash flows for the years then ended and for the period from December 10, 1997 (inception) to December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Management of Environmental Solutions & Technology Corp. at December 31, 2000, 1999, and 1998, and the results of its consolidated statements of operations and comprehensive income (loss), cash flows, and stockholders' equity for the years ended December 31, 2000, 1999, and 1998, and for the period from December 10, 1997 (inception) to December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company has been in the development stage since its inception on December 10, 1997 and has had recurring losses and no revenues. The Company's decision is to perfect its technological application before entering the market. Realization of a major portion of the assets is dependent upon the Company's ability to meet its future financing requirements, and the success of future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Williams & Webster, P.S.

Williams & Webster, P.S.

Certified Public Accountants

Spokane, Washington

June 1, 2001 EXCEPT FOR NOTES 1, 2, 5, 7 AND 10 AS TO WHICH THE DATE IS AUGUST 30, 2002

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORPORATION

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

<TABLE>

| <S> | December 31, 2000 <C> | December 31, 1999 <C> | December 31, 1998 <C> |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | $ 666,746 | $ 646,274 | $ 728,870 |
| Tax refunds receivable | 44,157 | 33,582 | 37,248 |
| Receivables, related parties | 158,441 | 933,303 | - |
| Other receivables | - | 2,247 | 5,288 |
| Prepaid expenses | 19,274 | 15,936 | 3,703 |
| Total Current Assets | 888,618 | 1,631,342 | 775,109 |

| | | | |
|---|---|---|---|
| OTHER ASSETS | | | |
| Property and equipment | | | |
| (net of depreciation) | 7,182 | 11,359 | 3,356 |
| | ------------- | ------------- | ------------- |
| Total Other Assets | 7,182 | 11,359 | 3,356 |
| | ------------- | ------------- | ------------- |
| TOTAL ASSETS | $ 895,800 | $ 1,642,701 | $ 778,465 |
| | ============= | ============= | ============= |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Loans from related parties | $ 109,090 | $ 119,480 | $ 99,996 |
| Accrued expenses | 12,738 | - | 9,060 |
| Accounts payable | 63,048 | 544,171 | 66,762 |
| Other liabilities | - | - | 31,775 |
| | ------------- | ------------- | ------------- |
| Total Current Liabilities | 184,876 | 663,651 | 207,593 |
| | ------------- | ------------- | ------------- |
| STOCKHOLDERS' EQUITY | | | |
| Preferred stock, $0.0001 par value | | | |
| - authorized 5,000,000 shares | | | |
| Series A preferred shares | | | |
| issued and outstanding at end | | | |
| of year, respectively, 535,985, | | | |
| 427,485, and 23,900 | 53 | 42 | 2 |
| Common stock, $0.0001 par | | | |
| value - authorized 30,000,000 | | | |

| | | | |
|---|---|---|---|
| shares; 7,320,055 shares | | | |
| issued and outstanding | 732 | 732 | 732 |
| Additional paid-in capital | 3,149,176 | 2,615,517 | 1,014,149 |
| Stock options | 2,274,650 | 1,583,838 | 865,938 |
| Deficit accumulated during | | | |
| the development stage | (4,530,690) | (3,135,375) | (1,325,233) |
| Accumulated other comprehensive | | | |
| income (loss) | (182,997) | (85,704) | 15,284 |
| | -------------- | -------------- | -------------- |
| Total Stockholders' Equity | 710,924 | 979,050 | 570,872 |
| | -------------- | -------------- | -------------- |
| TOTAL LIABILITIES AND | | | |
| STOCKHOLDERS' EQUITY | $ 895,800 | $ 1,642,701 | $ 778,465 |
| | ============== | ============== | ============== |

</TABLE>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORPORATION

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

<table>

From Inception

(December 10,

For the Years Ended December 31, 1997)

| | | | | to December 31, |
|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 |
| <s> | <c> | <c> | <c> | <c> |
| REVENUES | $ - | $ - | $ - | $ - |
| OPERATING EXPENSES | | | | |
| General and administrative | 1,054,970 | 902,187 | 1,277,226 | 3,281,252 |
| Research and development | 63,782 | 471,595 | - | 535,377 |
| Depreciation | 4,177 | 2,189 | 345 | 6,711 |
| Total Operating Expenses | 1,122,929 | 1,375,971 | 1,277,571 | 3,823,340 |
| LOSS FROM OPERATIONS | (1,122,929) | (1,375,971) | (1,277,571) | (3,823,340) |
| OTHER INCOME (EXPENSES) | | | | |
| Interest income | 75,446 | 34,037 | - | 109,483 |
| Interest expense | - | - | (793) | (793) |
| Total Other Income (Expenses) | 75,446 | 34,037 | (793) | 108,690 |
| LOSS BEFORE INCOME TAXES | (1,047,483) | (1,341,934) | (1,278,364) | (3,714,650) |
| INCOME TAXES | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| NET LOSS AFTER TAXES | (1,047,483) | (1,341,934) | (1,278,364) | (3,714,650) |
| LOSS FROM JOINT VENTURE | (347,832) | (468,208) | - | (816,040) |
| NET LOSS | (1,395,315) | (1,810,142) | (1,278,364) | (4,530,690) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign currency translation gain (loss) | (97,293) | (100,988) | 15,284 | (182,997) |
| COMPREHENSIVE (LOSS) | $ (1,492,608) | $ (1,911,130) | $ (1,263,080) | $ (4,713,687) |
| LOSS PER COMMON SHARE, BASIC AND DILUTED | $ (0.20) | $ (0.26) | $ (0.22) | $ (0.68) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 7,320,055 | 7,320,055 | 5,825,885 | 6,902,688 |

</table>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORPORATION

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| <s> | Preferred Stock Number of Shares <c> | Preferred Stock Amount <c> | Common Stock Number of Shares <c> | Common Stock Amount <c> | Additional Paid-in Capital <c> | Stock Options <c> | Accumulated Deficit During Development Stage <c> | Accumulated Other Comprehensive Income (Loss) <c> | Total Stockholders' Equity <c> |
|---|---|---|---|---|---|---|---|---|---|
| Inception, Dec. 10, 1997 | - | $ - | - | $ - | $ - | $ - | $ - | $ - | $ - |
| Issuance of common stock for cash on Dec. 11, 1007 for $1.00 per share | - | - | 5,000 | 1 | 5,009 | - | - | - | 5,010 |
| Issuance of common | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| stock to acquire STB corp. on Dec. 26, 1997 at $1.00 per share | - | - | 175 | - | 175 | - | - | - | 175 |
| Net loss for year ended Dec. 31, 1997 | - | - | - | - | - | - | (46,869) | - | (46,869) |
| Balance, Dec. 31, 1997 | - | - | 5,175 | 1 | 5,184 | - | (46,869) | - | (41,684) |
| Issuance of common stock as follows: | | | | | | | | | |
| For cash on March 10, 1998 at $.017 per share | - | - | 5,394,880 | 539 | 899,911 | - | - | - | 900,450 |
| To acquire subsidiary on April 9, 1998 at $0.01 per share | - | - | 1,920,000 | 192 | 19,808 | - | - | - | 20,000 |
| Issuance of preferred stock for cash: December 1998 at $3.73 per share | 23,900 | 2 | - | - | 89,246 | - | - | - | 89,248 |
| Issuance of stock | | | | | | | | | |

options for

compensation on

Aug. 31, 1998 at

$2.62 per option - - - - - 865,938 - - 865,938

Net loss for year

ended Dec. 31, 1998 - - - - - - (1,263,080) 15,284 (1,278,364)

------------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- -------------

Balance,

Dec. 31, 1998 23,900 2 7,320,055 732 1,014,149 865,938 (1,325,233) 15,284 570,872

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</table>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

Accumulated Accumulated

Preferred Stock Common Stock Deficit Other

| | | | | | Additional | | During | Comprehensive | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Number of | | Number of | | Paid-in | Stock | Development | Income | Stockholders' |
| | Shares | Amount | Shares | Amount | Capital | Options | Stage | (Loss) | Equity |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 1998 | 23,900 | 2 | 7,320,055 | 732 | 1,014,149 | 865,938 | (1,325,233) | 15,284 | 570,872 |
| Issuance of | | | | | | | | | |
| preferred stock | | | | | | | | | |
| for cash: | | | | | | | | | |
| Jan. 1999 at | | | | | | | | | |
| $3.92 per share | 23,350 | 2 | - | - | 91,644 | - | - | - | 91,646 |
| Feb. 1999 at | | | | | | | | | |
| $3.96 per share | 48,050 | 4 | - | - | 190,196 | - | - | - | 190,200 |
| Mar. 1999 at | | | | | | | | | |
| $3.90 per share | 10,300 | 1 | - | - | 40,199 | - | - | - | 40,200 |
| April 1999 at | | | | | | | | | |
| $4.00 per share | 11,300 | 1 | - | - | 45,199 | - | - | - | 45,200 |
| May 1999 at | | | | | | | | | |
| $3.85 per share | 12,640 | 1 | - | - | 48,684 | - | - | - | 48,685 |
| June 1999 at | | | | | | | | | |
| $4.01 per share | 82,900 | 8 | - | - | 332,237 | - | - | - | 332,245 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| July 1999 at | | | | | | | | | |
| $4.00 per share | 88,700 | 9 | - | - | 354,941 | - | - | - | 354,950 |
| Aug. 1999 at | | | | | | | | | |
| $4.02 per share | 25,770 | 3 | - | - | 103,494 | - | - | - | 103,497 |
| Sept. 1999 at | | | | | | | | | |
| $3.43 per share | 26,500 | 3 | - | - | 90,997 | - | - | - | 91,000 |
| Oct. 1999 at | | | | | | | | | |
| $4.22 per share | 6,200 | 1 | - | - | 26,174 | - | - | - | 26,175 |
| Nov. 1999 at | | | | | | | | | |
| $4.05 per share | 40,725 | 4 | - | - | 165,086 | - | - | - | 165,090 |
| Dec. 1999 at | | | | | | | | | |
| $4.14 per share | 27,150 | 3 | - | - | 112,517 | - | - | - | 112,520 |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Total preferred | | | | | | | | | |
| stock issued 1999 | 403,585 | 40 | - | - | 1,601,368 | - | - | - | 1,601,408 |
| Issuance of stock | | | | | | | | | |
| options for | | | | | | | | | |
| compensation on | | | | | | | | | |
| Aug. 31, 1999 at | | | | | | | | | |
| $3.59 per share | - | - | - | - | - | 717,900 | - | - | 717,900 |
| Net loss for year | | | | | | | | | |
| ended Dec. 31, 1999 | - | - | - | - | - | - | (1,810,142) | (100,988) | (1,911,130) |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Balance, | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dec. 31, 1999 | 427,485 | 42 | 7,320,055 | 732 | 2,615,517 | 1,583,838 | (3,135,375) | (85,704) | 979,050 |

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</table>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | Common Stock | | Additional | | Accumulated Deficit During | Accumulated Other Comprehensive | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Capital | Stock Options | Development Stage | Income (Loss) | Stockholders' Equity |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dec. 31, 1999 | 427,485 | 42 | 7,320,055 | 732 | 2,615,517 | 1,583,838 | (3,135,375) | (85,704) | 979,050 |
| Issuance of preferred stock for cash: Jan. 2000 at $4.08 per share | 8,300 | 1 | - | - | 33,891 | - | - | - | 33,892 |
| Feb. 2000 at $4.34 per share | 23,750 | 2 | - | - | 103,054 | - | - | - | 103,056 |
| Mar. 2000 at $4.37 per share | 4,500 | 1 | - | - | 19,645 | - | - | - | 19,646 |
| April 2000 at $4.16 per share | 61,700 | 5 | - | - | 256,425 | - | - | - | 256,430 |
| May 2000 at $4.30 per share | 5,250 | 1 | - | - | 22,598 | - | - | - | 22,599 |
| June 2000 at $4.19 per share | 5,000 | 1 | - | - | 20,958 | - | - | - | 20,959 |
| Total preferred stock issued: 2000 | 108,500 | 11 | - | - | 456,571 | - | - | - | 456,582 |
| Issuance of stock options for compensation on Aug. 31, 2000 at $3.84 per share | - | - | - | - | - | 767,900 | - | - | 767,900 |

Expiration of

stock options on

July 31, 2000 - - - - 77,088 (77,088) - - -

Net loss,

Dec. 31, 2000 - - - - - - (1,395,315) (97,293) (1,492,608)

-------------- -------------- -------------- -------------- -------------- -------------- -------------- -------------- --------------

Balance,

Dec. 31, 2000 535,985 $ 53 7,320,055 $ 732 $ 3,149,176 $ 2,274,650 $ (4,530,690) $ (182,997) $ 710,924

============== ============== ============== ============== ============== ============== ============== ============== ==============

</table>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORPORATION

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

<table>

| | For the Years Ended December 31, 2000 | 1999 | 1998 | From Inception (December 10, 1997) to December 31, 2000 |
|---|---|---|---|---|
| <s> | <c> | <c> | <c> | <c> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net loss | $ (1,395,315) | $ (1,810,142) | $ (1,278,364) | $ (4,530,690) |
| Foreign currency translation gain or (loss) | (97,293) | (100,988) | 15,284 | (182,997) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation | 4,177 | 2,189 | 345 | 6,711 |
| (Increase) decrease in assets: | | | | |
| Accounts receivable | (10,575) | 3,666 | (37,248) | (44,157) |
| Other receivables | 2,247 | 3,041 | (5,288) | - |
| Prepaid expenses | (3,338) | (12,233) | (3,703) | (19,274) |
| Options granted as | | | | |

| | | | | |
|---|---|---|---|---|
| Compensation | 767,900 | 717,900 | 865,938 | 2,351,738 |
| Increase (decrease) in liabilities: | | | | |
| Accrued liabilities | 12,738 | (9,060) | 9,060 | 12,738 |
| Accounts payable | (481,123) | 477,409 | 66,762 | 57,863 |
| Loans from related parties | (10,390) | 19,484 | 53,127 | 62,221 |
| Other liabilities | - | (31,775) | 31,775 | 46,869 |
| | ------------- | ------------- | ------------- | --------------- |
| Net cash used in operating activities | (1,210,972) | (740,509) | (282,312) | (2,238,978) |
| | ------------- | ------------- | ------------- | --------------- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchase of property and equipment | - | (10,192) | (3,701) | (13,893) |
| Investment in loans receivable | 774,862 | (933,303) | - | (158,441) |
| | ------------- | ------------- | ------------- | --------------- |
| Net cash provided by (used in) investing activities | 774,862 | (943,495) | (3,701) | (172,334) |
| | ------------- | ------------- | ------------- | --------------- |

</table>

The accompanying notes are an integral part of these consolidated financial

statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORPORATION

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

<table>

| | For the Years Ended December 31, | | | From Inception (December 10, 1997) to December 31, |
|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 |
| <s> | <c> | <c> | <c> | <c> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from sales of common stock | - | - | 900,450 | 905,635 |

| | | | | |
|---|---|---|---|---|
| Proceeds from sales of | | | | |
| preferred stock | 456,582 | 1,601,408 | 89,248 | 2,147,238 |
| Acquisition of subsidiary, | | | | |
| M.E.S.T., B.V. | - | - | 20,000 | 20,000 |
| | ------------- | ------------- | ------------- | --------------- |
| Net cash provided by | | | | |
| financing activities | 456,582 | 1,601,408 | 1,009,698 | 3,072,873 |
| | ------------- | ------------- | ------------- | --------------- |
| Net increase (decrease) in | | | | |
| cash | 20,472 | (82,596) | 723,685 | 661,561 |
| Cash at beginning of year | 646,089 | 728,685 | 5,000 | 5,000 |
| | ------------- | ------------- | ------------- | --------------- |
| Cash at end of year | $ 666,561 | $ 646,089 | $ 728,685 | $ 666,561 |
| | ============= | ============= | ============= | =============== |
| SUPPLEMENTAL ITEMS: | | | | |
| Interest paid | $ - | $ - | $ 793 | $ 793 |
| Income taxes paid | - | - | - | - |
| | ------------- | ------------- | ------------- | --------------- |
| | $ - | $ - | $ 793 | $ 793 |
| | ============= | ============= | ============= | =============== |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| NON-CASH INVESTING & | | | | | | | | |
| FINANCING ACTIVITIES: | | | | | | | | |
| Stock options granted | | | | | | | | |
| for compensation | $ | 767,900 | $ | 717,900 | $ | 865,938 | $ | 2,351,738 |
| Stock issued for | | | | | | | | |
| Acquisitions | $ | - | $ | - | $ | 20,000 | $ | 20,175 |

</table>

The accompanying notes are an integral part of these consolidated financial statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 1 - ORGANIZATION AND HISTORY

Management of Environmental Solutions & Technology Corp. was formed to develop a proprietary technology for drying and treating animal manure and sludge to be used as fertilizer. The "Company" ("MEST") was incorporated in Colorado on December 10, 1997, followed by reorganization as a Delaware corporation on December 18, 1997.

On December 26, 1997, the Company obtained all of the outstanding common stock of STB corporation, a shell corporation domiciled in Colorado, by issuing 175 shares of the company's common stock. Because STB corporation had no assets or operations, the company recorded the transaction at the initial deemed valued of the stock conveyed ($175), which was consistent with the deemed value of the Company's stock issued in its immediately precedent initial transaction. In the year subsequent to the acquisition, STB corporation was administratively dissolved.

On April 9, 1998, the Company issued 1,920,000 shares of its common stock to its president in exchange for all of the issued and outstanding shares of MEST, B.V., a Netherlands corporation, owned by the Company's president. Although MEST, B.V. had no recorded assets at the time of the transaction, the Company recorded the acquisition at a nominal value of $0.01 per share. The aggregate acquisition cost of $20,000, originally assigned to intangible assets, was substantially written off by the end of 1998. Currently, MEST, B.V. is used to conduct the company's business in the netherlands. MEST, B.V. was acquired because it had certain data and technical information that the company plans to use in its business.

The Netherlands Organization for Applied Scientific Research ("TNO"), staffed by 5,000 professionals is one of Europe's leading contract research organizations. Using proprietary technology developed by TNO, the Company and TNO formed a corporation known as Manure and Sludge Technology, B.V. ("MSTec") for the purpose of developing a process for use on a commercial basis that would economically refine manure and sludge into pellets, which could be sold as organic fertilizer and other products. MSTec, a Netherlands corporation, is owned 50 percent by the Company and 50 percent by TNO.

The Company's year end is December 31.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Method

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Development Stage Activities

The Company has been in the development stage since its formation in December of 1997, and has not yet realized any revenues from its planned operations. It is engaged in the business of manufacturing, distributing, and selling fertilizer products.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents

Fair Value of Financial Instruments

MEST's financial instruments consist primarily of cash, receivables, prepaid expenses, accrued expenses and payables, and loans payable, which approximate fair value because of their short maturities.

Research And Development

Research and development expenses are charged to operations as incurred. The cost of intellectual property purchased from others that is immediately marketable or that has an alternative future use is capitalized as intangible assets. The Company periodically reviews its capitalized patent costs to assess recoverability based on the projected undiscounted cash flows from operations. Impairments are recognized in operating results when a permanent diminution in value occurs.

The Company constructed a testing facility during 1999 in Apeldoorn, the Netherlands at a cost of approximately $450,000. These costs were expensed as research and development during the year ended December 31, 1999.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which is effective for the Company as of January 1, 2001. This standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

From November 1, 1999 to February 17, 2000, the Company entered into a small number of foreign currency purchases for cash management purposes. The results of these short-term transactions, which generated an aggregate loss of $7,124 in 1999 and an aggregate gain of $4,262 in 2000, are included in Other Comprehensive Income (Loss) as an element of foreign currency translation earnings. The Company engaged in no similar foreign currency purchases either prior to or subsequent to the aforementioned time frame.

Compensated Absences

Currently, the Company has no employees; therefore, no policy regarding compensated absences has been established. The Company will establish a policy to recognize the costs of compensated absences at the point in time that it has employees.

Advertising Expenses

Advertising expenses consist primarily of costs incurred in the design, development, and printing of company literature and marketing materials. The Company expenses all advertising expenditures as incurred.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to SFAS No. 109 "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for Taxes (continued)

At December 31, 2000, the Company had net deferred tax assets of approximately $430,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at December 31, 2000.

At December 31, 2000, the Company has net operating loss carryforwards of approximately $2,170,000, which expire in the years 2017 through 2020. The Company recognized approximately $2,300,000 of losses for the issuance of common stock options for services, which are not deductible for tax purposes, and are not included in the above calculation of deferred tax asset.

Loss Per share

Basic loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the year. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time they were outstanding. Outstanding options and convertible preferred stock were not included in the computation of diluted loss per share because the exercise price of the outstanding options is higher than the market price of the stock, thereby causing the options to be antidilutive.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has an accumulated deficit of $4,530,690 for the period December 10, 1997 (inception) to December 31, 2000 and has had no sales. The future of the Company is dependent upon successful and profitable operations from manufacturing, distributing, and selling its fertilizer products. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Management has established plans designed to promote the sales of the Company's product. Management intends to seek additional capital from new equity securities offerings that will provide funds needed to increase liquidity, fund internal growth and fully implement its business plan.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the accounts of MEST and its wholly owned subsidiary, MEST, B.V. All material intercompany transactions and balances have been eliminated. Manure and Sludge Technology, B.V. ("MSTec"), a 50 percent owned corporation is reflected in the financial statements on the equity method of accounting, and not included in the financial statements as an entity subject to consolidation.

Accounting for Stock Options Granted to Employees and Nonemployees

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" ("SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated bair value of the award and recognizes that cost over the service period.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130), which was issued in June 1997. SFAS 130 establishes rules for the reporting and display of comprehensive income and its components. The effect of the adoption of SFAS 130 is reflected in the accompanying financial statements and included under the heading "Other Comprehensive Loss."

Impaired Asset Policy

In March 1995, the Financial Accounting Standards Board issued a statement, SFAS No. 121, titled "Accounting for Impairment of Long-lived Assets," which has been replaced by SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by its assets to their respective carrying amounts.

The Company does not believe any adjustments are needed to the carrying value of its assets at December 31, 2000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation Gains/Losses

The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year, except gains or losses related to long-term debt, which are deferred and amortized over the remaining term of the debt. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. See note 4.

Concentration of Credit Risk

The Company maintains its cash in several Netherlands financial institutions. These financial institutions are considered credit worthy and have not experienced any losses on deposits at December 31, 2000. The funds are valued in U.S. dollars and are fully insured.

Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements". SAB 101 provides interpretative guidance on the recognition, presentation and disclosure of revenue. SAB 101 must be applied to financial statements no later than the fourth quarter of fiscal 2001. We do not believe that the application of SAB 101 will have a material effect on the Company's financial position or results of its operations.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25". The interpretation clarifies the application of Accounting Principles Board (APB) Opinion No. 25 in certain situations, as defined. The interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998, but before the effective date. We do not anticipate that the adoption of this interpretation will have a material effect on the Company's financial position or results of operations.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

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(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 3 - RELATED PARTY TRANSACTIONS

Loans from Related Parties

The following amounts were owed to shareholders or companies controlled by the shareholders listed:

<table>

Shareholder or company owned by shareholder

---------------------------------------------

Marieke Maurice Maurice

| | | | Oudejans | Schelvis | Schelvis |
|---|---|---|---|---|---|
| | Interest Rate | Maturity | Loans to Company | Loans to Company | Advances |
| <s> | <c> | <c> | <c> | <c> | <c> |
| December 31, 2000 | 5% | Upon Demand | $ 0 | $ 5,590 | $ 103,500 |
| December 31, 1999 | 5% | Upon Demand | $ 10,226 | $ 5,754 | $ 103,500 |
| December 31, 1998 | 6% | Upon Demand | $ 9,114 | $ 6,382 | $ 84,500 |

</table>

The loans payable result from cash advances made to MEST and are uncollateralized. The loans bear interest rates at both 5 and 6 percent, and are due upon demand.

Receivable from Related Parties

The following amounts were due from shareholders or related parties:

For Years Ended December 31,

---------------------------------

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Due from IJ-Beeher | $ 48,917 | $ 0 | $ 0 |
| Due from Jan Luiken, B.V. | 109,524 | 933,303 | 0 |
| | $ 158,441 | $ 933,303 | $ 0 |

Other Related Party Transactions

The president of the Company conveyed all outstanding shares of MEST, B.V. to the Company in exchange for 1,920,000 shares of common stock of the Company during the year ended December 31, 1998.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

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(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 4 - PLANT, PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Major additions and improvements are capitalized. Minor replacements, maintenance and repairs that do not increase the useful lives of the assets are expensed as incurred. Depreciation of property and equipment is being calculated using the straight-line method over the expected useful lives of the assets. DEPRECIATION EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 WAS $4,177, $2,189 AND $345, RESPECTIVELY.

| | For Years Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Office equipment, computers | $ 13,893 | $ 13,893 | $ 3,701 |
| Less Accumulated depreciation | (6,711) | (2,534) | (345) |
| Net property and equipment | $ 7,182 | $ 11,359 | $ 3,356 |

NOTE 5 - PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of $0.0001 par value preferred stock; 535,985 Series A Preferred Shares were issued and outstanding at December 31, 2000. Each share of Series A preferred stock is entitled to a dividend at the rate of $0.30 per share if the Board of Directors declares a dividend, although no dividends have been declared. Upon liquidation or dissolution of the Company, each outstanding share of Series A preferred stock is entitled to a distribution of $4.00 per share prior to any distribution to common stock shareholders. Series A preferred stock is non-voting, and each share is convertible into one share of the Company's common stock at any time after June 1, 1999.

During the year ended December 31, 1998, the Company sold 23,900 shares of its preferred stock at an average price of $3.73 per share. During the year ended December 31, 1999, the Company sold 403,585 shares of its preferred stock at an average price of $3.93 per share. During the year ended December 31, 2000, the Company sold 108,500 shares of its preferred stock at an average price of $4.21 per share.

NOTE 6 - COMMON STOCK

The Company is authorized to issue 30,000,000 shares of $0.0001 par value common stock; 7,320,055 shares were issued and outstanding at December 31, 2000. Each holder of common stock has one, non-cumulative vote per share on all matters voted upon by the shareholders. There are no preemptive rights or other rights of subscription.

During the period ended December 31, 1997, the Company issued 5,000 shares of its common stock for cash at $1.00 per share and 175 shares of its common stock valued at $1.00 per share to acquire stb corp. The stock was valued at its fair market value on the date of issuance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

Note 6 - Common Stock (continued)

During the year ended December 31, 1998, the Company sold 5,394,880 shares of its common stock for cash at $0.17 per share and issued 1,920,000 shares of its common stock at $0.01 per share to acquire a subsidiary. The stock was valued at the fair market value on the date of issuance.

NOTE 7 - JOINT VENTURE INVESTMENT IN MANURE AND SLUDGE TECHNOLOGY, B.V.

Manure and Sludge Technology, B.V. (hereinafter "MSTec") is a Netherlands corporation that was formed for the purpose of developing a process for use on a commercial basis that would economically dry and pasteurize manure and sludge into pellets that could be sold as organic fertilizer and other products.
Since its inception, MSTec has refined its technological process for use with other waste products such as bio-solids, fish and food waste, and paper pulp.

MEST owns 50 percent of the common stock of MSTec, and accounts for MSTec on the equity method. The other 50 percent of MSTec's common stock is owned by The Netherlands Organization for Applied Scientific Research ("TNO"), the largest single research facility in Europe employing over five thousand PROFESSIONALS.

MEST's investment in the joint venture is recorded as $0 on the balance sheet because MSTec's debt and losses exceed the joint venturers' investment in MSTec. MEST's investment in the joint venture totaled $816,000 at December 31, 2000, $468,000 at December 31, 1999, and $0 and December 31, 1998. In forming the joint venture of MSTEC, the Company committed to an investment in the form of a loan to MSTEC of approximately $800,000, which funds were in fact advanced to MSTEC in 1999 and 2000. This loan is treated as an equity investment under the Company's understanding of the conditions of the joint venture. The investment is subject to the terms of the related loan agreement dated January 22, 1999, which the Company agreed that in the event of bankruptcy or termination of MSTEC, to forego repayment of the funds advanced until such time as all other creditors are paid in full. At the date of these financial statements, no funds advanced by the company to MSTEC have been repaid.

The joint venture's primary asset, as the result of the aforementioned investment, is a worldwide licensing agreement for the application of the aforementioned technological process from TNO.

TNO controls the research and activities of the joint venture while MEST Corp.'s participation is its investment with rights to products developed by the joint venture.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 7 - JOINT VENTURE INVESTMENT IN MANURE AND SLUDGE TECHNOLOGY, B.V.

(CONTINUED)

The following is a summary of the financial position and results of operations

Of MSTEC.

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current Assets | $ 123,809 | $ 231,342 | $ - |
| Property, Plant, And Equipment | - | - | - |
| Other Assets (Net) | 50,624 | 446,548 | - |
| Total Assets | $ 174,433 | $ 677,890 | $ - |
| Current Liabilities | $ 210,753 | $ 330,098 | $ - |
| Long-Term Debt - Related Parties | 1,673,640 | 1,268,208 | $ - |
| Total Liabilities | 1,884,393 | 1,598,306 | - |
| Stockholders' Equity | (1,709,960) | (920,416) | - |
| Total Liabilities And Equity | $ 174,433 | $ 677,890 | $ - |
| Net Sales | $ - | $ - | $ - |
| Gross Profit | $ - | $ - | $ - |
| Loss From Continuing Operations | $ (789,544) | $ (936,416) | $ - |
| Net Loss | $ (789,544) | $ (936,416) | $ - |

Joint Venture Royalty Agreement

In connection with the formation of the MSTEC joint venture, a sub-license agreement was executed wherein MEST agreed to pay to MSTEC "sub-license" fees, which are effectively royalty fees, for manure conversion factories constructed by MEST over a period of fifteen years, which begins when MEST constructs its first factory. Royalty fees due to MSTEC are computed on a sliding scale, based upon actual factory construction costs, and range from 15% to 10%. At the date of these financial statements, no royalty fees were owed under the aforementioned agreement.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Subordinated loan agreement

Under the terms of an agreement dated January 22, 1999, the management of MEST committed the Company to loan approximately $800,000 to MSTec in phases during the year 1999. Repayment was intended to commence December 31, 1999, contingent upon MSTec generating an operating profit. Further, in the event of MSTec's default or bankruptcy, MEST agreed to subordinate its interest in the loan for the benefit of RABO bank in Apeldoorn, until all other debts of MSTec were paid. Upon payment of debts and obligations of MSTec, the loan from MEST would again be eligible for repayment of interest and principle.

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Office lease

The Company leases office space in Apeldoorn under a written agreement which provides for lease payments of approximately $2,000 per month through June 2006. Formerly, the Company leased office space in Amsterdam under a written agreement which runs from July 1999 through January 2002 and provided for lease payments of approximately $1,500 per month. In 2001, the lease agreement was renegotiated and the lease expiration date was changed to July 31, 2001 with other lease provisions remaining unchanged.

Future minimum rental commitments under the operating lease are as follows at December 31, 2000:

| Year Ending: | |
|---|---|
| December 31, 2001 | $ 20,500 |
| December 31, 2002 | $ 24,000 |
| December 31, 2003 | $ 24,000 |
| December 31, 2004 | $ 24,000 |

| | |
|---|---|
| December 31, 2005 | $ 24,000 |

NOTE 9 - STOCK OPTIONS

During the years 2000, 1999, and 1998 the Company granted its officers options to purchase a net total of 700,000 shares of MEST common stock at an exercise price of $0.50 per share. Following is a summary of the status of these performance-based options during the years ended December 31, 1998, 1999 and 2000.

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at December 31, 1997 | 0 | $0.00 |
| Granted | 330,000 | $0.50 |
| Exercised, Expired or Forfeited | 0 | |
| Outstanding and exercisable at December 31, 1998 | 330,000 | $0.50 |
| Weighted Average Fair Value Of Options Granted During 1998 | | $2.62 |
| Outstanding At December 31, 1998 | 330,000 | $0.50 |
| Granted | 200,000 | 0.50 |
| Exercised, Expired Or Forfeited | - | - |

| | | |
|---|---|---|
| | -------------- | ----------------- |
| Outstanding And Exercisable At | | |
| December 31, 1999 | 530,000 | $0.50 |
| | ============== | ================= |
| Weighted Average Fair Value Of | | |
| Options Granted During 1999 | | $3.59 |
| | | ================= |

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

NOTE 9 - STOCK OPTIONS (CONTINUED)

| Weighted Average | | |
|---|---|---|
| | Shares | Exercise Price |
| | -------------- | ----------------- |
| Outstanding At December 31, 1999 | 530,000 | $0.50 |
| Granted | 200,000 | 0.50 |
| Expired | (30,000) | 0.50 |
| Exercised Or Forfeited | - | - |

| | | |
|---|---|---|
| Outstanding And Exercisable At | | |
| December 31, 2000 | 700,000 | $0.50 |
| Weighted Average Fair Value Of | | |
| Options Granted During 2000 | | $3.84 |

The Company estimated the fair value of each stock option at the grant date by using the Black-Scholes option pricing model with the following weighted-average assumptions used: dividend yield of zero percent; strike prices of $0.50; expected volatility of 24.83%, 23.54%, and 22.25%, respectively; risk-free interest rate of six percent and expected lives of five years. The weighted average fair value at date of grant for options granted to officers in the years ended December 31, 2000, 1999 and 1998 was $3.84, $3.59 and $2.62 per option, respectively.

Compensation cost charged to operations was $767,900, $717,900 and $865,938 during the years ended December 31, 2000, 1999 and 1998, respectively.

NOTE 10 - SUBSEQUENT EVENTS

Effective May 15, 2001, Maurice Schelvis executed a forgiveness of debt agreement in respect to amounts owed him by MEST. At December 31, 2000, the loans had a balance of $109,090. In exchange for this forgiveness, Mr. Schelvis's company, IJ-Beeher, B.V., was forgiven $44,157 it owed to MEST at

December 31, 2000.

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MANAGEMENT OF ENVIRONMENTAL

SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2001

WILLIAMS & WEBSTER PS

CERTIFIED PUBLIC ACCOUNTANTS

BANK OF AMERICA FINANCIAL CENTER

W 601 RIVERSIDE, SUITE 1940

SPOKANE, WA 99201

(509) 838-5111

MANAGEMENT OF ENVIRONMENTAL

SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

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To the Board of Directors

Management of Environmental

Solutions & Technology Corp.

APELDOORN, The Netherlands

ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying consolidated balance sheets of Management of Environmental Solutions & Technology Corp. (a development stage company) as of June 30, 2001 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the three months and six months ended June 30, 2001 and 2000, and for the period from December 10, 1997 (inception) to June 30, 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2000 were audited by us and we expressed an unqualified opinion on them in our report dated June 1, 2001. We have not preformed any auditing procedures since that date.

As discussed in Note 2, the Company has been in the development stage since its inception on December 10, 1997 and has had recurring losses and no revenues. The Company's decision is to perfect its technological application before entering the market. Realization of a major portion of the assets is dependent upon the company's ability to meet its future financing requirements and the success of future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 11 to the Financial Statements, certain errors concerning forgiveness of debt by an officer resulting in the understatement of previously reported losses as of June 30, 2001 were discovered by management of the Company in the subsequent period. Accordingly, the June 30, 2001 Financial Statements have been restated to correct these errors, the net effect of which was to increase the company's deficit accumulated during development stage by $62,867.

/s/ Williams & Webster, P.S.

Williams & Webster, P.S.

Certified Public Accountants

Spokane, Washington

October 3, 2001 except for Notes 10 and 11, as to which the date is July 12, 2002.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

| | June 30, 2001 (Unaudited) | December 31, 2000 |
|---|---|---|
| | ------------ | ------------ |
| ASSETSCURRENT ASSETS | | |

| | | |
|---|---|---|
| Cash | $ 401,028 | $ 666,746 |
| Tax refunds receivable | 20,852 | 44,157 |
| Receivables, related parties | - | 158,441 |
| Other receivables | 1,921 | - |
| Prepaid expenses | - | 19,274 |
| | ------------ | ------------ |
| Total Current Assets | 423,801 | 888,618 |
| | ------------ | ------------ |
| PROPERTY AND EQUIPMENT (net of depreciation) | 4,650 | 7,182 |
| | ------------ | ------------ |
| TOTAL ASSETS | $ 428,451 | $ 895,800 |
| | ============ | ============ |
| LIABILITIES AND STOCKHOLDERS' EQUITYCURRENT LIABILITIES | | |
| Accounts payable | $ 32,365 | $ 63,048 |
| Accrued expenses | 15,225 | 12,738 |
| | - | 109,090 |
| | ------------ | ------------ |
| Total Current Liabilities | 47,590 | 184,876 |
| | ------------ | ------------ |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock - Series A; $0.0001 par value, 5,000,000 shares authorized, 535,985 shares issued and outstanding, aggregate liquidation preference of $2,143,940 | 53 | 53 |
| Common stock; $0.0001 par value, 30,000,000 shares | | |

| | | |
|---|---|---|
| authorized, 7,320,055 shares issued and | | |
| outstanding | 732 | 732 |
| Additional paid-in capital | 3,212,043 | 3,149,176 |
| Stock options | 2,274,650 | 2,274,650 |
| Deficit accumulated during development stage | (4,834,023) | (4,530,690) |
| Accumulated other comprehensive loss | (272,594) | (182,997) |
| | ------------ | ------------ |
| Total Stockholders' Equity | 380,861 | 710,924 |
| | ------------ | ------------ |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 428,451 | $ 895,800 |
| | ============ | ============ |

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATION AND COMPREHENSIVE LOSS

<TABLE>

<CAPTION>

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Period from December 17, 1997 (Inception) to June 30, |
|---|---|---|---|---|---|
| | 2001 (Unaudited) | 2000 (Unaudited) | 2001 (Unaudited) | 2000 (Unaudited) | 2001 (Unaudited) |
| <S> | <C> | <C> | <C> | <C> | <C> |
| REVENUES | $ - | $ - | $ - | $ - | $ - |
| EXPENSES | | | | | |
| General and administrative | 114,536 | 425,961 | 117,877 | 734,961 | 3,352,189 |
| Research and development | 70,982 | 60,000 | 131,871 | 60,000 | 667,248 |
| Depreciation | 918 | 1,192 | 1,901 | 1,793 | 8,612 |

| | | | | | |
|---|---|---|---|---|---|
| | 186,436 | 487,153 | 251,649 | 796,754 | 4,028,049 |
| LOSS FROM OPERATIONS | (186,436) | (487,153) | (251,649) | (796,754) | (4,028,049) |
| OTHER INCOME (EXPENSES) | | | | | |
| Interest income | 15,573 | 9,718 | 26,251 | 34,438 | 135,734 |
| Interest expense | - | - | - | - | (793) |
| Loss from joint venture | (77,935) | (1,855) | (77,935) | (219,099) | (940,915) |
| Other Income (Expense) | (62,362) | 7,863 | (51,684) | (184,661) | (805,974) |
| LOSS BEFORE INCOME TAXES INCOME TAXES | (248,798) | (479,290) | (303,333) | (981,415) | (4,834,023) |
| INCOME TAX EXPENSE EXPENSE | - | - | - | - | - |
| NET LOSS | (248,798) | (479,290) | (303,333) | (981,415) | (4,834,023) |
| OTHER COMPREHENSIVE LOSS Foreign currency translation loss | (11,501) | (4,273) | (89,597) | (27,286) | (272,594) |
| | $ (260,299) | $ (483,563) | $ (392,930) | $(1,008,701) | $(5,106,617) |
| NET LOSS PER COMMON | | | | | |

| | | | | |
|---|---|---|---|---|
| SHARE, BASIC AND DILUTED | $ (0.04) | $ (0.07) | $ (0.05) | $ (0.14) |
| | ============ | ============ | ============ | ============ |
| WEIGHTED AVERAGE NUMBER OF | | | | |
| COMMON SHARES OUTSTANDING, | | | | |
| BASIC AND DILUTED | 7,320,055 | 7,320,055 | 7,320,055 | 7,320,055 |
| | ============ | ============ | ============ | ============ |

</TABLE>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

Accumulated Accumulated

| | Preferred Stock | | Common Stock | | Additional | | Deficit During | Other Comprehensive | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Capital | Stock Options | Development Stage | Income (Loss) | Stockholders' Equity |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Inception, Dec. 10, 1997 | - | $ - | - | $ - | $ - | $ - | $ - | $ - | $ - |
| Issuance of common stock for cash on Dec. 11, 1007 for $1.00 per share | - | - | 5,000 | 1 | 5,009 | - | - | - | 5,010 |
| Issuance of common stock to acquire STB corp. on Dec. 26, 1997 at $1.00 per share | - | - | 175 | - | 175 | - | - | - | 175 |
| Net loss for year ended Dec. 31, 1997 | - | - | - | - | - | - | (46,869) | - | (46,869) |
| Balance, Dec. 31, 1997 | - | - | 5,175 | 1 | 5,184 | - | (46,869) | - | (41,684) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuance of common stock as follows:For cash on March 10, 1998 at $.017 per share | - | - | 5,394,880 | 539 | 899,911 | - | - | - | 900,450 |
| To acquire subsidiary on April 9, 1998 at $0.01 per share | - | - | 1,920,000 | 192 | 19,808 | - | - | - | 20,000 |
| Issuance of preferred stock for cash: December 1998 at $3.73 per share | 23,900 | 2 | - | - | 89,246 | - | - | - | 89,248 |
| Issuance of stock options for compensation on Aug. 31, 1998 at $2.62 per option | - | - | - | - | - | 865,938 | - | - | 865,938 |
| Net loss for year ended Dec. 31, 1998 | - | - | - | - | - | - | (1,263,080) | 15,284 | (1,278,364) |
| Balance, Dec. 31, 1998 | 23,900 | 2 | 7,320,055 | 732 | 1,014,149 | 865,938 | (1,325,233) | 15,284 | 570,872 |

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | Common Stock | | | | Accumulated Deficit | Accumulated Other | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Additional Paid-in Capital | Stock Options | During Development Stage | Comprehensive Income (Loss) | Total Stockholders' Equity |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 1998 | 23,900 | 2 | 7,320,055 | 732 | 1,014,149 | 865,938 | (1,325,233) | 15,284 | 570,872 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuance of preferred stock for cash: | | | | | | | | | |
| Jan. 1999 at $3.92 per share | 23,350 | 2 | - | - | 91,644 | - | - | - | 91,646 |
| Feb. 1999 at $3.96 per share | 48,050 | 4 | - | - | 190,196 | - | - | - | 190,200 |
| Mar. 1999 at $3.90 per share | 10,300 | 1 | - | - | 40,199 | - | - | - | 40,200 |
| April 1999 at $4.00 per share | 11,300 | 1 | - | - | 45,199 | - | - | - | 45,200 |
| May 1999 at $3.85 per share | 12,640 | 1 | - | - | 48,684 | - | - | - | 48,685 |
| June 1999 at $4.01 per share | 82,900 | 8 | - | - | 332,237 | - | - | - | 332,245 |
| July 1999 at $4.00 per share | 88,700 | 9 | - | - | 354,941 | - | - | - | 354,950 |
| Aug. 1999 at $4.02 per share | 25,770 | 3 | - | - | 103,494 | - | - | - | 103,497 |
| Sept. 1999 at $3.43 per share | 26,500 | 3 | - | - | 90,997 | - | - | - | 91,000 |
| Oct. 1999 at $4.22 per share | 6,200 | 1 | - | - | 26,174 | - | - | - | 26,175 |
| Nov. 1999 at $4.05 per share | 40,725 | 4 | - | - | 165,086 | - | - | - | 165,090 |
| Dec. 1999 at | | | | | | | | | |

$4.14 per share 27,150 3 - - 112,517 - - - 112,520

-------------- -------------- -------------- -------------- -------------- -------------- -------------- -------------- --------------

Total preferred

stock issued 1999 403,585 40 - - 1,601,368 - - - 1,601,408

Issuance of stock

options for

compensation on

Aug. 31, 1999 at

$3.59 per share - - - - - 717,900 - - 717,900

Net loss for year

ended Dec. 31, 1999 - - - - - - (1,810,142) (100,988) (1,911,130)

-------------- -------------- -------------- -------------- -------------- -------------- -------------- -------------- --------------

Balance,

Dec. 31, 1999 427,485 42 7,320,055 732 2,615,517 1,583,838 (3,135,375) (85,704) 979,050

-------------- -------------- -------------- -------------- -------------- -------------- -------------- -------------- --------------

</table>

See accompanying notes and accountants' review report.

<page> 49

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | Common Stock | | Additional | | Accumulated Deficit During | Accumulated Other Comprehensive | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Capital | Stock Options | Development Stage | Income (Loss) | Stockholders' Equity |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 1999 | 427,485 | 42 | 7,320,055 | 732 | 2,615,517 | 1,583,838 | (3,135,375) | (85,704) | 979,050 |
| Issuance of | | | | | | | | | |
| preferred stock | | | | | | | | | |
| for cash: Jan. 2000 at | | | | | | | | | |
| $4.08 per share | 8,300 | 1 | - | - | 33,891 | - | - | - | 33,892 |
| Feb. 2000 at | | | | | | | | | |
| $4.34 per share | 23,750 | 2 | - | - | 103,054 | - | - | - | 103,056 |
| Mar. 2000 at | | | | | | | | | |
| $4.37 per share | 4,500 | 1 | - | - | 19,645 | - | - | - | 19,646 |
| April 2000 at | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| $4.16 per share | 61,700 | 5 | - | - | 256,425 | - | - | - | 256,430 |
| May 2000 at | | | | | | | | | |
| $4.30 per share | 5,250 | 1 | - | - | 22,598 | - | - | - | 22,599 |
| June 2000 at | | | | | | | | | |
| $4.19 per share | 5,000 | 1 | - | - | 20,958 | - | - | - | 20,959 |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Total preferred | | | | | | | | | |
| stock issued: 2000 | 108,500 | 11 | - | - | 456,571 | - | - | - | 456,582 |
| Issuance of stock | | | | | | | | | |
| options for | | | | | | | | | |
| compensation on | | | | | | | | | |
| Aug. 31, 2000 at | | | | | | | | | |
| $3.84 per share | - | - | - | - | - | 767,900 | - | - | 767,900 |
| Expiration of | | | | | | | | | |
| stock options on | | | | | | | | | |
| July 31, 2000 | - | - | - | - | 77,088 | (77,088) | - | - | - |
| Net loss, | | | | | | | | | |
| Dec. 31, 2000 | - | - | - | - | - | - | (1,395,315) | (97,293) | (1,492,608) |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Balance, | | | | | | | | | |
| Dec. 31, 2000 | 535,985 | 53 | 7,320,055 | 732 | 3,149,176 | 2,274,650 | (4,530,690) | (182,997) | 710,924 |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | Common Stock | | Additional | | Accumulated Deficit During | Accumulated Other Comprehensive | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Capital | Stock Options | Development Stage | Income (Loss) | Stockholders' Equity |

| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
|---|---|---|---|---|---|---|---|---|---|
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 2000 | 535,985 | 53 | 7,320,055 | 732 | 3,149,176 | 2,274,650 | (4,530,690) | (182,997) | 710,924 |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Forgiveness of | | | | | | | | | |
| debt by officer | - | - | - | - | 62,867 | - | - | - | 62,867 |
| Net loss for | | | | | | | | | |
| six months ended | | | | | | | | | |
| ended June 30, 2001 | - | - | - | - | - | - | (303,333) | (89,597) | (392,930) |
| | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- | -------------- |
| Balance, | | | | | | | | | |
| Sept. 30, 2001 | 535,985 | $ 53 | 7,320,055 | $ 732 | $ 3,212,043 | $ 2,274,650 | $ (4,834,023) | $ (272,594) | $ 330,861 |
| | ============== | ============== | ============== | ============== | ============== | ============== | ============== | ============== | ============== |

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

Period from

| | Six Months Ended June 30, 2001 (Unaudited) | Six Months Ended June 30, 2000 (Unaudited) | December 17, 1997 (Inception) to June 30, 2001 (Unaudited) |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (303,333) | $ (981,415) | $ (4,834,023) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 1,901 | 1,793 | 8,612 |
| Options granted as compensation | - | 383,950 | 2,351,738 |
| (Increase) decrease in assets: | | | |
| Tax refunds receivable | 23,305 | (3,000) | (20,852) |
| Other receivables | (1,921) | (2,695) | (1,921) |
| Prepaid expenses | 19,274 | (80) | - |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | (30,683) | 104,985 | 27,180 |
| Accrued liabilities | 2,487 | - | 15,225 |
| Net cash used in operating activities | (288,970) | (496,462) | (2,454,041) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | | |
|---|---|---|---|
| Purchase of property and equipment | - | - | (13,893) |
| Loans provided to shareholders | - | - | (933,303) |
| Payments on loans to shareholders | 112,218 | 48,167 | 887,080 |
| | -------------- | -------------- | -------------- |
| Net cash provided (used) by investing activities | 112,218 | 48,167 | (60,116) |
| | -------------- | -------------- | -------------- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from the sale of preferred stock | - | 456,582 | 2,147,238 |
| Proceeds from the sale of common stock | - | - | 905,460 |
| Proceeds from related parties loans | - | - | 119,470 |
| Payments on related party loans | - | (7,000) | (10,390) |
| Cash acquired with subsidiary | - | - | 20,000 |
| | -------------- | -------------- | -------------- |
| Net cash provided (used) by investing activities | - | 449,582 | 3,181,778 |
| | -------------- | -------------- | -------------- |
| Foreign currency translation loss | (88,966) | (27,101) | (271,593) |
| Net increase (decrease) in cash | (265,718) | (25,814) | 396,028 |
| Cash, beginning of period | 666,746 | 646,089 | 5,000 |
| | -------------- | -------------- | -------------- |
| Cash, end of period | $ 401,028 | $ 620,275 | $ 401,028 |
| | ============ | ============= | ============= |

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

| | | | |
|---|---|---|---|
| | | | Period from December 17, 1997 |
| | Six Months Ended June 30, | | (Inception) to June 30, |
| | 2001 (Unaudited) | 2000 (Unaudited) | 2001 (Unaudited) |
| <S> | <C> | <C> | <C> |

| | | | | | | |
|---|---|---|---|---|---|---|
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | | | | | |
| Interest paid | $ | - | $ | - | $ | 793 |
| Income taxes paid | $ | - | $ | - | $ | - |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS: | | | | | | |
| Stock options granted for compensation | $ | - | $ | 383,950 | $ | 2,351,738 |
| Stock issued for acquisitions | $ | - | $ | - | $ | 20,175 |
| Notes payable, related party netted | | | | | | |
| with notes receivable related party | $ | 46,233 | $ | - | $ | 46,233 |
| Forgiveness of debt by officer | $ | 62,867 | $ | - | $ | 62,867 |

</TABLE>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 1 - ORGANIZATION AND HISTORY

Management of Environmental Solutions & Technology Corp. was formed to develop a proprietary technology for drying and treating animal manure and sludge to be used as fertilizer. The "Company" ("MEST") was incorporated in Colorado on December 10, 1997, followed by reorganization as a Delaware corporation on December 18, 1997.

On December 26, 1997, the Company obtained all of the outstanding common stock of STB Corporation, a shell corporation domiciled in Colorado, by issuing 175 shares of the Company's common stock. Because STB Corporation had no assets or operations, the Company recorded the transaction at the initial deemed valued of the stock conveyed ($175), which was consistent with the deemed value of the Company's stock issued in its immediately precedent initial transaction. In the year subsequent to the acquisition, STB Corporation was administratively dissolved.

On April 9, 1998, the Company issued 1,920,000 shares of its common stock to its president in exchange for all of the issued and outstanding shares of MEST, B.V., a Netherlands corporation, owned by the Company's president. Although MEST, B.V. had no recorded assets at the time of the transaction, the Company recorded the acquisition at a nominal value of $0.01 per share. The aggregate acquisition cost of $20,000, originally assigned to intangible assets, was substantially written off by the end of 1998. Currently, MEST, B.V. is used to conduct the Company's business in the Netherlands. MEST, BV was acquired because it had certain data and technical information that the Company plans to use in its business.

The Netherlands Organization for Applied Scientific Research ("TNO"), staffed by 5,000 professionals is one of Europe's leading contract research organizations. Using proprietary technology developed by TNO, the Company and TNO formed a corporation known as Manure and Sludge Technology, B.V. ("MSTec") for the purpose of developing a process for use on a commercial basis that would economically refine manure and sludge into pellets, which could be sold as organic fertilizer and other products. MSTec, a Netherlands corporation, is owned 50 percent by the Company and 50 percent by TNO.

The Company's year end is December 31.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

ACCOUNTING METHOD

The Company's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEVELOPMENT STAGE ACTIVITIES

The Company has been in the development stage since its formation in December of 1997, and has not yet realized any revenues from its planned operations. It is engaged in the business of manufacturing, distributing, and selling fertilizer products.

USE OF ESTIMATES

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

MEST's financial instruments consist primarily of cash, receivables, prepaid expenses, accrued expenses and payables, and loans payable, which approximate fair value because of their short maturities.

RESEARCH AND DEVELOPMENT

Research and development expenses are charged to operations as incurred. The cost of intellectual property purchased from others that is immediately marketable or that has an alternative future use is capitalized as intangible assets. The Company periodically reviews its capitalized patent costs to assess recoverability based on the projected undiscounted cash flows from operations. Impairments are recognized in operating results when a permanent diminution in value occurs.

The Company constructed a testing facility during 1999 in Apeldoorn, The Netherlands at a cost of approximately $450,000. These costs were expensed as research and development during the year ended December 31, 1999.

DERIVATIVE INSTRUMENTS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which is effective for the Company as of January 1, 2001. This standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE INSTRUMENTS (CONTINUED)

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

From November 1, 1999 to February 17, 2000, the Company entered into a small number of foreign currency purchases for cash management purposes. The results of these short-term transactions, which generated an aggregate loss of $7,124 in 1999 and an aggregate gain of $4,262 in 2000, are included in Other Comprehensive Income (loss) as an element of foreign currency translation earnings. The Company engaged in no similar foreign currency purchases either prior to or subsequent to the aforementioned time frame.

COMPENSATED ABSENCES

Currently, the Company has no employees; therefore, no policy regarding compensated absences has been established. The Company will establish a policy to recognize the costs of compensated absences at the point in time that it has employees.

ADVERTISING EXPENSES

Advertising expenses consist primarily of costs incurred in the design, development, and printing of Company literature and marketing materials. The Company expenses all advertising expenditures as incurred.

PROVISION FOR TAXES

Income taxes are provided based upon the liability method of accounting pursuant to SFAS No. 109 "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

At June 30, 2001, the Company had net deferred tax assets of approximately $480,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at June 30, 2001.

At June 30, 2001, the Company has net operating loss carryforwards of approximately $2,400,000, which expire in the years 2017 through 2021. The Company recognized approximately $2,300,000 of losses for the issuance of common stock options for services, which are not deductible for tax purposes, and are not included in the above calculation of deferred tax asset.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LOSS PER SHARE

Basic loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the year. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time they were outstanding. Outstanding options and convertible preferred stock were not included in the computation of gain or loss per share because the exercise price of the outstanding options is higher than the market price of the stock, thereby causing the options to be antidilutive.

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has no revenues, has incurred a net loss of $303,333 for the six months ended June 30, 2001, has an accumulated deficit of $4,834,023 and has had no sales. The future of the Company is dependent upon successful and profitable operations from manufacturing, distributing, and selling its fertilizer products. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Management has established plans designed to promote the sales of the Company's product. Management intends to seek additional capital from new equity securities offerings that will provide funds needed to increase liquidity, fund internal growth and fully implement its business plan.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of MEST and its wholly owned subsidiary, MEST, BV. All material intercompany transactions and balances have been eliminated. Manure and Sludge Technology, BV ("MSTec"), a 50 per cent owned corporation is reflected in the financial statements on the equity method of accounting, and not included in the financial statements as an entity subject to consolidation.

ACCOUNTING FOR STOCK OPTIONS GRANTED TO EMPLOYEES AND NONEMPLOYEES

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated

fair value of the award and recognizes that cost over the service period.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTERIM FINANCIAL STATEMENTS

The interim financial statements for the period ended June 30, 2001 included

herein have not been audited, at the request of the Company. They reflect all

adjustments, which are, in the opinion of management, necessary to present fairly the results of operations for the period. All such adjustments are normal recurring adjustments. The results of operations for the period presented is not necessarily indicative of the results to be expected for the full fiscal year.

IMPAIRED ASSET POLICY

In March 1995, the Financial Accounting Standards Board issued a statement, SFAS No. 121, titled "Accounting for Impairment of Long-lived Assets," which has been replaced by SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by its assets to their respective carrying amounts.

The Company does not believe any adjustments are needed to the carrying value of its assets at June 30, 2001.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130), which was issued in June 1997. SFAS 130 establishes rules for the reporting and display of comprehensive income and its components. The effect of the adoption of SFAS 130 is reflected in the accompanying financial statements and included under the headings "Other Comprehensive Loss."

FOREIGN CURRENCY TRANSLATION GAINS/LOSSES

The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year, except gains or losses related to long-term debt, which are deferred and amortized over the remaining term of the debt. Non-montary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. See Note 4.

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONCENTRATION OF CREDIT RISK

The Company maintains its cash in several Netherlands financial institutions. These financial institutions are considered credit worthy and have not experienced any losses on deposits at June 30, 2001. The funds are valued in U.S. dollars and are fully insured.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS 144 replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This new standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations. Statement 144 required that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. This statement is effective beginning for fiscal years after December 15, 2001, with earlier application encouraged. The Company adopted SFAS 144 and does not believe that the adoption will have a material impact on the financial statements of the

Company at June 30, 2001.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 establishes guidelines related to the retirement of tangible long-lived assets of the Company and the associated retirement costs. This statement required that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. This statement is effective for financial statements issued for the fiscal years beginning after June 15, 2002 and with earlier application encouraged. The Company adopted SFAS No. 143 and does not believe that the adoption will have a material impact on the financial statements of the Company at June 30, 2001.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 provides for the elimination of the pooling-of-interest method of accounting for business combinations with an acquisition date of July 1, 2001 or later. SFAS No. 142 prohibits the amortization of goodwill and other intangible assets with indefinite lives and requires periodic reassessment of the underlying value of such assets for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. An early adoption provision exists for companies with fiscal years beginning after March 15, 2001. The Company does not have assets with indeterminate lives.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In September 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This statement provides accounting and reporting standard for transfers and servicing of financial assets and extinguishment of liabilities and also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS No. 140 is effective for recognition and reclassification of collateral and for disclosures related to securitization transactions and collateral for fiscal years ending after December 15, 2000, and is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company believes that the adoptions of this standard will not have a material effect on the Company's results of operations or financial positions.

NOTE 3 - RELATED PARTY TRANSACTIONS

LOANS FROM RELATED PARTIES

At December 31, 2000, loans from related parties consisted of the following:

| | 2000 |
|---|---|
| Maurice Schelvis, (a shareholder of the Company), unsecured, interest at 5%, due on demand. | $ 5,590 |
| Maurice Schelvis, (a shareholder of the Company), unsecured, interest at 6%, due on demand. | 103,500 |
| Total | $ 109,090 |

The Company had no outstanding loans from related parties at June 30, 2001.

RECEIVABLE FROM RELATED PARTIES

At December 31, 2000 the following amounts were receivable from shareholders or related parties:

| | 2000 |
|---|---|
| IJ-Beeher, interest at 5%, unsecured. | $ 48,917 |
| Jan Luiken, B.V., interest at 7%, unsecured | 109,524 |
| | $ 158,441 |

The Company had no receivables from related parties at June 30, 2001.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 3 - RELATED PARTY TRANSACTIONS (continued)

OTHER RELATED PARTY TRANSACTIONS

The president of the Company conveyed all outstanding shares of MEST, B.V. to the Company in exchange for 1,920,000 shares of common stock of the Company during the year ended December 31, 1998.

NOTE 4 - PLANT, PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Major additions and improvements are capitalized. Minor replacements, maintenance and repairs that do not increase the useful lives of the assets are expensed as incurred. Depreciation of property and equipment is being calculated using the straight-line method over the expected useful lives of the assets. Depreciation expense for the periods ended June 30, 2001 and 2000 was $1,901 and $1,793, respectively.

NOTE 5 - PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of $0.0001 par value preferred stock; 535,985 Series A preferred shares were issued and outstanding at December 31, 2001 and 2000. Each share of Series A preferred stock is entitled to a dividend at the rate of $0.30 per share if the board of directors declares a dividend, although no dividends have been declared. Upon liquidation or dissolution of the Company, each outstanding share of Series A preferred stock is entitled to a distribution of $4.00 per share prior to any distribution to common stock shareholders. Series A preferred stock is non-voting, and each share is convertible into one share of the Company's common stock at any time after June 1, 1999.

During the year ended December 31, 1998, the Company sold 23,900 shares of its preferred stock at an average price of $3.73 per share. During the year ended December 31, 1999, the Company sold 403,585 shares of its preferred stock at an average price of $3.93 per share. During the year ended December 31, 2000, the Company sold 108,500 shares of its preferred stock at an average price of $4.21 per share.

NOTE 6 - COMMON STOCK

The Company is authorized to issue 30,000,000 shares of $0.0001 par value common stock; 7,320,055 shares were issued and outstanding at June 30, 2001 and December 31, 2000. Each holder of common stock has one, non-cumulative vote per share on all matters voted upon by the shareholders. There are no preemptive rights or other rights of subscription.

During the period ended December 31, 1997, the Company issued 5,000 shares of its common stock for cash at $1.00 per share and 175 shares of its common stock valued at $1.00 per share to acquire STB Corp. The stock was valued at its fair market value on the date of issuance.

During the year ended December 31, 1998, the Company sold 5,394,880 shares of its common stock for cash at $0.17 per share and issued 1,920,000 shares of its common stock at $0.01 per share to acquire a subsidiary. The stock was valued at the fair market value on the date of issuance.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 7 - JOINT VENTURE INVESTMENT IN MANURE AND SLUDGE TECHNOLOGY, B.V.

Manure and Sludge Technology, B.V. (hereinafter "MSTec") is a Netherlands corporation that was formed for the purpose of developing a process for use on a commercial basis that would economically dry and pasteurize manure and sludge into pellets that could be sold as organic fertilizer and other products. Since its inception, MSTec has refined its technological process for use with other waste products such as bio-solids, fish and food waste, and paper pulp.

MEST owns 50 percent of the common stock of MSTec, and accounts for MSTec on the equity method. The other 50 percent of MSTec's common stock is owned by The Netherlands Organization for Applied Scientific Research ("TNO"), the largest single research facility in Europe employing over five thousand professionals.

MEST's investment in the joint venture is recorded as $0 on MEST's balance sheet because MSTec's debt and losses exceeds MEST's share of investment in the joint venture. MEST's investment in the joint venture totaled $816,000 at June 30, 2001 and December 31, 2000. In forming the joint venture of MSTec, the Company committed to an investment in the form of a loan to MSTec of approximately $800,000, which funds were in fact advanced to MSTec in 1999 and 2000. This loan is treated as an equity investment under the Company's understanding of the conditions of the joint venture. The investment is subject to the terms of the related loan agreement dated January 22, 1999, the Company agreed in the event of bankruptcy or termination of MSTec's to forego repayment of the funds advanced until such time as all other creditors are paid in full. At the date of these financial statements, no funds advanced by the Company to MSTec have been repaid.

The joint venture's primary asset, as the result of the aforementioned investment, is a worldwide licensing agreement for the application of the aforementioned technological process from TNO. TNO controls the research and activities of the joint venture while MEST Corp'sparticipation consists of investment with rights to products developed by the joint venture.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 7 - JOINT VENTURE INVESTMENT IN MANURE AND SLUDGE TECHNOLOGY, B.V.

(continued)

The following is a summary of the financial positions and results of operations of MSTec.

| | June 30, 2001 | December 31, 2000 |
|---|---|---|
| Current assets | $ 114,680 | $ 123,809 |
| Property, plant, and equipment | - | - |
| Other assets (net) | 49,824 | 50,624 |
| Total assets | $ 164,504 | $ 174,433 |
| Current liabilities | $ 324,819 | $ 210,753 |
| Long-term debt - related parties | 1,705,515 | 1,673,640 |
| Total liabilities | 2,030,334 | 1,984,393 |
| Stockholders' equity | (1,865,830) | (1,709,960) |
| Total liabilities and equity | $ 164,504 | $ 174,433 |
| Net sales | $ - | $ - |
| Gross profit | $ - | $ - |
| Loss from continuing operations | $ (155,870) | $ (789,544) |
| Net loss | $ (155,870) | $ (789,544) |

JOINT VENTURE ROYALTY AGREEMENT

In connection with the formation of the MSTec joint venture, a sub-license agreement was executed wherein M.E.S.T. agreed to pay to MSTec "sub-license" fees, which are effectively royalty fees, for manure conversion factories constructed by M.E.S.T. over a period of fifteen years. The fifteen-year period begins when M.E.S.T. constructs its first such factory. Royalty fees due to MSTec are computed on a sliding scale, based upon actual factory construction costs, and range from 15% to 10%. At the date of these financial statements, no royalty fees were owed under the aforementioned agreement.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

OFFICE LEASE

The Company leases office space in Apeldoorn under a written agreement, which provides for lease payments of approximately $2,000 per month through June 2006. Formerly the Company leased office space in Amsterdam under a written agreement, which ran from July 1999 through January 2002 and provided for lease payments of approximately $1,500 per month. In 2001, the lease agreement was renegotiated and the lease expiration date was changed to July 31, 2001 with other lease provisions remaining unchanged.

Future minimum rental commitments under the operating lease are as follows at June 30, 2001:

| Year Ending: | |
|---|---|
| December 31, 2001 | $ 20,500 |
| December 31, 2002 | $ 24,000 |
| December 31, 2003 | $ 24,000 |

| | |
|---|---|
| December 31, 2004 | $ 24,000 |
| December 31, 2005 | $ 24,000 |

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

NOTE 9 - STOCK OPTIONS

The Company has granted its officers options to purchase a total of 700,000 shares of the Company's common stock at an exercise price of $0.50 per share. Following is a summary of the status of these performance-based options during the periods ended June 30, 2001 and December 31, 2000.

| | Number of Shares | Weighted Average Price per Share |
|---|---|---|
| Outstanding at December 31, 1999 | 530,000 | $ 0.50 |
| Granted | 200,000 | 0.50 |
| Expired | (30,000) | 0.50 |
| Exercised or forfeited | - | - |
| Outstanding and exercisable at December 31, 2000 | 700,000 | $ 0.50 |

| | | |
|---|---|---|
| Weighted average fair value of options granted during 2000 | | $ 3.59 |
| Outstanding at December 31, 2000 | 700,000 | $ 0.50 |
| Granted | - | - |
| Exercised, expired or forfeited | - | - |
| Outstanding and exercisable at June 30, 2001 | 700,000 | $ 0.50 |

The Company estimated the fair value of each stock option at the grant date by using the Black-Scholes option pricing model with the following weighted-average assumptions used: Dividend yield of zero percent; strike price of $0.50; expected volatility of 24.83%; risk-free interest rate of six percent and expected lives of five years. The weighted average fair value at date of grant for options granted to officers in the year ended December 31, 2000 was $3.59 per option.

Compensation cost charged to operations was $767,900 during the year ended December 31, 2000.

NOTE 10 - SUBSEQUENT EVENTS

In January 2002, the Company loaned $200,000 to an officer. In April 2002, $150,000 was repaid and the Company also received a mortgage on real estate as collateral for this loan.

NOTE 11 - RESTATEMENT AND CORRECTION OF AN ERROR

The Company's financial statements for the period ended June 30, 2001 have been restated to reflect the correction of forgiveness of debt by an officer as a capital contribution, which increased additional paid-in capital by $62,867. The effect of this correction was the reclassification of extraordinary gain on debt forgiveness of $62,867 to additional paid-in capital for the six months ended June 30, 2001.

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PART III

Item 1. Index to Exhibits

Exhibit 3.2 Bylaws

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 4.1 Instruments Defining the Rights of Security Holders

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 10.1 Material Contracts

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 23.1 Consent of Certified Accountants

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 23.2 Consent of Certified Accountants

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 23.3 Consent of Certified Accountants

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 23.4 Consent of Certified Accountants

Filed with 10sb Amendment No. 1, November 15, 2001

Exhibit 23.5 Consent of Certified Accountants

Filed with 10sb Amendment No. 1, November 15, 2001

Item 2. Description of Exhibits

Exhibits are included by reference as set forth in the Exhibit Index.

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the Company caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS
& TECHNOLOGY, CORP.

Date: October 25, 2001 By: /s/ Greg Schmick

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Greg Schmick, President

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