

Edgar Filing: TIREX CORP - Form 10KSB

TIREX CORP
Form 10KSB
October 15, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended June 30, 2003

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission File Number 33-17598-NY

The Tirex Corporation

(Name of Small Business Issuer in Its Charter)

Delaware

22-3282985

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

4055 Ste-Catherine St. West, Suite 151
Montreal (Westmount), Quebec

H3Z 3J8

(Address of Principal Executive Offices)

(Zip Code)

(514) 935-2525

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
NONE	NONE

Securities registered under Section 12(g) of the Exchange Act:

NONE

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and if no disclosure will be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Edgar Filing: TIREX CORP - Form 10KSB

\$nil

(Issuer's revenues for its most recent fiscal year)

\$4,998 (as of October 1, 2003)

(Aggregate market value of the voting stock held by
non-affiliates of the Issuer)

249,895,892 (as of October 1, 2002)

(Number of shares outstanding of each of the Issuer's
classes of common stock)

Transitional Small Business Disclosure Format (check one)
Yes [] No [X]

DOCUMENTS INCORPORATED BY REFERENCE
into Part I

Annual Report of the Company on Form 10-KSB for
the year ended June 30, 2002

Quarterly Reports of the Company on Form 10-QSB for the
quarters ended September 30, 2002, December 31, 2002,
and March 31, 2003

Current Reports on Forms 8-K of the Company
(none)

ITEM 1. DESCRIPTION OF BUSINESS

The Company

The Tirex Corporation (hereinafter referred to as "we", "us" or the "Company") is engaged in the business of developing for sale, license or lease an environmentally safe patented "turn key" cryogenic tire recycling system, known as the "TCS System". The TCS System was designed and developed by us and separates tires into clean and saleable rubber crumb, steel wire, and fiber. The Company was incorporated in Delaware on August 19, 1987 under the name "Concord Enterprises, Inc." The Company's name was changed to "Stopwatch Inc." on June 20, 1989 and to "Tirex America Inc." on March 10, 1993. On July 11, 1997, the Company's name was changed to "The Tirex Corporation". Since 1993, our core business has been to develop and to initiate marketing efforts by sale or license of an environmentally friendly cryogenic tire recycling system, which we intend to sell to recycling companies and governmental agencies to enable them to recycle tires. We have devoted the bulk of our efforts to completing the design and development of our first production model and raising the financing required to do so. The Company has generated only very limited revenues from operations and is still in the development stage.

The TCS-System

Our TCS-System comprises a complete, turn-key, environmentally safe, cryogenic tire recycling system designed to: (i) disintegrate scrap tires, using less energy than is required by existing ambient methods (which shred and/or chop tires at "ambient" or normal room temperatures) or other currently

Edgar Filing: TIREX CORP - Form 10KSB

available cryogenic methods (which reduce the temperature of the materials through the use of liquid nitrogen), and (ii) produce commercially exploitable, high quality, clean rubber crumb and unshredded steel and fiber. Disregarding configuration variations related to tire feedstock preparation and possible auxiliary grinding after processing through the System to obtain higher proportions of fine mesh rubber, these variations not forming part of our technology in any event, the TCS System is offered in two basic versions, these being the TCS-1 and the TCS-2. These two versions have an annual throughput capacity of approximately one million tires and two million tires respectively, these numbers based on average automobile tires.

The freezing chamber of the TCS-1 Production Model previously located in Montreal is a large tank through which the tire parts are circulated at temperatures of approximately 170 degrees below zero, Fahrenheit. The second version of the TCS has been designed to run approximately 20 degrees colder to ensure that no pieces of rubber can warm up to the "glass point" before being entirely processed by our patented fracturing mill. Frozen tire parts are passed through another chamber that separates the component parts of all tires, including rubber, wire and twine. This chamber contains crushing mechanisms and other proprietary parts and processes that transform the rubber into very small particles (mesh). The mesh is then physically separated from the metal and twine and is finally subjected to other steps to achieve the desired mesh size.

The functions and mechanisms of the TCS-System have been designed for the exclusive purpose of disintegrating automobile tires, although relatively minor modifications could be introduced to accept other kinds of tires as well. The components of a typical tire, which the TCS System is designed to cleanly separate, basically consist of the following elements:

- o Two types of rubber. The sidewalls of automobile tires are constructed of material containing a higher percentage of natural, as opposed to synthetic, rubber which is used in the treads. One of the several possible configurations of the front-end tire preparation section of the TCS-System has been designed to allow the entrepreneur to take advantage of these differences to produce separate rubber powders from sidewalls and treads, should the market for his output show such separation to be advantageous;
- o Steel beads, which consist of steel wires tightly wound together to a diameter of approximately 3/8 of an inch. These beads are imbedded around the edges of the tire which contact the wheel rims; Steel belting, which incorporates a thin layer of steel wires laid out in a "herring bone" pattern and which underlies the surface of the tread area; and
- o Fiber threads which are incorporated into the rubber used throughout the tire.

The TCS System has been designed to operate continuously (with minimum amounts of scheduled downtime for maintenance) and to require less energy than is used, to the best of the Company's knowledge, by other presently existing tire recycling equipment.

1

Step-by-Step Operations

The step-by step operations of the TCS-System comprise the following:

Tire Feedstock Preparation

Edgar Filing: TIREX CORP - Form 10KSB

The TCS System is not designed to accept whole tires; whole tires must undergo preliminary preparation to produce pieces of tire having a dimension which permits their introduction into the patented fracturing mill. Feedstock preparation can be accomplished in a number of ways including chipping, shredding and removal of sidewalls followed by diecutting. None of these techniques form part of the TCS System technology and the technique ultimately chosen by the tire recycling entrepreneur will revolve around issues of capital and operating costs as well as possible issues of transportation costs respecting whole tires.

Freezing the Tire Pieces

The prepared tire pieces are deposited on a conveyor belt which brings a continuous stream of tire pieces to a freezing chamber. Supercooled air, produced on-site by an Air Plant, is continuously blown into the freezing chamber, and this cold air freezes the tire pieces moving through the chamber to the point where these pieces can be made to shatter like glass when subjected to forces such as pressure and bending. After approximately thirty minutes in the Freezing Chamber the frozen pieces exit the Freezing Chamber and enter our patented disintegrators ("Fracturing Mills").

Size Reduction and Materials Separation in the Fracturing Mill

The frozen tire pieces pass through our patented disintegrators ("Fracturing Mills") where the pieces are reduced to three separate output materials, these being rubber crumb of varying degrees of fineness, intact pieces of steel and intact pieces of fiber. This operation does not involve any chopping, shredding, or hammer-milling. Therefore, the steel wires are neither cut nor broken. The fiber threads retain their basic shapes and characteristics. No steel powder or fiber fluff is produced.

Elimination of the Steel from the Fracturing Mill Output

Upon completion of processing in the Fracturing Mill, the output is conveyed to a magnetic separation system where the intact steel wires are magnetically removed from the remaining output of the Fracturing Mill, this being the rubber crumb and the fiber. The steel can then be baled for either disposal or sale.

Fiber Removal

The fiber and rubber crumb is then passed through screens to separate the crumb from the fiber threads. The fiber threads are then conveyed out of the machine. The fiber can then be baled or put into a container for either disposal or sale.

Rubber Crumb Finishing

Rubber crumb finishing operations are dictated by the output requirements of the entrepreneur and his or her customers. A basic TCS System will produce rubber crumb which is virtually all 10 mesh or finer with virtually all of the output falling between 10 mesh and 30 mesh and with the output profile skewed toward the 10 to 15 mesh side of the spectrum. Market considerations might incite the recycling entrepreneur to request greater proportions of finer mesh rubber crumb than a basic TCS System is designed to produce, such as 100% 30 mesh. This requires auxiliary grinding, which takes place after the steel and fiber have been removed, and affects the configuration of the post Fracturing Mill operations. Auxiliary processing equipment does not form part of the TCS System technology. It is possible that some very small pieces of steel and fiber can be trapped in the larger pieces of rubber coming out of the Fracturing Mill. These small amounts of steel and fiber are released during auxiliary processing and can be separated during the auxiliary processing

Edgar Filing: TIREX CORP - Form 10KSB

operation, magnetically for the steel and by an air separation system for the residual fiber. The rubber crumb is then passed through a series of screens to sort the rubber crumb by mesh size, which is thence packaged for customer requirements.

2

Research and Development Activities

The Company's technical expertise and that of its consultants have been an important factor in its development. Since its inception, the Company has devoted substantial resources to the design and development of the TCS-1 Plant as well as to raising the financing necessary for such activities. During the fiscal years ended June 30, 2002 and 2003 respectively, the Company expended approximately \$751,251 and \$450,000 on research and development activities applied to the design, development, and construction of the first TCS-1 production model and to the design of the TCS-2 model, as well as to product development involving rubber crumb. Long-term testing started in the third and fourth quarters of fiscal 1999 and continued through to the end of Calendar 2001. This testing first revealed design problems involving the conveying system within the freezing tower. Which were corrected during the third quarter of fiscal 2000 Further testing revealed additional problems in materials separation which were corrected during Fiscal 2002. The Company also became aware that the output profile of rubber crumb in terms of mesh size from a basic TCS-1 System was not consistent with the high proportions of fine mesh rubber crumb being requested by our identified potential customers. Auxiliary processing equipment was identified and, with the exception of two pieces of equipment, was acquired and installed in late Calendar 2001. Financial considerations dictated that certain of the pieces of equipment so acquired were used equipment and we encountered problems with some of this used equipment. Regardless, Management believes the TCS-1 System which was developed and installed in Montreal is ready for replication and commercialization. In collaboration with our Licensee, Simpro S.p.A. of Turing Italy, we continue to refine and enhance our tire disintegration technology to comply with emerging regulatory or industry standards or the requirements of any potential customer.

During the fiscal year ended June 30, 2003 all research and development activities respecting the TCS-1 First Production Model and the design of the TCS-2 were carried out by the Company's engineering and technical staff, consisting of Louis V. Muro, Vice President in Charge of Engineering, and two other Company contractually employed engineers.

Our current rate of recovery of saleable rubber per tire is approximately 94% of the total amount of rubber (15 lbs.) in a 19 lb. (average weight) used auto tire. To the best of our knowledge, the recycling industry currently recovers only 70-80% of the rubber. Until January 2002, we continued to test the TCS-1 First Production Model components to identify opportunities to increase its operating efficiency.. During Fiscal 2002, we developed a design for a second generation system (the "TCS-2") which is to provide approximately double the scrap tire processing capacity of a TCS-1 System. Plant. No Production Model of this second freezing tower has been constructed to date. Our Licensee, Simpro S.p.A., is currently in construction of a demonstration platform which will represent the second generation TCS technology.

Manufacturing

Our activities to date have focused primarily on the design and development of the TCS-1 First Production Model, and, more recently, on the design of a second generation version of this technology. In connection with these activities, we have been dependent upon arrangements with subcontractors for the manufacture and assembly of the principal components incorporated into a

Edgar Filing: TIREX CORP - Form 10KSB

TCS System Plant. Pursuant to our signing of the exclusive manufacturing license agreement with Simpro, S.p.A., with the exception of those systems which Simpro might choose to refuse to accept a contract from any particular potential customer, all manufacturing activities of our company will be undertaken by this Italian company. In the seemingly unlikely scenario where Simpro would refuse a contract which we believe should be accepted, we would have the right to go to alternate sources to have such systems manufactured and installed. . Management believes that numerous alternative sources of supply for all such systems are readily available.

We have licensed the manufacturing respecting our technology to our Manufacturing Partner, Simpro S.p.A. of Turin, Italy. Simpro is a designer and manufacturer of high-technology production systems, historically primarily for the automobile industry, and is active internationally. Simpro has its ISO 9001, ISO 14001 and EMAS certifications.

3

Operations

Until near the end of Fiscal 2002, we had one Production Model TCS-1 Plant which was composed of various proprietary and non-proprietary parts and technology. During Calendar 2001 we converted the Production Model into a full-scale commercial recycling center, with only two pieces of equipment required to be added such that we would be able to produce the quantities of fine mesh rubber crumb demanded by our identified customers. The lack of financial resources forced Management to suspend crumb rubber operations at the time of the calendar 2001 Christmas season. The continued lack of financial resources in early calendar 2002 forced Management to prolong the shutdown indefinitely. Near the end of Fiscal 2002, the Air Plant was returned to the lessor, and, subsequently, the remaining components of the system were dismantled. In order to satisfy the consulting fees and out-of-pocket costs associated with the dismantling, relocation and storage of the First Production Model, most of these components were assigned to the consultant for sale. The Fracturing Mill was sent to the Simpro facility in Italy, where it remains, to facilitate its redesign into a more compact unit.

On May 29, 1997, we entered into an Equipment Lease and Purchase Agreement (the "OTRP L&P Agreement") with Oceans Tire Recycling & Processing Co., Inc. ("OTRP"), a New Jersey corporation. Pursuant to the OTRP L&P Agreement, OTRP was to purchase the first production model TCS-1 Plant with an anticipated delivery date of September 15, 1997. However, while construction of the first full-scale Production Model of the TCS-1 Plant began in February of 1997, its completion was delayed because of the limited funds available for such purpose. As a result, OTRP waived the delivery date and agreed to reschedule delivery. In December 1997, OTRP and the Company agreed that, to the extent necessary for OTRP to obtain sale and lease-back financing for the front-end module ("Front-End") and for certain parts of the Air Plant portion of the Plant, the OTRP Agreement would be deemed to be modified, as required for such purpose. In connection therewith OTRP arranged with an equipment financing company for sale and lease-back financing, pursuant to which: (i) the said financing company purchased the Front-End and certain designated portions of the TCS-1 Plant's Air Plant directly from us; and (ii) leased such equipment back to OTRP pursuant to its arrangements with OTRP and/or the OTRP principals. We sold, pursuant to a lease purchase arrangement, the Front-End for a total purchase price of \$300,000, with irrevocable acceptance and final payment being obtained in December of 1997. The designated portions of the Air Plant were sold/leased to a financing company for a total purchase price of \$580,000, with irrevocable acceptance and final payment being obtained in April of 1998.

In July 2000, we entered onto a new agreement with OTRP/its principals

Edgar Filing: TIREX CORP - Form 10KSB

(the "New Agreement") modifying and clarifying provisions of the prior agreement between the parties regarding certain rights to the Production Model. Pursuant to the terms of the New Agreement, we issued 4,553,102 shares of its Common Stock to OTRP's principal officer and stockholder in exchange for forgiveness of approximately \$938,000 in advances to us or paid on its behalf through June 30, 2000. The New Agreement confirmed OTRP's assignment to us of all its rights to the Production Model and related technology, including all intellectual property rights and any and all rights accruing to OTRP upon termination of the financing lease/purchase arrangements. In addition, OTRP and its principal agreed to make all lease payments to the financing companies in the event we failed to do so and to convert all advances into our Common Stock at 50% of the market value on the date of conversion. During fiscal year ended June 30, 2001 OTRP advanced \$256,857 toward our lease payments, and continued to make lease payments in Fiscal 2002 at the rate of \$29,280 per month, until the expiration of the lease in mid-April 2002. Insofar as the equipment was not being used after the expiry of the lease, no further lease payments were made. As indicated previously, the lessor requested the return of the equipment, which was accomplished when the lessor provided us with an appropriate destination. In April of 2002, 2,250,000 shares were issued in partial payment against the lease payments made.

Subsidiaries

In May of 1995, in order to take advantage of financial incentives in connection with the research and development work on the first production model of the TCS-1 Plant, we formed a Canadian corporation, 3143619 Canada Inc. On June 3, 1998, this entity's name was changed to Tirex Canada R&D Inc. (hereinafter referred to as "Tirex R&D"). To qualify for Canadian Government grants and tax benefits, the record owners of 51% of the issued and outstanding capital stock of Tirex R&D are John L. Threshie, Jr. our President and Chairman of our Board of Directors and Louis V. Muro, our Vice President of Engineering

4

and a member of our Board of Directors, both of whom are Canadian residents. John L. Threshie, Jr. also serves as the Chairman of the Board of Directors and the Chief Executive Officer of Tirex R&D while Louis V. Muro also serves as a vice president and a director of Tirex R&D. We are the record holder of the balance of 49% of the issued and outstanding capital stock of Tirex R&D. Messrs. Threshie and Muro hold their Tirex R&D shares under the terms of a shareholders agreement, which we can require them to transfer all such shares to us for no compensation.

On April 22, 1998, we formed a second Canadian corporation, 3477584 Canada Inc., the name of which was changed to Tirex Advanced Products Quebec Inc. on June 3, 1998 (hereinafter referred to as "TAP"). TAP is a wholly owned subsidiary of ours, but is presently dormant.

On June 1, 1998, we formed a third Canadian corporation, The Tirex Corporation Canada Inc., referred to herein as "TCCI". TCCI is also a wholly owned subsidiary of ours. TCCI was established to operate as our manufacturing arm, but is presently dormant. We do not have any current plans to re-activate TCC.

We also have another dormant, wholly owned subsidiary, formed under the laws of the State of Delaware, Tirex Acquisition Corp. ("TAC"), for which we have no present plans.

Canadian Grants

The governments of Canada and Quebec, have officially acknowledged the pivotal role played by business investment in research and development in

Edgar Filing: TIREX CORP - Form 10KSB

insuring sustained economic growth and long-term prosperity. In order to encourage such activities, the Government of Canada, on a national basis, and the Government of Quebec, on a provincial basis, support private research and development initiatives through the provision of scientific research tax incentives to businesses and individuals. As a result of the combined efforts of both levels of government, the Quebec location has offered the most generous tax incentives for research and development programs in North America of which we are aware.

In May of 1995, in order to take advantage of such financial incentives in connection with the research and development work on the first production model of the TCS-1 Plant, we formed Tirex R&D. (See "Subsidiaries").

The Tirex R&D License

Tirex R&D holds an exclusive, ten year license from the Company, which expires on July 2, 2005. This license, which was modified in June of 2002, permits Tirex R&D to design, develop, and manufacture the TCS-Systems on a worldwide basis (the "Primary License"). To the extent necessary to ensure that Tirex R&D's operations are focussed on pure research and development activities, Tirex R&D may sublicense the Primary License to TCCI or such other corporate entity as would be deemed appropriate and beneficial. Unless the context requires otherwise, the terms of the sublicense will be identical to those of the Primary License. To the extent necessary to achieve the aforesaid goals, all other contracts to which Tirex R&D is a party, will be transferred and assigned, in whole or in part, from Tirex R&D to us, TCCI, or any other existing or future subsidiary or affiliate of ours.

Canadian Government and Government Sponsored Financial Assistance

Our May 1995 transfer of our research and development and manufacturing activities to Tirex R&D (then referred to as "Tirex Canada") made us eligible for various Canadian and Quebec government programs which provide loans, grants, and tax incentives, as well as government guarantees for loans from private lending institutions, for eligible investment, research and development, and employee-training activities.

5

Tax Incentives

Canadian and Quebec tax incentives take the form of deductions and tax credits with respect to eligible research and development expenditures of Tirex R&D. Certain tax credits are called "refundable" because, to the extent that the amount of the tax credit exceeds the taxes payable, they are paid over or "refunded" to the taxpayer. Thus such credits function effectively as monetary grants. To qualify for such tax credits, research and development activities must comprise investigation or systematic technological or scientific research conducted through pure or applied research, undertaken to advance science and develop new processes, materials, products or devices or to enhance existing processes, materials, products, or devices. In the period following June 30, 2002, the Company's claim for tax credits in respect of Fiscal 2002 was audited by Revenue Canada, which organization recently changed its name to Canada Customs and Revenue Agency, or CCRA. For purposes of ease of reading, the old name of Revenue Canada will continue to be used. As a result of this assessment, Revenue Canada determined that Cdn\$193,936 (approximately US\$124,000) was due to us. After deducting arrearages on payroll taxes and amounts due to other government departments, the Company received a net amount of Cdn\$132,038 (approximately US\$84,500). As a function of reciprocal arrangements between Revenue Canada and Revenue Quebec, the Revenue Canada audit result becomes the basis of the calculation of the tax credit granted by Revenue Quebec. The calculated Quebec

Edgar Filing: TIREX CORP - Form 10KSB

credit is Cdn\$180,520 (approximately US\$115,500) After deduction of payroll tax arrearages and payroll tax audit adjustments, an amount due to us in the amount of Cdn\$119,365 was established (approximately US\$76,400). Rather than release this amount, Revenue Quebec withheld the amount on account of taxes owed by the President of the Company.

Canadian Government, and Government Sponsored Loans and Grants

We have in the past also received financial assistance by way of loans and grants from Canadian and Quebec governmental agencies for the design and development of the TCS-1 Plant and for export market development. All of the activities for which these loans were approved have been completed and we have received the funds approved. Approximately 80% of the loans previously received have been repaid. Of the remaining approximately CA\$150,000 (approximately US\$111,000 using a \$0.74 exchange rate) US\$66,500 will be forgiven if the Company does not realize any sales in Spain and Portugal prior to June 30, 2004 and a further approximately US\$14,800 will also be forgiven if there are no sales in Spain and / or Portugal prior to June 30, 2007.

Patent Protection

We were issued a United States patent on our Cryogenic Tire Disintegration Process and Apparatus on April 7, 1998 (Patent No. 5,735,471). The duration of the patent is 20 years from the date the original application was filed. In November 1998, we filed our patent, for review, with the Canadian Patent Office. We are unable to state at this time how long the Canadian review process will take and is unable to give any assurances that the Canadian Patent will be granted. Prior to the issuance of such patent, we relied solely on trade secrets, proprietary know-how and technological innovation to develop our technology and the designs and specifications for the TCS-1 Plant. In connection with a loan made by the Bank of Nova Scotia to the Company, a lien on this patent was granted to the bank. With the loan having been paid off, the lien was lifted and at present, the patent is free of liens. We do not presently hold any patents for our products or systems outside of the United States. A Canadian patent has been applied for and remains pending. We have lacked the financial resources to apply for a process patent on an international basis, but the Company intends to file for additional patent protection, in accordance with our Agreement with Simpro S.p.A. of Turin, Italy, once sufficient financial resources will become available.

We have entered into confidentiality and invention assignment agreements with certain employees and consultants, which limit access to, and disclosure or use of, our technology. There can be no assurance, however, that the steps we have taken to deter misappropriation of our intellectual property or third party development of our technology and/or processes will be adequate, that others will not independently develop similar technologies and/or processes or that secrecy will not be breached. In addition, although Management believes that our technology has been independently developed and does not infringe on the proprietary rights of others, there can be no assurance that our technology does not and will not so infringe or that third parties will not assert infringement claims against us in the future. Management believes that the steps they have taken to date will provide some degree of protection, however, no assurance can be given that this will be the case.

6

Competition

At present, there are various methods available to recycle tires, either to produce rubber crumb or to extract their energy value. We know of no devices, apparatus or equipment, utilizing technology which is identical or

Edgar Filing: TIREX CORP - Form 10KSB

comparable to the TCS-System technology, which are presently being sold or used anywhere in the world, nor are we aware of any competing patents relating to our disintegration technology. However, the TCS-System technology may reasonably be expected to have to compete with related or similar processes, machines, or devices for tire disintegration, cryogenic or otherwise. There are presently many companies currently recycling tires which have established business relationships. Moreover, prospective competitors which may enter the field in the future may be considerably larger than us in total assets and resources. This could enable them to bring their own technologies to more advanced stages of development with more speed and efficiency than we will be able to apply to the TCS-System. Additionally, manufacturers of presently available equipment and systems are in a position to operate research and development departments dedicated continually to improving conventional systems and to developing new and improved systems. There can be no assurance that the TCS-System will successfully compete with existing systems or with any improved or new systems which may be developed in the future.

Employees

As of October 2002, we have four persons employed either directly or under consulting contracts including its three executive officers.. All of the foregoing persons devote their full time to our business and affairs, as required. At times, we also utilize the services of part-time consultants to assist us with market research and development and other matters. We intend to hire additional personnel, as needed.

Potential Markets

We believe that the potential markets for our TCS System will directly reflect the level of demand for economical, high quality rubber crumb derived from the recycling of scrap tires. The following discussion of the potential markets for rubber crumb assumes that the TCS System will be capable of economically producing high quality recycled rubber crumb and in a variety of sizes, capable of being used in wide range of products. It should be noted, however, that because of the limited operating history of our heretofore Production Model TCS-1 Plant, we cannot, give any assurance that our TCS Systems will in fact perform as expected under continuous, commercial operating conditions. Moreover, even if the demand for rubber crumb should increase in accordance with our expectations, there can be no assurance that a demand for TCS Systems will likewise develop.

Rubber is a valuable raw material and we believe that recycling this valuable resource from scrap tires is an ideal way to recover that value. Recycled scrap tire rubber is already used in a great variety of products, promoting longevity by adding it to asphalt pavement, adding bulk and providing drainage as a soil additive, providing durability as a carpet underpadding, increasing resiliency in running track surfaces and gymnasium floors, absorbing shock and lessening the potential for injuries as a ground cover for playgrounds and other recreational areas, and as a significant component added to plastic resins for making extruded or injection molded products.

Marketing Activities

To a large extent, we have in the past concentrated our efforts on completing the design, development, and construction of our heretofore First Production Model TCS-1 Plant and raising adequate financing to support such efforts. Our long-term objective, however, is to market TCS Systems worldwide, through national and international sales representatives, licensees or strategic partners.. Pursuant to an extensive technical audit, our heretofore First Production Model permitted our company to be certified as an Accredited Tire Recycler by Recyc-Quebec, a quasi-governmental agency of the Quebec Government, and should we re-establish crumb rubber production operations, we would be

Edgar Filing: TIREX CORP - Form 10KSB

entitled to tipping fees paid by Recycle Quebec. In the meantime, Management believes that this accreditation will be beneficial to our marketing efforts respecting our technology.

7

We can make no assurances with respect to the success of our marketing and distribution strategy of our TCS Systems. Furthermore, we have limited resources to achieve the distribution of our TCS Systems and to date we have made no sales, leases or licenses. We believe that we will need additional financing, which may not be available, to achieve our long-term objectives.

Government Regulation

Insofar as the Company is not actually a tire recycler, government regulations have little direct effect on our activities. Of greater importance is the possible effect on our customers for the TCS technology. The TCS-System is a "closed loop" system which does not use any chemicals, solvents, gases or other substances which could result in emissions of any kind from the operation of the Plant. To the best of the Company's knowledge, operation of a TCS-System will not result in the emission of any pollutants, the disposal of combustion residues, the storage of hazardous substances, or the production of any significant amounts of solid waste which would have to be landfilled. However, the operation of a TCS System will involve, to varying degrees and for varying periods of time, the storage of scrap tires or tire pieces representing the feedstock to the System, and limited storage of crumb rubber prior to shipment to customers. Rubber, regardless of its physical dimensions or form, is widely defined as being a fire hazard by fire protection services in most industrially-advanced countries. Whole tires, with their size, volume and composition, can pose potentially serious environmental problems. While the Company does not believe that such storage will normally involve quantities of tires so large or storage periods so extensive as to constitute the "stockpiling" of scrap tires, it should be noted that stockpiling, should it occur, could constitute a particularly serious environmental problem. Among the numerous problems relating to scrap tires, is that when stockpiled above ground, tires create serious public health and environmental hazards. These range from scrap tire fires, which generate large and dense clouds of black smoke and cause serious soil pollution and are extremely difficult to extinguish, to the creation of vast breeding grounds for mosquitoes and vermin.

As a result, many US states and Canadian provinces have either passed or have pending legislation regarding discarded tires including legislation limiting the storage of used tires to specifically designated areas. Operators of TCS Systems will therefore be subject to various local, state, and federal laws and regulations including, without limitation, regulations promulgated by federal and state environmental, health, and labor agencies. Establishing and operating a TCS System for tire recycling will require numerous permits and compliance with environmental and other government regulations, on the part of our customers, both in the United States and Canada and in most other foreign countries. The process of obtaining required regulatory approvals may be lengthy and expensive for customers of our TCS Systems. Moreover, regulatory approvals, if granted, may include significant limitations on operations. The US-EPA and comparable US state and local regulatory agencies, and similar government bodies in Canada and in other jurisdictions where TCS Systems will be marketed actively enforce environmental regulations and conduct periodic inspections to determine compliance with government regulations. Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspension of approvals, seizure or recall of products, operating, restrictions, and criminal prosecutions.

We believe that existing government regulations, while extensive, will

Edgar Filing: TIREX CORP - Form 10KSB

not result in the disabling of its TCS System customers to operate profitably and in compliance with such regulations. While these regulations are usually stringent, the huge scrap tire problem must also be dealt with on a daily basis and the need for economic and environmentally friendly recycling operations is critical. The burden of compliance with laws and regulations governing the installation and/or operation of TCS Systems could, nonetheless, discourage potential customers from purchasing a TCS System. This would adversely affect our business, prospects, results, and financial condition. As a result, our business could be directly and indirectly affected by government regulations.

8

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate headquarters is located at 4055 Ste-Catherine St. West in the Westmount Borough of the City of Montreal, Suite 151, Montreal, Quebec, Canada H3Z 3J8. We have occupied offices at this address since March 2003. The space is provided free of charge, including electricity, heating and local telephone service. During Fiscal 2002, the Company occupied premises in an industrial building on St. Patrick Street in Montreal, where our heretofore First Production Model was located. After having accumulated very substantial arrearages in rent and property taxes for which we were financially responsible, our former landlord instructed us to vacate these premises such that he could rent the space out to another company. As part of the settlement agreement with this former landlord, we agreed to pay to this former landlord the sum of US\$540,000 out of the proceeds of the first four sales of TCS Systems, at the rate of US\$140,000 per system sold.

ITEM 3. LEGAL PROCEEDINGS

We are presently a party in the following legal proceedings:

IM2 Merchandising and Manufacturing, Inc and David B. Sinclair v. The Tirex Corporation, Tirex Corporation Canada, Inc., et al.

The Plaintiffs, a Canadian resident and a Canadian corporation sued in the Delaware, U.S. Federal District Court claiming fraud, breach of contract, unjust enrichment and other allegations, that the alleged Defendants, which include Tirex Corporation Canada and The Tirex Corporation, jointly conspired to profit from their failure to comply with terms of a manufacturing agreement. The monetary demand of this complaint was unspecified. We were prepared to move to dismiss Plaintiffs' Complaint, but after consultations with the Plaintiffs' Attorneys, the Plaintiffs' withdrew this complaint voluntarily. Plaintiffs later filed a second action in the Chancery Court of Delaware alleging certain of the same allegations; fraud, breach of contract, unjust enrichment, breach of fiduciary duty and misrepresentation, but eliminated other counts including the securities fraud allegations. The Defendants in the State Court action are the same named in the Federal Court action, and again the monetary damages are unspecified. We moved to dismiss the State Court Chancery case alleging defective service of process and asserting that the Court had no jurisdiction over the Defendants in Delaware and for removal of the case to Canada based on forum non convenienc and other considerations. Our motion was granted and the case dismissed.

Subsequently, on or about April 25, 2001, the Plaintiffs instituted a lawsuit in Superior Court, judicial district of Montreal alleging breach of contract and claims damages of Canadian\$794,690 (approximately US\$508,600) representing expenses and an additional Canadian\$5,411,158 (approximately US\$1,874,000) in loss of profits. We have filed a detailed answer denying all liability, stating further that Plaintiffs failed to comply with their obligations. We believe we have meritorious defenses to all of the Plaintiffs'

Edgar Filing: TIREX CORP - Form 10KSB

claims. The action is still pending.

Surgent v. The Tirex Corporation

An action was brought by the Plaintiff against us, alleging that we had agreed to issue 1,000,000 shares of our Common Stock to the Plaintiff in consideration for expenses allegedly paid by the Plaintiff on our behalf in the amount of approximately \$150,000. These expenses allegedly were incurred in relation to the rental of certain office space and performance of administrative services. The Plaintiff's complaint sought to impose an equitable trust or lien on 1,000,000 of our unissued common shares, demanded the issuance of the 1,000,000 shares and alleged breach of contract and claimed damages of \$1,400,000.

We moved to dismiss the case on various procedural grounds and in September 2000 the Court granted our motion based upon the lack of venue in Union County, New Jersey. A new action was instituted by Plaintiff in the Superior Court of New Jersey, Bergen County in April 2001 alleging similar claims as set forth in the previous action (Docket L-08060-00). We denied all of plaintiff's allegations. On July 24, 2002, The Superior Court of New Jersey, Bergen County, dismissed, with prejudice, the plaintiff's complaint for "Lack of Prosecution". Plaintiff was granted right to appeal, which was undertaken. However, Plaintiff's appeal was rejected by the Appellate Court.

9

Lefebvre Freres Limited v. The Tirex Corporation

Lefebvre Freres Limited instituted an action against us on August 13, 2001 in the Superior Court, judicial district of Montreal claiming Canadian \$98,513 (approximately US\$63,000) is due and owing for the manufacture and delivery of car tire disintegrators. We are preparing a defense and cross claim against Plaintiff as the product delivered was defective and we believe we are entitled to a reimbursement of sums paid. The action is still pending.

Tri-Steel Industries Inc. v. The Tirex Corporation

Our landlord Tri-Steel Industries Inc. instituted an action against us, and our subsidiaries Tirex Canada and Tirex Canada R & D Inc., on or about June 22, 2001 for arrears of rent in the amount of Canadian \$177,973.62 Subsequent to the Plaintiff's instituting this action, we continued to accumulate very substantial arrearages for rent and property taxes for which we were financially responsible. Subsequent to our vacating the premises which had been the object of the lease, we settled with our former landlord for a total amount of US\$560,000, to be paid at the rate of \$140,000 from each of our first four TCS System sales.

No director, officer, or affiliate of the Company, or any associate of any of them, is a party to or has a material interest in any proceeding adverse to us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fiscal year ended June 30, 2003 no matters were submitted to a vote of the shareholders of the Company.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Edgar Filing: TIREX CORP - Form 10KSB

The Company's common stock, is traded on a limited basis in the over-the-counter market and, since January 2003, has been listed on the "Gray Sheets". We are currently attempting to have our stock re-quoted on the OTC Electronic Bulletin Board, maintained by the National Association of Securities Dealers, Inc. (the "OTC Bulletin Board"). The following table sets forth representative high and low bid prices by calendar quarters as reported in the OTC Bulletin Board during the last two fiscal years. The level of trading in the Company's common stock has been limited and the bid prices reported may not be indicative of the value of the common stock or the existence of an active market. The OTC market quotations reflect inter-dealer prices without retail markup, mark-down, or other fees or commissions, and may not necessarily represent actual transactions.

10

Period	Bid Prices Common Stock	
	High	Low
Fiscal Year Ending June 30, 2002	High	Low
September 29, 2001	\$ 0.08	\$ 0.02
December 29, 2001	0.03	0.01
March 30, 2002	0.02	0.01
June 29, 2002	0.03	0.01
Fiscal Year Ending June 30, 2002	High	Low
September 30, 2002	\$ 0.01	\$ 0.01
December 30, 2002	0.01	0.01
March 31, 2003	See note following	
June 30, 2003	See note following	

Since being relegated to the Gray Sheets, bid prices are not posted.

Shareholders

As of October 1, 2003, the number of holders of record of the Company's common stock, \$.001 par value, was less than 500, which does not include shares held by persons or companies in street or nominee name.

Dividends

The Company has paid no cash dividends and has no present plan to pay cash dividends, intending instead to reinvest its earnings, if any. Payment of future cash dividends will be determined from time to time by its Board of Directors, based upon its future earnings (if any), financial condition, capital requirements and other factors, the company is not presently subject to any contractual or similar restriction on its present or future ability to pay such dividends.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes thereto included elsewhere in this prospectus. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. These

Edgar Filing: TIREX CORP - Form 10KSB

forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external competitive market factors or in our internal budgeting process which might impact trends in the our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in the our business strategy or an inability to execute its strategy due to unanticipated changes in the industries in which we operates; and (iv) various competitive factors that may prevent the us from competing successfully in the marketplace.

In March 2000, we announced that our tire recycling technology was ready for replication and commercialization. Since Fiscal 2001, we have demonstrated our technology to numerous groups from Asia, Europe, North and South and America and the Caribbean, as well as to some shareholders and potential strategic alliance partners. While numerous Letters of Intent have been signed, as of September 30, 2003, no purchase/sale contracts had been written.

11

Marketing Structure

We entered into a conditional agreement with Tirex-Europe in April 2001 respecting market development activities to be undertaken in most of Europe, the Middle East and those North African countries bordering on the Mediterranean Sea. This agreement originated from a previous letter of intent we entered into with European Transformation Resources (ETR), a company to be incorporated under the laws of the Grand Duchy of Luxembourg, for the marketing of TCS Systems in these same regions. Under the terms of the conditional agreement with Tirex-Europe, the Gross Revenue and Cost of Systems Sold numbers resulting from the sales of TCS Systems by Tirex Europe would be recorded on their books rather than on ours. Revenue would thus be attributed to us on the basis of a gross profit sharing proportion applied to such sales concluded by Tirex-Europe. These gross profit sharing proportions are variable as a function of whether or not the sale is being made to a new customer or an existing customer and how many sales are being made to the same customers. The variable scale is not country-specific. Also under the terms of the Tirex-Europe Agreement, Tirex-Europe will pay to us the sum of \$500,000, payable over the sale of the first ten TCS Systems but with an overall deadline of twelve months. The contract with Tirex-Europe does not come into effect until Tirex-Europe delivers to us a first firm purchase order for a TCS System. To date, Tirex Europe has not delivered any firm purchase orders and thus the Tirex Europe Agreement remains ineffective. The Agreement has not, however, been cancelled. In the interim, we are completely at liberty to undertake any marketing activities we feel appropriate in those countries and regions where Tirex Europe was to be active.

In January 2000, we signed a License Agreement with Ocean Equipment Manufacturing and Sales Co. ("OEMS") of New Jersey, a company owned by Louis A. Sanzaro who is also a director and a significant shareholder of Tirex, for the marketing and for the manufacturing, installation and service of our tire recycling systems in the U.S. market. Under the terms of the Agreement, we would receive a royalty for each system sold, subject to adjustments respecting actual manufacturing costs. As of June 30, 2003, OEMS had not yet concluded any sales of TCS Systems to independent parties. As reported in a previous 10-K, Mr. Sanzaro had accepted to relinquish his exclusivity with respect to the US market. We are now dealing with potential US customers directly or through go-betweens on a case-by-case basis, and as such the Company has not had to pay any up-front fees or commissions or assume any marketing expenses incurred by such independent persons.

Edgar Filing: TIREX CORP - Form 10KSB

On January 31, 2001, we entered into an Agreement with James Conway, an Australian national, under which he was named Business Development Manager Asia. Under this Agreement, Mr. Conway was directed to find a Japanese licensee to produce and sell TCS Systems. The Japanese company eventually selected would have exclusive rights to the Japanese market and non-exclusive rights in other Asian markets. This five-year agreement with Mr. Conway provides for the payment of 10% of the License Fee paid by the Japanese company plus a 1% commission on sales made within five years on all sales made by the licensed Japanese manufacturer. On August 10, 2001, we further appointed Mr. Conway as a Sales Representative in Asian markets which would be outside of Japan, the territory which would be attributed to an eventual Japanese licensee. Under the terms of this three-year agreement, Mr. Conway would receive a commission equal to 5% of the selling price, before any sales or value-added taxes, customs and excise taxes and similar levies which might be imposed by a government. This Agreement will expire on August 8, 2004, but can be renewed. We remain free to undertake whatever marketing activities it deems appropriate in the Asian market, regardless of any activities of Mr. Conway

In January 2003, the Company entered into a License Agreement with Simpro S.p.A. for exclusive manufacturing rights and for non-exclusive marketing rights with respect to TCS Systems. Simpro is actually in construction of a new demonstration model in Italy which it plans to use to support their marketing efforts. To date, Simpro has not sold any systems.

During Fiscal 2002 and 2003, the Company received several expressions of interest to market our systems in worldwide markets but the Company is unwilling to give market exclusivity to anybody except on a customer-by-customer basis.

12

The lack of a significant track record relative to the operation and output of the TCS System has proven to be difficult hurdle to overcome in making TCS System sales. The installed cost of a TCS-1 System to an entrepreneur, depending on the system configuration, the condition of the feedstock and the output requirements and excluding building and infrastructure costs, is in the vicinity of \$3,300,000. For a TCS-2, the comparable cost to the entrepreneur is in the vicinity of \$5,650,000. This represents a substantial investment for an entrepreneur and, without performance guarantees to substitute for the lack of a significant operating history, entrepreneurs or their financial backers have heretofore been unwilling to accept the risk of purchasing a new technology. Simpro has been able to obtain insurance backing to support their offer of limited performance guarantees, and such potential is expected to assist the marketing effort. Simpro is now offering limited Performance Guarantees.

Potential System Sales Initiated Prior to Fiscal 2003

Puerto Rico - A letter of intent was signed to set up a TCS-2 facility and joint venture on a crumb rubber product manufacturing facility in Puerto Rico. The Puerto Rican representatives presented their project, which includes our technology, to the Government of Puerto Rico in June 2001 to secure approval to proceed, and again in September of 2001 for purposes of securing public funding for the project.. The Puerto Rican group was able to secure substantial partial funding from the Puerto Rican Development Bank but throughout was unable to obtain the necessary financial backing to meet the cash injection requirements of the bank. Subsequent to June 30, 2003, the Puerto Rican project developer was able to find an investor with the means and the interest to invest in the Puerto Rican project. In August of 2003, the investor sent to us a Letter of Intent indicating his intent to provide the necessary financing to ensure the realization of the Puerto Rican project.. However, as of the date of this

Edgar Filing: TIREX CORP - Form 10KSB

Report, the Investor had not made any funds available.

Recycletron Inc. - We entered into a letter of intent with Recycletron in July of 1997 wherein Recycletron agreed to purchase a TCS-1 upon our completing the design of the system and demonstrating its performance on a 24-hour basis over a significant period of time. Although it has taken us longer than expected to establish a fully operational prototype, Recycletron continues to indicate interest in our technology.

Marketing Efforts initiated or Pursued During Fiscal 2003

During 2003, the Company responded to numerous requests for information. Out of these requests, several opportunities presented themselves which merited the expenditure of considerable effort to close a Purchase and Sales Agreement. In addition to the Puerto Rican project, Management actively pursued other initiatives relative to proposed installations in eastern Canada, the USA, Europe, Russia, Brazil, the Middle East, the Republic of South Africa, and in southeast Asia..

The consultants who had been working with a previous potential customer, 1457213 Ontario Inc. , a Montreal-based firm operating under the name Group Comagest, remained of the opinion that this project was attractive enough to attract other investors. The project business plan was completed and a new development company (hereinafter, NEWCO) , organized, with key management personnel identified and ready and willing to start the NEWCO venture. NEWCO would purchase a TCS-2 from Simpro and install the system in the Province of Quebec. As of the date of this Report, Comagest was in the process of presenting this proposal to public sector funding sources, to be followed by securing the requisite private sector capital to complete the project financing package. However, as of the date of this Report, no commitments had been secured from either the public sector or the private sector and the Company cannot predict when, if ever, a contract for a Quebec-based system will be concluded.

The finalizing of the License Agreement with Simpro means that the gross revenues from these sales will be recorded on Simpro's books, not in the books of Tirex. The amount remitted back to Tirex will take the form of a royalty and will be accounted for as such. Even if these sales would have been set up in such a way as to be recordable on the books of Tirex, generally accepted accounting principles in effect in the USA would have prevented the Company from recognizing the revenue as such until the systems would have been accepted by the customers. Given the time line required to manufacture, install and have accepted these systems, it is quite unlikely that these revenues would

13

become recognizable during our fiscal year which will end June 30, 2004. By extension, the same principles would apply to the royalty to be received by Tirex. While the Company will benefit from the periodic cash inflows resulting from progress payments during the next approximately ten months, the royalty will, in fact, not have been earned until the systems are accepted by the customers.

In February of 2001, we concluded a private financing with an investor group. Under the terms of the Agreement, we had the contractual right to require the Investor to purchase up to US\$5,000,000 of put notes. We drew down US\$750,000 of this amount and used the proceeds of this financing toward legal and consulting fees due, normal operating expenses such as payroll, rent and taxes and the acquisition of equipment for our prototype TCS-1 Plant. In July of 2001, the Company entered into a technical default with respect to the Agreement by not having an SB-2 Registration Statement declared effective by the SEC. After several months of negotiations, the Company entered into a Settlement

Edgar Filing: TIREX CORP - Form 10KSB

Agreement with the Investor Group which provided for a cash paydown of the amount owed, including interest and penalties over a period of approximately two years starting with the date the Settlement Agreement was signed, the right of the Investor Group to continue to be able to sell up to 600,000 collateral and Rule 144 shares per month and the issuance of three series of warrants, 500,000 each, exercisable at prices of one cent, five cents and ten cents over a three year period. This Settlement Agreement was announced in April of 2002, and details of the terms of the Agreement are filed as an Exhibit to this Report. The Company, in the absence of having completed its first sales of TCS Systems according to our expectations, was unable to generate the cash flow necessary to pay down the Convertible Note in accordance with the terms of the Settlement Agreement. Thus, the Company once again finds itself in a position of default. Numerous recourses are available to the holders of the Convertible Notes, but to date, these recourses have not been exercised. Such recourses can be exercised at any time and the fact that they have not been exercised so far does not preclude their being exercised now or in the future. The Company has kept the Convertible Note holders apprised of its efforts to sell TCS Systems and thus restart the repayments on the Convertible Notes.

Because of the lengthy delay preceding the commencement of commercial operations, we have historically had to cover our overhead costs from sources other than from commercial revenues. We expect that some portion of our future overhead costs, which may be quite significant, will continue to be covered from sources other than commercial revenues. Until December of 2001, our monthly operating costs were about US\$100,000 per month. With the cessation of production activities and the scaling back of research and development expenditures starting in January of 2002, our monthly costs were reduced to approximately US\$35,000 per month. Since March of 2003, our monthly our-of-pocket cash costs have been reduced to negligible amounts. Our cash flow deficit condition will continue until such time as the Company will start generating revenues from the sale of TCS Systems.

While we have initiated marketing of TCS Systems and have in place a License Agreement, as of September 30, 2003, no unconditional sales orders for TCS Systems had been received and manufacturing of TCS Systems has not been initiated. We do anticipate that we will begin selling or licensing out the sale of TCS Systems and thus initiating the manufacturing of these systems on a commercial basis in the near future., We did not generate any gross sales during either Fiscal 2002 or Fiscal 2003. Unless and until we successfully develop and commence TCS System manufacturing and sales operations on a full-scale commercial level, we will not generate significant revenues from operations. Accordingly, we would be obligated to attempt to seek non-commercial sources of revenues to support operations until TCS Systems sales and manufacturing operations would become a reality. In the event of such a circumstance, there can further be no assurance that such non-commercial revenue funding would be available at all or on terms acceptable to management. Except for the foregoing, we have never engaged in any significant business activities.

Liquidity and Capital Resources

As of June 30, 2003, we had total assets of \$233,335 as compared to \$1,302,955 as at June 30, 2002 reflecting a decrease of \$1,069,620. Fiscal year-end total assets at June 30, 2002 had reflected a previous decrease of \$1,769,290 over \$3,072,245 at June 30, 2001. We attribute the decrease in total assets at June 30, 2003 mainly to the further write down of the carrying value of the TCS-1 prototype from its carrying value of \$500,000 to the further revised value of \$50,000, a reduction of \$450,000. This further write down was the result of the failure of the Air Plant during the fourth quarter of Fiscal 2002 and the coming to the end of the capital lease on the Air Plant at the same

Edgar Filing: TIREX CORP - Form 10KSB

time. Prior to the Air Plant failure, the Company intended to acquire legal ownership of the Air Plant. Funding was not available to repair the Air Plant and thus the buyback of the Air Plant was not warranted. In such circumstances, rubber crumb operations would not be restarted, thus impairing the value of the prototype TCS-1. A decision was made to further write down this asset on the books of Fiscal 2003 to its revised estimated Net Realizable Value. Further changes in assets include (i) a decrease of \$246,970 in Tax Credits Receivable from \$246,970 as of June 30, 2002 to Nil as of June 30, 2003, and (ii) a decrease of \$242,956 in Prepaid Expenses and Deposits from \$242,956 as of June 30, 2002 to Nil as of June 30, 2003. The reduction in Tax Credits Receivable is attributed to the suspension of Research and Development activities by the Company in Fiscal 2003. The reduction in Prepaid expenses and deposits is attributable to amortization and reclassifications against payables during the fiscal year ended June 30, 2003.

As of June 30, 2003, the Company had total liabilities of \$4,094,800 as compared to \$4,049,140 at June 30, 2002, reflecting a marginal increase in liabilities of \$45,660. Total liabilities at June 30, 2002 had reflected a previous decrease of \$56,596 over \$4,105,736 in total liabilities at June 30, 2001. We attribute such increases in total liabilities at June 30, 2003 primarily to: (i) increases in Accounts Payable and Accrued Liabilities and current portion of long-term debt in an amount of \$329,703 from \$1,547,799 as of June 30, 2002 to \$1,877,502 as of June 30, 2003, and (ii) decreases in Loans from Related Parties in an amount of \$217,855 from \$1,012,778 as of June 30, 2002 to \$794,923 as of June 30, 2003.

Reflecting the foregoing, the financial statements indicate that as at June 30, 2003, the Company had a working capital deficit (current assets minus current liabilities) of \$1,783,667 and that as at June 30, 2002, the Company had a working capital deficit of \$1,127,115, a difference of \$656,552. There were reductions in current assets as noted above, particularly in Tax Credits Receivable and Prepaid Expenses and Deposits, along with additions to current liabilities due to third parties represented by Accounts Payable and Accrued Liabilities.

The success of our tire recycling equipment manufacturing business and our ability to continue as a going concern will be dependent upon our ability to obtain adequate financing to commence profitable, commercial manufacturing and sales activities and the TCS Systems' ability to meet anticipated performance specifications on a continuous, long term, commercial basis. At present, the Company has no liquidity at all and has disposed of all of its production equipment and other operating assets.

Results of OperationsResults of Operations

As noted above, we are presently in the very early stages of the business of marketing TCS Systems. Rubber crumb operations were suspended at the end of the second quarter of Fiscal 2002, because of financial considerations, and the failure of the Air Plant during preparation for a System demonstration in the fourth quarter, have raised doubt if rubber crumb production operations will be restarted. As a result of these uncertainties, Management further wrote down the carrying value of the Air Plant from the previous \$500,000 to its current estimated Net Realizable Value of \$50,000 giving a writedown amount of \$450,000. We will initiate manufacturing operations with respect to TCS Systems, either directly or through licensees, upon receipt of firm purchase orders, either directly or through strategic market development partners. While progress to this end has proven frustrating so far, we believe that we will be able to secure such purchase orders during Fiscal 2004. We had only incidental revenues from operations during Fiscal years 2002 related to the sale of a relatively small quantity of crumb rubber and no revenues for Fiscal 2003. Unless and until we successfully develop our marketing and manufacturing operations related to

Edgar Filing: TIREX CORP - Form 10KSB

TCS Systems on a full-scale commercial basis, we will continue to generate inadequate revenues from operations to support our monthly cash requirements. Except for the incidental revenues from the sale of a relatively small quantity of crumb rubber, the Company has never engaged in any significant business activities.

The financial statements, which are included in this Report, reflect total general and administrative expenses of \$981,170 for fiscal 2003, which reflects an decrease of \$228,743 over Fiscal 2002, when general and administrative expenses were \$1,209,913. During fiscal 2003, the Company's total operating costs increased by \$2,104,544, from \$3,560,674 for fiscal 2002 to \$1,456,130 for fiscal 2003. The majority of such decrease is the result of the \$1,500,000 write down of the carrying value of the TCS-1 prototype in Fiscal 2002 and the suspension of Research and Development activities during Fiscal 2003. Research and Development expenditures, excluding the write down, fell from \$797,577 in Fiscal 2002 to Nil in Fiscal 2003, a decrease of \$797,577. The decrease in total operating costs also was the result of a decrease in general and administrative expenses, as noted above, in the amount of \$228,743.

15

We believe that the amounts accrued to date in respect of the shares issued to compensate the executive officers and consultants reflect the fair value of the services rendered, and that the recipients of such shares received such shares at an appropriate and reasonable discount from the then current public market price. We believe that the discount is warranted due to the fact that there are often restrictions on the transfer of said shares arising out of the absence of registration, and the uncertainty respecting our ability to continue as a going concern.

From inception (July 15, 1987) through June 30, 2003, we have incurred a cumulative net loss of \$28,951,048. Approximately \$1,057,356 of such cumulative net loss was incurred prior to the inception of our present business plan in connection with the Company's discontinued proposed health care business and was due primarily to the expending of costs associated with the unsuccessful attempt to establish such health care business. The Company never commenced the proposed health care operations and therefore, generated no revenues therefrom.

Pursuant to an agreement dated December 18, 2002, our Company has licensed the manufacturing rights to Simpro S.p.A. of Turin, Italy, and our own operations will be restricted to receiving license fees and royalties and marketing the product in conjunction with Simpro.

ITEM 7. FINANCIAL STATEMENTS

Our financial statements required to be included in this Report pursuant to Item 310(a) of Regulation S-B, are set forth below.

ITEM 8. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There was no resignation or dismissal of our principal independent accountant during the two most recent fiscal years and the interim period subsequent thereto.

16

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Edgar Filing: TIREX CORP - Form 10KSB

Directors, Executive Officers and Significant Employees

The following sets forth, as of June 30, 2003 the names and ages of all directors, executive officers, and other significant employees of the Company; and all positions and offices in the Company held by each, and the terms of said offices. Each director will hold office until the next annual meeting of shareholders and until his or her successor has been elected and qualified:

Name ----	Age ---	Offices Held ----	Term of Office -----
John L. Threshie, Jr.	49	Chairman of the Board of Directors, President, and Chief Executive Officer	November 1999 - present
		Director	June 1995 - February 1999
		Vice President	June 1995- November 1999
		Secretary	December 1996 February 1999
Louis V. Muro	71	Vice President of Engineering and Director	January 1996 - present
		President	March 1994 - January 1995
		Director	December 1992 - January 1995
		Secretary	December 1992 - March 1994
Louis Sanzaro	54	Director	January 1997 - present
		President	February 1999 - November 1999
		Vice President of Operations	January 1998 - February 1999
Michael D.A. Ash	54	Secretary, Treasurer, and Chief Financial and Accounting Officer	February 1999- present

The Board of Directors has no standing committees.

Family Relationships

No family relationships exist between any director or executive officer of Company or any person contemplated to become such.

Business Experience

Edgar Filing: TIREX CORP - Form 10KSB

The following summarizes the occupation and business experience during the past five years for each director, executive officer and significant employee of the Company. A significant employee is a person who is not an executive officer of the Company but who is expected to make a significant contribution to the business of the Company.

17

JOHN L. THRESHIE, JR. Mr. Threshie has served as President and Chief Executive Officer of the Company since November of 1999. Prior to that time he served as a Vice President of the Company since June 1995. He was appointed Assistant Secretary of the Company on February 11, 1999. From December 1996 until February 11, 1999, Mr. Threshie held the position of Secretary, and from June 1995 until February 11, 1999, as a Director, of the Company. He also served as a Director for The Tirex Corporation Canada Inc. and Tirex Canada R&D Inc. from June 1998 and June 1995, respectively, until February 11, 1999. He has more than fourteen years of experience in the areas of management, marketing and sales primarily in the field of advertising. Mr. Threshie holds a Bachelor's Degree in Political Science from the University of North Carolina. He was employed as an insurance and financial broker by Primerica Financial Services from 1991 through 1994. From 1988 to 1990, Mr. Threshie was an advertising account supervisor for Ammirati & Puris Inc., an advertising firm in New York. From 1983 to 1988 Mr. Threshie was employed as a senior account executive at the advertising firm of Saatchi and Saatchi, Inc. From 1979 to 1983 Mr. Threshie was employed by Milliken & Co. as a sales representative.

LOUIS V. MURO. Mr. Muro acted as an engineering consultant to the Company from January 18, 1995 until January 1, 1996 when he was appointed as a Director and as Vice President in charge of engineering. Mr. Muro served as a Director of the Company from December 29, 1992 until January 18, 1995. He also served as the Company's Secretary from December 29, 1992 until March 1994 when he was appointed President of the Company, a position he held until January 18, 1995. He has also served as the Vice President in charge of engineering and as a director of The Tirex Corporation Canada Inc. and Tirex Canada R&D Inc. since June 1998 and May 1995 respectively. Mr. Muro received a B.S. degree in Chemical Engineering from Newark College of Engineering in 1954, since which time he has continually been employed as a chemical engineer. From 1974 to 1993 Mr. Muro has been the sole proprietor of Ace Refiners Corp. of New Jersey, a precious metals refinery. From 1971 to 1974, he worked as an independent consultant and from 1964 until 1971, he was director of research and development for Vulcan Materials Corporation in Pittsburgh, Pa., a public company engaged in the business of recovering useable tin and clean steel from scrap tin plate. From 1960 to 1964, Mr. Muro was the sole proprietor of Space Metals Refining Co. in Woodbridge, NJ, a company involved in the purification of scrap germanium to transistor grade metal. From 1959 to 1960 he was employed by Chemical Construction Co., of New Brunswick, NJ, where he developed a process for the waste-free production of urea from ammonia, carbon dioxide and water. From 1954 to 1959, Mr. Muro worked in the research and development department at U.S. Metals Refining Co. in Carteret, NJ where he was involved with the refinement of precious metals.

LOUIS SANZARO. Mr. Sanzaro has been a Director of the Company since January 1997 and a Director of The Tirex Corporation Canada Inc. since June 1998. He served as a consultant to the Company from January 1, 1997 until June 1998, when he was appointed Vice President of Operations and Chief Operating Officer. On February 11, 1999, Mr. Sanzaro resigned as Vice President of Operations and was appointed to the position of President of the Company. Effective November 23, 1999, and to avoid a possible future conflict of interest, Mr. Sanzaro resigned as President of the Company. Mr. Sanzaro holds a degree in marketing from Marquette University. In 1997, he was named "Recycler of the Year" for the State of New Jersey and was also awarded the distinction of being named "Recycling Processor

Edgar Filing: TIREX CORP - Form 10KSB

of the Decade" by Ocean County, New Jersey. He is the President and a member of the Board of Directors of the nation-wide, Construction Material Recycling Association. Since 1986, Mr. Sanzaro has served as President and CEO of Ocean County Recycling Center, Inc. ("Ocean County Recycling"), in Tom's River, New Jersey. Ocean County Recycling is in the business of processing construction and demolition debris for reuse as a substitute for virgin materials in the construction and road building industries. In addition, since 1989, Mr. Sanzaro has served as Vice President and COO of Ocean Utility Contracting Co., Inc., a New Jersey company engaged in the installation of sewer and water main pipelines and the construction of new roadway infrastructure. From 1973 until 1990, Mr. Sanzaro was the President and CEO of J and L Excavating and Contracting Co., Inc., a company engaged in the construction of residential, commercial, industrial, and government buildings.

MICHAEL D.A. ASH. Mr. Ash joined the Company on January 11, 1999. On February 11, 1999, Mr. Ash was appointed Secretary, Treasurer, and Chief Financial and Accounting Officer of the Company. Mr. Ash graduated with a Bachelor's Degree in Business Administration, Magna Cum Laude, from Bishop's University in Quebec in 1970, and with an MBA, With Distinction, from Harvard Business School in 1975. Mr. Ash is also a Chartered Accountant, (Canadian equivalent to a CPA), having qualified for this professional designation in 1972 while employed by Coopers & Lybrand (now PriceWaterhouseCoopers). Since graduation from Harvard, Mr. Ash has spent most of his career with the Government of Canada, first with the Office of the Comptroller General in Ottawa and, for the subsequent eighteen years, with a federal regional economic and industrial development agency in Montreal where he gained exposure to a very large number of companies and industrial sectors, ranging from developmental companies to major multi-national corporations. For ten years during this time period, Mr. Ash was also a part-time lecturer in accountancy at Concordia University in Montreal for students registered in the program leading to the Chartered Accountancy designation.

18

Compliance With Section 16(a) of the Exchange Act.

None of the securities have been registered pursuant to Section 12 of the Exchange Act of 1934, as amended (the "Exchange Act"). Therefore, Section 16(a) of the Exchange Act is not applicable.

ITEM 10. EXECUTIVE COMPENSATION

Current Remuneration

The following table sets forth information concerning the annual compensation received or accrued for services provided in all capacities for the fiscal years ended June 30, 2001, 2002 and 2003 by our chief executive and all our executive officers serving as such as at June 30, 2003 or at any time during the year ended June 30, 2003. Common stock issued in lieu of cash salary payments was valued at a 30-50% discount from the average market price of such stock during the periods in which such salary was earned. Determination of the market price for such purpose was based upon the average of the bid and ask prices of such stock, as traded in the over-the-counter market and quoted in the OTC Bulletin Board. With respect to the issuance of shares during the fourth quarter of Fiscal 2003, this issuance representing but partial compensation to those directors and officers to whom sums were due, the period involved was prior to the company's stock being demoted to the gray sheets, and thus reference to the Bulletin Board prices still applied. The discount from the market price was determined arbitrarily, by negotiation between the Company and our executive officers and did not bear any relationship to any established valuation criteria such as assets, book value, or prospective earnings. The market prices of our common stock and the liquidity of such market has

Edgar Filing: TIREX CORP - Form 10KSB

historically been volatile. Future announcements concerning us, our competitors, results of testing, technological innovations or new commercial products may have a significant impact on the market price of our common stock. We believe that, as of the dates when such shares were issued, the actual market value of such shares was, and as of the date hereof remains, highly contingent upon, and subject to, extremely high risks.

SUMMARY COMPENSATION TABLE:

Name and Principal Position	Year	Salary \$	Bonus \$	Other \$
John L. Threshie Jr. President	2003	\$125,000 (1)	Nil	nil
	2002	\$125,000 (2)		
	2001	\$125,000 (3)		
Louis V. Muro Vice President - Engineering	2003	\$150,000 (4)	Mil	nil
	2002	\$150,000 (5)		
	2001	\$150,000 (6)		
Michael D.A. Ash Secretary-Treasurer & CFO	2003	\$100,000 (7)	Nil	nil
	2002	\$100,000 (8)		
	2001	Note below		

19

In 1999, Mr. Ash abrogated his then existing Employment Agreement. This was replaced by a Consulting Agreement for a period of sixteen (16) months to the end of Calendar 2000. Under this consulting agreement, Mr. Ash received 2,000,000 shares of the common stock of the Company. A new employment Agreement with an effective date of January 2001 was put into effect and the prior Consulting Agreement was allowed to lapse. Under the existing Employment Agreement, Mr. Ash earns a salary of \$100,000 and Mr. Ash also has options to purchase stock of the company at the lesser of 20(cen) for the first year option, 40(cen) for the second year option and 50(cen) for the third year option, or 50% of market applicable to each series. The options can be exercised on a cashless basis.. Prorating the stock issuance over the sixteen month term of the prior Consulting Agreement, in Fiscal 2000, Mr. Ash was entitled to 1,250,000 shares of stock. There was no cash salary in Fiscal 2000 for Mr. Ash. For Fiscal 2001, Mr. Ash received the balance of his stock entitlement, i.e. 750,000 shares, and was entitled to receive \$50,000 in cash. For Fiscal 2002 and 2003, Mr. Ash was entitled to receive \$100,000 annually.

- (1) During Fiscal 2003, Mr. Threshie received 2,500,000 commons shares of the stock of our Company in partial compensation for salary and expenses, issued at a 35% discount to market.

- (2) In lieu of cash payment of salary, reimbursable expenses and other benefits, Mr. Threshie was issued shares of our Common Stock and was permitted to purchase shares during FY 2002 at a discount of 35% currently in effect versus 50% in prior years, of the then current market price. The number of shares issued to Mr. Threshie pursuant thereto during fiscal 2002 aggregated 6,555,709 shares. It is our intention and that of Mr. Threshie to continue to enter into similar transactions during fiscal year 2003 for all or part of his salary and for reimbursement of expenses.

- (3) In lieu of cash payment of salary, reimbursable expenses and other

Edgar Filing: TIREX CORP - Form 10KSB

benefits, Mr. Threshie was issued shares of our Common Stock and was permitted to purchase shares in FY2001 and prior at a discount of 50% of the then current market price. The rate of discount was reduced effective the beginning of Fiscal 2002. The number of shares issued to Mr. Threshie pursuant thereto during fiscal 2001 aggregated 4,634,642 shares.

- (4) During Fiscal 2003, Mr. Muro received 2,000,000 commons shares of the stock of our Company in partial compensation for salary and expenses, issued at a 35% discount to market.
- (5) In lieu of cash payment of salary, reimbursable expenses and other benefits, Mr. Muro, from time to time, was issued shares of our Common Stock and purchased shares during FY 2002 at a discount of 35% currently in effect, versus 50% in prior years, of the then current market price. The number of shares issued to Mr. Muro pursuant thereto during fiscal 2002 aggregated 2,250,000 shares.
- (6) In lieu of cash payment of salary, reimbursable expenses and other benefits, Mr. Muro, from time to time, was issued shares of our Common Stock and purchased shares during FY 2001 at a discount of 50% of the then current market price. There were no issuances in respect of unpaid salaries and unreimbursed expenses during fiscal 2001.
- (7) In lieu of cash payment of salary, reimbursable expenses and other benefits, Mr. Ash received 2,100,000 common shares of our Company, as partial compensation, during Fiscal 2003, issued at a 35% discount to market. During Fiscal 2003, Mr. Ash notified the Company of his desire to exercise his first option under his Employment Agreement. The Company has not yet issued the 500,000 shares necessary to satisfy this exercise on a cashless basis, as provided for in the Employment Agreement.
- (8) In lieu of cash payment of salary, reimbursable expenses and other benefits, Mr. Ash received 3,468,603 common shares of our Company during Fiscal 2002 , issued at a 35% discount to market,
- (9) We believe that it is impossible to determine the actual current or potential value of such shares in light of the fact that, as of the dates when such shares were issued to the executive officers, the actual potential market value of such shares were highly contingent upon, and subject to, extremely high risks including but not limited to the following factors: (i) the very early stage of development of our business; (ii) our lack of sufficient funds to implement our business plan and the absence of any commitments from potential investors to provide such funds; (iii) the absence of a reliable, stable, or substantial trading market for such shares; and (iv) the uncertainty respecting our ability to continue as a going concern.

20

The Tirex Corporation Stock Plan

On June 23, 2000 we adopted the Tirex Corporation Stock Plan (the "Plan") to advance our interests and those of our shareholders by affording to our key personnel, consultants and other persons who have made substantial contributions to us an opportunity to acquire or increase their proprietary interest in the Company by the issuance to such individuals of Awards, Options or Grants under the terms set forth in the Plan. By thus encouraging such individuals to become owners of our common stock we seek to motivate, retain, and attract those highly competent individuals upon whose judgment, initiative,

Edgar Filing: TIREX CORP - Form 10KSB

leadership, and continued efforts our success in large part depends.

The Plan originally provided that up to 21,000,000 shares could be issued for this purpose, 7 million shares to be given as awards, 7 million shares to underlie options to purchase common stock, and 7 million shares to be given as grants. Awards and Options can only be given to individuals who have been either in our employ, an officer, director or consultant for the preceding 6 months. Awards are not fully vested until the end of three years with the 1/12th of the aggregate award vesting at the end of each quarter. If the Awardee is terminated for cause or resigns the unvested portion of the award is forfeited. Options can be exercised at any time and upon exercise the underlying stock is fully vested with the purchaser. The Options are not transferable and are exercisable for two (2) years after which time they expire. If the Optionee is terminated for cause or resigns all unexercised options are forfeited. A Grant of Stock pursuant to the terms of the Plan can only be given to persons who have made a substantial contribution to us and the shares are not forfeitable. Subsequent to the Plan's adoption an additional 5,000,000 shares of common stock were added to it and up to the 26,000,000 shares were made eligible to be given as either Awards, Grants or Options.

As discussed elsewhere in this Report, the following is a summary of those options and warrants outstanding with respect to the purchase of the common stock of the Company:

Beneficiary	Issuable	Exercise Window	Price
John L. Threshie Jr.	1,000,000 share options at the beginning of each of Calendar Years 2002, 2003 and 2004	Two (2) years from date of issue	Series 1: less than 50 cents or 50% of fair market value Series 2: less than 50 cents or 50% of fair market value Series 3: less than 50 cents or 50% of fair market value
Michael Ash	1,000,000 share options at the beginning of each of Calendar Years 2001, 2002 and 2003	Two (2) years from date of issue	Series 1: less than 50 cents or 50% of fair market value Series 2: less than 50 cents or 50% of fair market value Series 3: less than 50 cents or 50% of fair market value
Convertible Debenture	1,500,000 in three series of 500,000 each	Series 1: At any time during the 3-year period following the date of the Settlement Agreement, to wit, April 26, 2002 Series 2: During the second and third years following April 26, 2002 Series 3: During the third year following April 26, 2002	Series 1 at 100 cents each Series 2 at 50 cents each Series 3 at 25 cents each

Compensation of Directors

The Directors of the Company were not compensated for their services as such in fiscal 2000.

Employment Agreements

We seek to maintain employment agreements with all of our executive officers (the "Executive Agreements"). We currently have an employment agreement with Mr. Threshie that provides for an annual salary of \$125,000 and is in effect until December 31, 2003. Mr. Threshie also has options, as noted above, to purchase shares of the Company. Mr. Threshie is granted options to purchase 1,000,000 shares at each anniversary date of his Employment Agreement for the next three years, and, for each series of options, has a two-year period to exercise that option. The options are exercisable at the lesser of 50% of market and 20(cents) for the first series, 40(cents) for the second series and 50(cents) for the third series. We currently employ Mr. Muro on a month-to-month basis, based on an annual salary projection of \$150,000. During fiscal 2000 Mr. Ash voluntarily abrogated his Executive Agreement with us and entered into a new agreement under which his compensation is in the form of shares. Under this new agreement, Mr. Ash continued to act as Secretary-Treasurer and Chief Financial Officer on a consulting basis. Under the terms of the original Executive Agreement, Mr. Ash's annual compensation was US\$125,000. The consulting agreement extended to December 31, 2000 and was renewable by mutual consent of the Company and Mr. Ash. Mr. Ash's compensation for the sixteen-month period ended December 31, 2000 was 2,000,000 common shares, subject to prorated adjustment in the event of a stock split. At the beginning of Calendar 2001, Mr. Ash's consulting agreement was converted back to an Employment Agreement under which Mr. Ash earns an annual salary of \$100,000 and has options, as noted above, to purchase company stock on terms identical to the options granted to Mr. Threshie.

All of the above agreements provide for the payment of bonuses at the sole discretion of the Board of Directors based upon an evaluation of the executive's performance, with payment of any such bonuses to be reviewed annually. The Executive Agreements also provide for the participation by each of the foregoing persons in any pension plan, profit-sharing plan, life insurance, hospitalization or surgical program, or insurance program hereafter adopted by us, reimbursement of business related expenses, the non-disclosure of information which we deem to be confidential to it, non-competition by the executive with us for the one-year period following termination of employment with us and for various other terms and conditions of employment.

The Executive Agreements with Messrs. Threshie, Muro and Ash also include severance provisions which provide, among other things, for severance compensation in the event that the employment of the executive is terminated by us other than for cause, or by the executive for "good reason", as that term is defined in the Executive Agreements, or pursuant to a change in control of the Company. The various Executive Agreements provide for severance compensation, as follows:

In the case of Messrs. Threshie and Muro, 200% of the amount of the base salary for a period of twelve months; In the case of Mr. Ash, the amount of severance compensation for termination other than for cause, or by the executive for "good reason", as that term is defined in the Executive Agreements, or pursuant to a change in control of the Company, amounts to twice his annual base salary plus four months of base salary for each year of service following February 11, 1999.

Edgar Filing: TIREX CORP - Form 10KSB

Because of the early stage of our development, our lack of operations and insignificant cash flow, since January 18, 1995, we have not had the resources to meet fully our financial obligations under the Executive Agreements. As a result, the major portion of compensation which has been available to our executive officers has consisted of shares of our common stock, which such individuals accepted, in lieu of cash compensation, for a substantial portion of salary and/or consulting fees due to them.

22

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of October 1, 2003, with respect to the persons known to the Company to be the beneficial owners of more than 5% of the common stock, \$.001 par value of the Company and of more than 5% of the Class A Common Stock of the Company's subsidiary, Tirex R&D and of all Officers and Directors of the Company as that term is defined in Item 402(a)(2) of Regulation S-B. Neither the Company nor Tirex R&D have any shares of any other class issued or outstanding.

Title of Class -----	Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class (1) -----
Common The Tirex Corporation	John L. Threshie, Jr. 151 Francois, Apt. 607 Nun's Island (Montreal), Quebec Canada, H3E 1G5	2,502,901 (2)	1.00%
Class A Common Tirex R&D		34 (5)	34%
Common The Tirex Corporation	Louis V. Muro 374 Oliver Avenue Westmount, Quebec Canada H3Z 3C9	5,978,957 (2) (3)	2.39%
Class A Common Tirex R&D		17 (5)	17%
Common The Tirex Corporation	Louis V. Sanzaro 1497 Lakewood Road Toms River, NJ 08755	16,281,088 (2)	6.52%
Common The Tirex Corporation	Michael Ash 310 Montee Sabourin St. Bruno, Quebec Canada, J3V 4P6	2,980,000 (4)	1.19%
Common The Tirex Corporation	All directors and officers as a group (4 persons)	27,742,946	11.10%
Class A Common	All directors and officers as a group	51	51.0%

Edgar Filing: TIREX CORP - Form 10KSB

Tirex (2 persons)
R&D

23

(1) The percentages listed in the table is calculated on the basis of 249,895,892 shares of the common stock, \$.001 par value, of the Company outstanding as at October 1, 2003.

(2) Our executive officers, directors and principal shareholders have pledged an aggregate of 11,986,315 (approximately 6% of our then outstanding shares) of their personal shareholdings in the Company as a security interest for our recent issuance of \$750,000 of 8% convertible notes, pursuant to a Subscription Agreement and Security Agreement dated February 26, 2001. Specifically, John L. Threshie, Jr. pledged 1,891,204 shares, Louis Muro pledged 1,723,514 shares and Louis Sanzaro pledged 8,371,597 shares of our common stock. These shares are currently being held in escrow, pending satisfaction of the terms of the notes. We were served a notice of default by the investors of the notes in July 2001. A Settlement Agreement was reached in April of 2002. The Company has been unable to respect its financial obligations under the terms of the Settlement Agreement and negotiations with respect to a new settlement have not been completed. As of the date of this Report, 3,190,977 collateral shares remained in the hands of the Investors. This represents approximately 1.3% of our current outstanding stock. The Investors also possess 4,000,000 of non-collateral stock, representing an additional 1.6% of our stock outstanding.

(3) Includes: (i) 5,244,957 shares held of record by Mr. Muro as of October 1, 2003; and (ii) 734,000 shares held of record by Mr. Muro's wife, Nina Aviles Muro.

(4) Includes: (i) 2,750,000 shares held of record by Mr. Ash as of June 30, 2003; and (ii) 230,000 shares held of record in the name of Loryta Investments Limited an entity beneficially owned by the family of Mr. Ash.

(5) Messrs. Threshie and Muro hold all shares of Tirex R&D Class A Common Stock pursuant to the terms of a Shareholders agreement among them and the Company (the "Tirex R&D Shareholders Agreement"), pursuant to which they will be obligated to transfer all such shares to the Company, for no consideration, on May 2, 2001, unless the term of such Agreement is unilaterally extended by the Company. The Company does not intend to take any actions of any kind with respect to such shares which would be in violation of any Canadian government regulations governing tax and other financial incentives which may be available to Tirex R&D. The Company is in the process of preparing appropriate documentation the effect of which would be to extend the duration of the Agreement.

Changes in Control

On February 26, 2001 we issued \$750,000 worth of convertible notes at an annual rate of eight percent (8%) to certain investors. Interest payable on these notes is payable quarterly commencing June 30, 2001. In addition, all principal and unpaid interest due on the outstanding notes is immediately due and payable on February 26, 2003, or earlier in the event of a default. One of the conditions of this transaction was that we would file with the Securities and Exchange Commission a Registration Statement on Form SB-2 to register various securities issuable upon the conversion of notes by a date certain and that the Registration Statement would be effective by August 15, 2001. We failed to meet these deadlines and the investors served a notice of default on us on

Edgar Filing: TIREX CORP - Form 10KSB

July 19, 2001. Negotiations were undertaken throughout the remainder of Calendar 2001 and into 2002 until a Settlement Agreement was reached on April 26, 2002. Under the terms of the Agreement, a copy of which is included as an Exhibit to this Report, the Company is obligated to pay down the amount owed to the Investor Group, including interest and penalties, over a period of approximately two years. During the time when an amount continues to be owed to the Investor Group, the Investor Group will have the right to sell up to 600,000 collateral or Rule 144 shares per month and apply the proceeds to interest due, fees and finally to reduction of the principle amount outstanding. Any remaining collateral shares at the time the debt will have been totally repaid will be returned to the original owners of the shares. The Investor Group was also given three series of warrants for 500,000 shares each, exercisable at prices of \$0.01, \$0.05 and \$0.10 respectively and exercisable within pre-defined time windows over a three year period starting with the date of signature of the Settlement Agreement. . As of October 24, 2002, the Investor Group had 6,081,597 collateral shares in their possession. As to the failure to have an SB-2 Registration Statement effective by August 15, 2001, the signing of the Settlement Agreement negated the default. Due to a lack of financial resources, the Company was forced to default on the terms of the Settlement Agreement. To date, the Investors have sold 8,795,338 shares of the original 11,986,315 collateral shares held by them.

24

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a description of transactions during the last two fiscal years or any presently proposed transactions to which the Company was or is to be a party, in which the amount involved in such transaction (or series of transactions) was \$60,000 or more and which any of the following persons had or is to have a direct or indirect material interest: (i) any director or executive officer of the Company; (ii) any person who owns or has the right to acquire 5% or more of the issued and outstanding common stock of the Company; and (iii) any member of the immediate family of any such persons.

Pursuant to a Subscription Agreement dated February 26, 2001 we issued \$750,000 of 8% convertible notes, due February 26, 2003 to three investors. Under the Subscription Agreement, we had the option, subject to conditions, to require the investors to purchase additional convertible put notes up to \$4,250,000. Interest only payments are due quarterly commencing June 30, 2001, and the principal is due in one lump sum on February 26, 2003, or upon certain events of default. The number of shares of common stock issuable upon conversion of the convertible notes is 15,000,000, based on a conversion price of \$0.05 per share. One of the conditions of this transaction was that we would file with the Securities and Exchange Commission a Registration Statement on Form SB-2 to register various securities issuable upon the conversion of the notes by a date certain and that the Registration Statement would be effective by August 15, 2001. We failed to meet these deadlines and the investors served a notice of default on us on July 19, 2001. The conversion price for the convertible notes is the lesser of (i) 80% of the average of the three lowest closing bid prices of the common stock for the twenty-two (22) trading days prior to the closing date, or (ii) 80% of the average of the five lowest closing bid prices of the common stock for the sixty (60) trading days prior to the conversion date, as defined in the convertible note. The maximum number of shares of common stock that any subscriber or group of affiliated subscribers may own after conversion at any given time is 4.99%.

During the years ended June 30, 2002 and 2003, the Company's executive officers and certain consultants to the Company have waived substantial portions of their salaries, fees and/or unreimbursed expenses made by them on behalf, and for the account, of the Company, and have accepted shares of the Company's

Edgar Filing: TIREX CORP - Form 10KSB

common stock in lieu thereof. In connection therewith shares have been issued as follows:

During fiscal 2003 various officers and former officers received Common Stock in partial compensation with respect to salaries and expense reimbursements and purchased shares of Common Stock totaling 6,600,000 shares. The shares issued or sold to officers were valued at thirty-five per cent (35%) of the then current market price. During Fiscal 2002, the number of shares issued for these reasons was 14,524,312.

During fiscal 2000 the Company modified its agreement with Oceans Tire Recycling & Processing Co., Inc. ("OTRP") to clarify various terms of the parties prior agreements and to obtain a commitment by OTRP to pay future lease payments on the Production Model system, if necessary. The Company also exchanged its debt obligation to OTRP for 4,553,102 shares of its Common Stock, which was issued, pursuant to OTRP's request, to its principal shareholder and President.

25

ITEM 13. EXHIBITS

FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements

The financial statements filed as a part of this report are as follows:

Consolidated Balance Sheet - June 30, 2003

Consolidated Statements of Operations for the years ended June 30, 2002 and 2003, and cumulative for the period from inception (July 15, 1987) to June 30, 2003

Consolidated Statements of Owners' Equity (Deficit) as at July 15, 1987 and June 30, 2000 - 2003

Consolidated Statements of Cash Flows for the years ended June 30, 2002 and 2003 and cumulative for the period from inception (July 15, 1987) to June 30, 2003

Financial Statement Schedules

Financial statements schedules have been omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

Exhibits

The exhibits filed as a part of this Report or incorporated herein by reference are as follows:

Exhibits Incorporated
Herein By Reference,
Exhibit No. As Filed
With Document
Indicated

3. (a) Certificate of Incorporation filed August 19, 1987

3(a)

Edgar Filing: TIREX CORP - Form 10KSB

(b) Certificate of Amendment filed June 20, 1989	3 (b)
(c) Certificate of Amendment filed March 10, 1993	3
(d) Certificate of Amendment filed December 5, 1995	3 (e)
(e) By-Laws	3 (b)
(f) Certificate of Amendment filed August 11, 1997	
(g) Certificate of Amendment filed February 3, 1998	3
(h) Certificate of Incorporation of Tirex Acquisition Corp., filed with the Secretary of State of Delaware on December 15, 1997	3 (h)
(k) Certificate of Amendment to the Certificate of Incorporation, filed with the Secretary of State of Delaware on July 10, 1998	3

Reports on 8-K

The Company filed a current reports on Form 8-K on December 24, 2002 with respect to the License Agreement signed with Simpro S.p.A..

26

SIGNATURES

In accordance with Section 15(d) of the Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TIREX CORPORATION

By /s/ JOHN L. THRESHIE, JR.

Date: October 15, 2003

John L. Threshie, Jr.
Chairman of the Board of Directors and
Chief Executive Officer

In accordance with Section 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
-----	-----	----
Principal Executive Officer:		
/s/ JOHN L. THRESHIE, JR ----- John L. Threshie, Jr	Chairman of the Board of Directors and Chief Executive Officer	October 15, 2003
Principal Financial and Accounting Officer:		
/s/ MICHAEL D.A. ASH ----- Michael D.A. Ash	Secretary, Treasurer, and Chief Financial and Accounting Officer	October 15, 2003
A Majority of the Board of Directors:		
/s/ JOHN L. THRESHIE, JR.	Chairman of the Board	October 15, 2003

Edgar Filing: TIREX CORP - Form 10KSB

----- of Directors
John L. Threshie, Jr.

/s/ LOUIS SANZARO Director October 15, 2003

Louis Sanzaro

/s/ LOUIS V. MURO Director October 15, 2003

Louis V. Muro

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH
REPORTS FILED PURSUANT TO SECTION 15(D) OF THE
EXCHANGE ACT BY NON-REPORTING ISSUERS

No annual report or proxy materials have been sent to security-holders during the fiscal year ended June 30, 2003 or the subsequent interim period. As at the date hereof, the Company plans to furnish proxy materials relating to its annual meeting, which is presently intended to be held during the current fiscal year. All such materials will be furnished to the Commission at the same time as they are sent to securities holders.

27

Report of Independent Auditors

Board of Directors
The Tirex Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheet of The Tirex Corporation and Subsidiaries (a development stage company) as of June 30, 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended June 30, 2003 and 2002 and for the cumulative period from March 26, 1993, (date of inception) to June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 The Tirex Corporation and Subsidiaries (a development stage company) at June 30, 2003, and the results of their operations, and their cash flows for the years ended June 30, 2003 and 2002, and for the cumulative period from March 26, 1993, (date of inception) to June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the

Edgar Filing: TIREX CORP - Form 10KSB

Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company is still in the development stage and it cannot be determined at this time that the technology acquired will be developed to a productive stage. The Company's uncertainty as to its productivity and its ability to raise sufficient capital raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PINKHAM & PINKHAM, P.C.

Pinkham & Pinkham, P.C.
Certified Public Accountants

October 10, 2003
Cranford, New Jersey

F-1

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Balance Sheet June 30, 2003

Assets -----

Current assets	
Cash and cash equivalents	\$ --
Accounts receivable	--
Notes receivable	20,475
Sales tax receivable	36
Inventory	73,323
Research and Experimental Development tax credits receivable	--
Prepaid expenses and deposits	--

	93,835

Property and equipment, at cost, net of accumulated depreciation of \$251,279	50,000

Other assets	
Investment, at cost	89,500
Prepaid expenses and deposits	--

	89,500

	\$ 233,335
	=====

Liability and Stockholders' Equity (Deficit) -----

Current liabilities

Edgar Filing: TIREX CORP - Form 10KSB

Accounts payable and accrued liabilities	1,792,432
Current portion of long-term debt	85,070

	1,877,502

Other liabilities	
Long-term deposits and notes	217,500
Government loans (net of current)	87,080
Capital lease obligations (net of current)	--
Convertible notes	932,240
Convertible note	185,556
Loans to related parties	794,923

	2,217,299

	4,094,800

Stockholder' Equity (Deficit)	
Common stock, \$.001 par value. Authorized 250,000,000 shares, issued and outstanding 249,895,892 shares	249,896
Additional paid-in capital	25,222,219
Deficit accumulated during the development stage	(28,951,048)
Unrealized gain (loss) on foreign exchange	(382,534)

	(3,861,465)

	\$ 233,335
	=====

See Notes to Consolidated Financial Statements

F-2

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Operations and Comprehensive Loss

	Year Ended June 30,		Cumulative Period from March 26, 1993 (Date of Inception) to June 30, 2003
	2003	2002	
Revenues	\$ --	\$ 28,515	\$ 1,354,088
Cost of sales	--	12,981	1,031,075
	-----	-----	-----
Gross profit	--	15,534	323,013

Edgar Filing: TIREX CORP - Form 10KSB

Operations			
General and administrative	981,170	1,209,913	11,637,075
Depreciation and amortization	24,960	53,184	365,545
Research and development	450,000	2,297,577	15,396,966
	-----	-----	-----
Total expenses	1,456,130	3,560,674	27,399,586
	-----	-----	-----
Loss before other expenses and income	(1,456,130)	(3,545,140)	(27,076,573)
	-----	-----	-----
Other income (expenses)			
Interest expense	105,245	(222,204)	762,731
Interest income	--	--	(45,443)
Income from stock options	--	--	(10,885)
Loss on disposal of equipment	--	--	4,549
	-----	-----	-----
	105,245	(222,204)	710,982
	-----	-----	-----
Net loss	(1,561,375)	(3,767,344)	(27,787,555)
	-----	-----	-----
Other comprehensive loss			
Loss on foreign exchange	--	--	(106,137)
	-----	-----	-----
Net loss and comprehensive loss	\$ (1,561,375)	\$ (3,767,344)	\$ (27,893,692)
	=====	=====	=====
Basic and Diluted net loss and comprehensive loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.47)
	=====	=====	=====
Weighted average shares of common stock outstanding	237,326,726	204,212,265	59,348,651
	=====	=====	=====

See Notes to Consolidated Financial Statements

F-3

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

Common Stock		Additional Paid-in Capital	Deficit Accumulated During Developmental Stage	Unre- fo- Ex
Shares	Amount			
-----	-----	-----	-----	-----

Edgar Filing: TIREX CORP - Form 10KSB

Balance at June 30, 1992	3,383,020	\$ 3,383	\$ 194,980	\$ (1,057,356)	\$
Stock issued for reorganization	18,650,000	18,650	76,155	--	
Stock issued for services	100,000	100	(100)	--	
Stock issued in exchange for warrants	363,656	364	(364)	--	
Forgiveness of debt	--	--	728,023	--	
Net loss and comprehensive loss for the year	--	--	--	(165,296)	
Balance at June 30, 1993	22,496,676	22,497	998,694	(1,222,652)	
Stock issued	2,000	2	(2)	--	
Exchange for debt	--	--	149,170	--	
Payments received for stock previously issued	--	--	237,430	--	
Net loss and comprehensive loss for the year	--	--	--	(179,296)	
Balance at June 30, 1994	22,498,676	22,499	1,385,292	(1,401,948)	
Revision of common stock	(11,900,000)	(11,900)	11,900	--	
Stock issued for services	5,592,857	5,592	513,908	--	
Shares issued in exchange for debt	200,000	200	24,300	--	
Issuance of common stock	402,857	401	21,915	--	
Net loss and comprehensive loss for the year	--	--	--	(575,771)	
Balance at June 30, 1995	16,794,390	\$ 16,792	\$ 1,957,315	\$ (1,977,719)	\$

See Notes to Consolidated Financial Statements

F-4

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

Common Stock		Additional Paid-in Capital	Deficit Accumulated During Developmental Stage	U
Shares	Amount			
-----	-----	-----	-----	-----

Edgar Filing: TIREX CORP - Form 10KSB

Balance at June 30, 1995	16,794,390	\$ 16,792	\$ 1,957,315	\$ (1,977,719)	\$
Stock issued for services	3,975,662	5,090	846,612	--	
Shares issued in exchange for debt	391,857	392	29,008	--	
Issuance of common stock	710,833	710	80,161	--	
Net loss and comprehensive loss for the year	--	--	--	(1,127,044)	
	-----	-----	-----	-----	-----
Balance at June 30, 1996	21,872,742	22,984	2,913,096	(3,104,763)	
Stock issued for options	--	--	912,838	--	
Stock issued for services	5,067,912	3,955	690,234	--	
Shares issued in exchange for debt	251,382	252	43,965	--	
Issuance of common stock	10,257,936	10,259	335,132	--	
Grants issued	--	--	408,597	--	
Net loss and comprehensive loss for the year	--	--	--	(2,376,279)	
	-----	-----	-----	-----	-----
Balance at June 30, 1997	37,449,972	37,450	5,303,862	(5,481,042)	
Stock issued for services	4,396,466	4,396	922,180	--	
Stock issued for options	--	--	948,500	--	
Issuance of common stock	21,795,000	21,796	1,176,755	--	
Unrealized foreign exchange	--	--	--	--	
Stock options issued and outstanding	--	--	1,236,913	--	
Grants issued	--	--	669,906	--	
Net loss and comprehensive loss for the year	--	--	--	(4,570,441)	
	-----	-----	-----	-----	-----
Balance at June 30, 1998	63,641,438	\$ 63,642	\$ 10,258,116	\$ (10,051,483)	\$
	-----	-----	-----	-----	-----

See Notes to Consolidated Financial Statements

F-5

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in Capital	Deficit Accumulated During Developmental Stage	U
	Shares	Amount			
	-----	-----	-----	-----	-----
Balance at June 30, 1998	63,641,438	\$ 63,642	\$ 10,258,116	\$ (10,051,483)	\$

Edgar Filing: TIREX CORP - Form 10KSB

Stock issued for services	24,200,439	24,200	2,735,544	--
Stock issued for options	2,234,567	2,235	38,765	--
Shares issued in exchange for debt	3,787,947	3,788	340,164	--
Conversion of debentures	2,816,966	2,817	290,102	--
Issuance of common stock	677,966	678	49,322	--
Unrealized foreign exchange	--	--	--	--
Stock options issued and outstanding	--	--	385,600	--
Grants issued	--	--	1,057,742	--
Net loss and comprehensive loss for the year	--	--	--	(4,909,879)
	-----	-----	-----	-----
Balance at June 30, 1999	97,359,353	97,360	15,155,355	(14,961,362)
Stock issued for services	28,873,210	28,873	2,217,758	--
Stock issued for options	5,327,486	5,327	381,600	--
Shares issued in exchange for debt	7,342,055	7,342	382,556	--
Conversion of debentures	12,010,073	12,010	815,796	--
Issuance of common stock	221,000	221	16,039	--
Unrealized foreign exchange	--	--	--	--
Grants issued	--	--	395,683	--
Net loss and comprehensive loss for the year	--	--	--	(5,548,829)
	-----	-----	-----	-----
Balance at June 30, 2000	151,133,177	151,133	19,364,787	(20,510,191)
Stock issued for services	7,375,483	7,375	864,840	--
Stock issued for options	5,378,507	5,379	506,998	--
Shares issued in exchange for debt	11,646,312	11,646	1,547,455	--
Conversion of debentures	100,000	100	19,900	--
Issuance of common stock	732,929	733	39,427	--
Unrealized foreign exchange	--	--	--	--
Grants issued	--	--	249,294	--
Net loss and comprehensive loss for the year	--	--	--	(3,112,138)
	-----	-----	-----	-----
Balance at June 30, 2001	176,366,408	\$ 176,366	\$ 22,592,701	\$ (23,622,329)
	-----	-----	-----	-----

See Notes to Consolidated Financial Statements

F-6

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

Edgar Filing: TIREX CORP - Form 10KSB

	Common Stock		Additional Paid-in Capital	Deficit Accumulated During Developmental Stage	Unrea Fore Exch
	Shares	Amount			
Balance at June 30, 2001	176,366,408	\$ 176,366	\$ 22,592,701	\$ (23,622,329)	\$ (1
Stock issued for services	18,466,162	18,466	314,859	--	
Stock issued in exchange for debt	24,075,502	24,076	1,145,090	--	
Issuance of common stock	5,849,487	5,850	61,897	--	
Unrealized foreign exchange	--	--	--	--	(
Grants issued	--	--	504,352	--	
Net loss and comprehensive loss for the year	--	--	--	(3,767,344)	
Balance at June 30, 2002	\$224,757,559	\$ 224,758	\$ 24,618,899	\$ (27,389,673)	\$ (2
Stock issued for services	5,455,000	5,455	130,920	--	
Stock issued in exchange for debt	15,400,000	15,400	441,183	--	
Issuance of common stock	4,283,333	4,283	31,217	--	
Unrealized foreign exchange	--	--	--	--	(1
Grants issued	--	--	--	--	
Net loss and comprehensive loss for the year	--	--	--	(1,561,375)	
Balance at June 30, 2003	\$249,895,892	\$ 249,896	\$ 25,222,219	\$ (28,951,048)	\$ (3

See Notes to Consolidated Financial Statements

F-7

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Cash Flows

	Year Ended June 30,		Cumulative Period fr March 26, (Date of Inception) June 30, 2
	2003	2002	
Cash flows from operating activities:			

Edgar Filing: TIREX CORP - Form 10KSB

Net loss	\$ (1,561,375)	\$ (3,767,344)	\$ (27,893,6
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	24,960	53,184	364,3
(Gain) loss on disposal and abandonment of assets	530,651	1,500,000	2,005,4
Stock issued in exchange for interest	--	--	169,1
Stock issued in exchange for services and expenses	43,250	333,325	10,574,9
Stock options issued in exchange for services	--	--	3,083,3
Unrealized gain on foreign exchange	(182,365)	(19,940)	(382,5
Change in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	33,213	(33,213)	
Inventory	(8,158)	(51,823)	(73,3
Sales tax receivable	22,053	53,870	(
Research and experimental development tax credits receivable	246,970	114,059	
Other assets	242,956	193,297	(10,1
(Decrease) increase in:			
Accounts payable and accrued liabilities	273,586	135,447	1,896,1
Accrued salaries	33,080	90,874	323,1
Due to stockholders	--	--	5,0
	-----	-----	-----
Net cash used in operating activities	(301,179)	(1,398,264)	(9,938,1
	-----	-----	-----
Cash flow from investing activities:			
Change in notes receivable	(2,415)	28,059	(259,3
Reduction in notes receivable	--	--	237,6
Investment	--	(89,500)	(89,5
Equipment	--	--	(321,5
Equipment assembly costs	--	--	(1,999,8
Organization cost	--	--	6,7
Reduction of security deposit	--	--	(1,5
	-----	-----	-----
Net cash used in investing activities	(2,415)	(61,441)	(2,427,4
	-----	-----	-----
Cash flows from financing activities:			
Loans from related parties	133,600	1,070,823	4,354,8
Deferred financing costs	--	100,614	180,5
Proceeds from deposits	--	--	143,5
Payments on notes payable	--	--	(409,9
	-----	-----	-----
Sub-total	\$ 133,600	\$ 1,171,437	\$ 4,268,9
	-----	-----	-----

See Notes to Consolidated Financial Statements

F-8

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Cash Flows

Edgar Filing: TIREX CORP - Form 10KSB

	Year Ended June 30,		Cumulative Period from March 26, 1993 (Date of Inception) to June 30, 2003
	2003	2002	
Sub-total from prior page	\$ 133,600	\$ 1,171,437	\$ 4,268,953
Proceeds from convertible notes	--	--	754,999
Proceeds from notes payable	--	--	409,939
Payments on lease obligations	--	(7,668)	(86,380)
Proceeds from issuance of convertible subordinated debentures	--	--	1,035,000
Proceeds from loan payable	--	--	591,619
Payments on loan payable	--	(342,278)	(488,439)
Proceeds from issuance of stock options	--	--	20,000
Proceeds from grants	--	569,111	3,628,277
Proceeds from issuance of common stock	--	5,850	85,582
Proceeds from additional paid-in capital	31,217	61,897	2,145,775
Net cash provided by financing activities	303,594	1,458,349	12,364,325
Net (decrease) increase in cash and cash equivalents	--	(1,356)	(257)
Cash and cash equivalents - beginning of year	--	1,356	257
Cash and cash equivalents - end of year	\$ --	\$ --	\$ --
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$ 21,024	\$ 59,456	\$ 232,748
Income taxes paid	\$ --	\$ --	\$ --

Supplemental Disclosure of Non-Cash Activities:

During the years ended June 30, 2003 and June 30, 2002, the Company recorded an increase in common stock and in additional paid-in capital of \$456,583 and \$1,169,166, respectively, which was in recognition of the payment of debt. During the years ended June 30, 2003 and June 30, 2002, stock was issued in exchange for services performed and expenses in the amount of \$136,375 and \$333,325, respectively.

See Notes to Consolidated Financial Statements

Edgar Filing: TIREX CORP - Form 10KSB

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 1 - Summary of Accounting Policies

Change of Name

On July 11, 1997, the Company changed its name from Tirex America, Inc. to The Tirex Corporation.

Nature of Business

The Tirex Corporation and Subsidiaries (the "Company") was incorporated under the laws of the State of Delaware on August 19, 1987. The Company was originally organized to provide comprehensive health care services, but due to its inability to raise sufficient capital it was unable to implement its business plan. The Company became inactive in November 1990.

Reorganization

On March 26, 1993, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Louis V. Muro, currently a director of the Company, and former officers and directors of the Company (collectively the "Seller"), for the purchase of certain technology owned and developed by the Seller (the "Technology") to be used to design, develop and construct a prototype machine and thereafter a production quality machine for the cryogenic disintegration of used tires. The Technology was developed by the Seller prior to their affiliation or association with the Company.

Developmental Stage

At June 30, 2003 the Company is still in the development stage. The operations consist mainly of raising capital, obtaining financing, developing equipment, obtaining customers and supplies, installing and testing equipment and administrative activities.

Basis of Consolidation

The consolidated financial statements include the consolidated accounts of The Tirex Corporation, Tirex Canada R&D Inc., The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. Tirex Canada R&D Inc. is held 51% by certain shareholders of the Company. The shares owned by the certain shareholders are held in escrow by the Company's attorney and are restricted from transfer thereby allowing for a full consolidation of this Company. The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. are 100% held by the Company. All subsidiary companies except Tirex Canada R&D Inc. are dormant. All inter-company transactions and accounts have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less, were deemed to be cash equivalents.

Inventory

Edgar Filing: TIREX CORP - Form 10KSB

The Company values inventory, which consists of finished goods and equipment held for resale, at the lower cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five years.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gain or losses are reflected in earnings.

Investment

An investment made by the Company, in which the Company owns less than a 20% interest, is stated at cost value. The cost value approximates the fair market value of the investment.

F-10

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 1 - Summary of Accounting Policies (continued)

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Adoption of Statement of Accounting Standard No. 123

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. SFAS 123 encourages, but does not require companies to record stock-based compensation and other costs paid by the issuance of stock at fair value. The Company has chosen to account for stock-based compensation, stock issued for non-employee services and stock issued to obtain assets or in exchange for liabilities using the fair value method prescribed in SFAS 123. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

Adoption of Statement of Accounting Standard No. 128

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, Earnings per

Edgar Filing: TIREX CORP - Form 10KSB

Share. SFAS 128 replaces the presentation of Primary EPS with a presentation of Basic EPS and replaces the presentation Fully Diluted EPS with a presentation of Diluted EPS. It also requires dual presentation of Basic and Diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. SFAS 128 also requires restatement of all prior-period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the determination of Diluted Earnings Per Share.

A Basic Earnings per common share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted Earnings per Share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended June 30, 1997. For the years ended June 30, 2003 and June 30, 2002, Primary Loss per Share was the same as Basic Loss per Share and Fully Diluted Loss per Share was the same as Diluted Loss per Share. A net loss was reported in 2003 and 2002, and accordingly, in those years the denominator for the Basic EPS calculation was equal to the weighted average outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock, because to do so would have been anti-dilutive.

F-11

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 1 - Summary of Accounting Policies (continued)

----- Fair Value of Financial Instruments -----

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At June 30, 2003 and June 30, 2002, respectively, the carrying value of all financial instruments was not materially different from fair value.

Income Taxes

Edgar Filing: TIREX CORP - Form 10KSB

The Company has net operating loss carryovers of approximately \$28.9 million as of June 30, 2003, expiring in the years 2004 through 2023. However, based upon present Internal Revenue Service regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock and there has been a change in control as defined by the Internal Revenue Service regulations, a substantial portion of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, effective July 1993. SFAS No.109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carry forwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carry forwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

The Company does not have research and experimental development tax credits receivable from the Canadian Federal government and the Quebec Provincial government at June 30, 2003. At June 30, 2002 the company had a receivable of \$246,970. These are the result of tax credits for research and experimental development expenditures made by the Company which are not contingent upon any offset against any income taxes otherwise payable.

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date for monetary items and historical rates of exchange for non-monetary items with the resulting translation adjustment recorded directly to a separate component of shareholders' equity. Income and expense accounts are translated at average rates during the year. Currency transaction gains or losses are recognized in current operations.

Revenue Recognition

Revenue from the sale of TCS Systems will be recognized when the installed product is accepted by the customer. All other revenue from other products will be recognized when shipped to the customer.

F-12

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 2 - Going Concern

As shown in the accompanying financial statements, the Company incurred a net loss of \$1,561,375 and \$3,767,344 during the years ended June 30, 2003 and June 30, 2002, respectively.

In March 1993, the Company had begun its developmental stage with a new

Edgar Filing: TIREX CORP - Form 10KSB

business plan. As of March 2000, the Company had developed a production quality prototype of its patented system for the disintegration of scrap tires, but nonetheless continued its research and development efforts to improve the machine's performance and to permit greater flexibility in design for specific customer applications. Due to the Company's lack of working capital during the year ended June 30, 2003, all rubber crumb production has ceased and research and development efforts have been hampered. Pending receipt of funding from operations, government assistance, loans or equity financing, crumb rubber production and previous research and development efforts will not be resumed. While the Company has engaged the process of marketing the TCS System to numerous potential clients since the beginning of the fiscal year commencing July 1, 2000, as of June 30, 2003, the Company had not yet consummated an unconditional purchase order for a TCS System. Until such an unconditional purchase order is received, Management considers the Company to still be in the developmental stage.

The Company is dependent on the success of its marketing of its TCS Plants, and/or raising funds through equity sales, bank or investor loans, governmental grants or a combination of these, to continue as a going concern. The Company's uncertainty as to its ability to generate revenue and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 - Financing Cost

During the year ended June 30, 1999 the Company incurred costs of \$158,255 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the year ended June 30, 2000 was \$125,291, reducing this account balance to zero. During the year ended June 30, 2001, the Company incurred costs of \$180,557 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the year ended June 30, 2002 was \$100,614.

Note 4 - Property and Equipment

As of June 30, 2003 plant and equipment consisted of the following:

Furniture, fixtures and equipment	\$ 37,520
Manufacturing equipment	62,400

Subtotal	99,920
Less: Accumulated depreciation and amortization	49,920

Total	\$ 50,000
	=====

Depreciation and amortization expense charged to operations for the years ended June 30, 2003 and 2002 respectively was \$24,960 and \$ 53,184, respectively.

Edgar Filing: TIREX CORP - Form 10KSB

Notes to Consolidated Financial Statements

Note 5 - Government Loans

Canada Economic Development

Loan payable under the Industrial Recovery Program for Southwest Montreal amounting to 20% of certain eligible costs incurred (maximum loan \$333,300) repayable over four years commencing March 31, 1999, and ending March 31, 2002, unsecured and non-interest bearing. (If the Company defaults the loans become interest bearing)

Loans payable under the Program for the Development of Quebec SMEs based on 50% of approved eligible costs for the preparation of market development studies in certain regions. Loans are unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing).

Loan payable over five years commencing June 30, 2000 and ending June 30, 2004	\$ 36,363
--	-----------

Loan payable over five years commencing June 30, 2001 and ending June 30, 2005	45,188
--	--------

Loan payable in amounts equal to 1% of annual sales in Spain and/or Portugal through June 30, 2007, to a maximum of the balance of the loan outstanding. If no sales occur on or before this date in Spain and Portugal, the loan will become non-repayable	14,842
---	--------

Loan repayable in amounts equal to 1 1/2% of annual sales in Spain and/or Portugal through June 30, 2004 to a maximum of the balance of the loan outstanding. If no sales occur before this date in Spain and Portugal, the loan will become non-repayable.	66,500
---	--------

	162,893
Less: Current portion	75,813

Long- term portion	\$ 87,080
	=====

Principal repayments are as follows:

June 30,

2003	--
2004	75,813
2005	20,580
2006	--
2007	66,500

	\$ 162,893
	=====

During the year ended June 30, 2003, the Company was declared in default, with respect to the loan under the Industrial Recovery Program for Southwest Montreal, as a result of the late installment repayment and as such was obligated to repay the entire remaining balance due on the loan at an earlier date than the March 31, 2002 maturity date.

Note 6 - Capital Lease Obligations

Edgar Filing: TIREX CORP - Form 10KSB

 The Company leases certain manufacturing equipment under agreements classified as capital leases. The cost for such equipment as of June 30, 2003 and 2002 was \$62,400. The accumulated amortization for such equipment as of June 30, 2003 and 2002 was \$49,920 and \$37,440, respectively. The equipment under capital leases has been included in property and equipment on the balance sheet. The Company is in arrears on payment of these leases but default has not been declared. The leased equipment is not part of the Company's TCS System prototype.

F-14

THE TIREX CORPORATION AND SUBSIDIARIES

 (A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 6 - Capital Lease Obligations (continued)

 The following is a schedule by years of future minimum lease payments under capital leases of equipment together with the obligations under capital leases (present value of future minimum rentals) as of June 30, 2003

Years Ended June 30, -----	
2003	\$ -
2004	15,514

Total minimum lease payments	15,514
Less amount representing interest	1,955

Total obligations under capital lease	13,559
Less current portion of obligations under capital leases	13,559

Long-term obligation under capital leases, with interest rate of 10%	\$ --
	=====

Note 7 - Convertible Subordinated Debentures

 The Company issued Type B Convertible Subordinated Debentures between December 1997 and February 1998. These debentures bore interest at 10% and were convertible into common shares of the Company at \$0.20 per share. The conversion privilege on the remaining \$55,000 of these debentures expired and the amount is now included on the Balance Sheet in Long term deposits and notes.

Note 8 - Convertible Notes

 The Convertible Notes appearing on the balance sheet as of June 30, 2003 consisted of an investment arrangement with a group of institutional investors involving a multi-stage financing under which the Company had access to, at its option, up to \$5,000,000. A first tranche of \$750,000 was completed but no further drawdowns were made.

Edgar Filing: TIREX CORP - Form 10KSB

The terms of the convertible note were:

Balance at June 30, 2003 and June 30, 2002	\$ --
Interest rate	8%, payable quarterly, commencing June 30, 2001
Issue date	February 26, 2001
Maturity date	February 26, 2003
Redemption rights	If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest.
Conversion ratio	Lower of (i) - 80% of the average of the three lowest closing bid prices for the thirty trading days prior to the issue date, which equals \$.073, or (ii) - 80% of the average of the three lowest closing bid prices for the sixty trading days prior to the conversion date.

F-15

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 8 - Convertible Notes (continued)

Common stock warrants

The Convertible Notes carried an option to purchase Common stock warrants at the rate of one Warrant for each \$1.25 of purchase price. The exercise price on the first tranche of \$750,000 is \$.077 per share.

Certain Directors and Officers of the Company have pledged approximately 12,000,000 of their personal shares of Common stock of the Company as security for the Convertible notes until such time as the Company files with the Securities and Exchange Commission a Registration Statement on Form SB-2, to register common stock and warrants issuable upon the conversion of the notes, no later than 150 days after the issue date of the Convertible notes. This deadline was not met and, as such, the investors served a notice of default to the

Edgar Filing: TIREX CORP - Form 10KSB

Company on July 19, 2001. The Registration Statement has still not been declared effective by the Securities and Exchange Commission as of this date, and until such occurs, the Convertible notes cannot be converted to Common stock nor may the Common stock warrants be exercised.

On April 24, 2002 the Company entered into a Settlement Agreement with the Note holders. In the event of a default under the Settlement Agreement, the term of the Convertible Notes would become effective once again. The conclusion of the Settlement Agreement has negated the default. The main terms of the Settlement Agreement are as follows:

Amount due including interest calculated to June 30, 2002 and penalties to date, and deducting proceeds from the sale of collateral shares in the amount of \$16,260	\$ 932,240
Interest rate on the debt	8%
Repayment terms	\$1,000 on May 15, 2002 \$1,000 on June 15, 2002 \$38,843.33 each month for up to twenty-four months starting August 1, 2002
Warrants for purchase of common shares	500,000 three-year warrants exercisable immediately at a price of \$0.01 per share. 500,000 two-year warrants exercisable one year from the date of the Settlement Agreement at a price of \$0.05 per share. 500,000 one-year warrants exercisable two years from the date of the Settlement Agreement at a price of \$0.10 per share.
Right to sell collateral shares and Rule 144 shares	The Investors have the right to sell up to 600,000 collateral shares and/or Rule 144 shares per month, with proceeds to be first applied against interest and fees and thereafter against principal.
Right of prepayment	The Company has the right to pay amounts in excess of the prescribed monthly amount, without penalty.

Edgar Filing: TIREX CORP - Form 10KSB

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 8 - Convertible Notes (continued)

Collateral shares

As of the date of signing of the Settlement Agreement, the Investors had 10,790,885 Collateral Shares in their possession.

During the year ended June 30, 2002, the Company authorized the investors to sell 1,800,000 of the shares held as security.

Note 9 - Convertible Note

A Convertible note, under a private arrangement consists of the following:

Balance at June 30, 2003	\$ 185,556
Interest rate	8%
Issue date	July 19, 2000
Maturity date	January 19, 2002
Redemption rights	If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest.
Conversion ratio	Not convertible prior to July 19, 2001, at 20% discount to market between July 19, 2001 and January 19, 2002 or at 25% to market if held to maturity, to a maximum of not more than 2,500,000 shares.

Note 10- Related Party Transactions

Convertible loans include amounts primarily due to Directors, Officers and employees. Historically, such amounts due have been repaid through the issuance of stock. At June 30, 2003 and June 30, 2002, the balances owing to Directors and Officers were \$794,923 and \$919,462. These amounts are without interest or term of repayment.

Various Notes Receivable from Officers, separately reported on the audited Balance Sheet as of June 30, 2000, plus accrued interest

Edgar Filing: TIREX CORP - Form 10KSB

thereon, were offset against amounts due to these Officers as of June 30, 2001.

Long-term deposits and notes included an amount of \$118,500 at June 30, 2003, which is payable to Ocean Tire Recycling & Processing Co., Inc., a company owned by a Director of the Company.

Subsequent to June 30, 2000, the Company modified an agreement with Ocean Tire Recycling & Processing Co., Inc. to clarify various terms of the parties' prior agreements and to obtain a commitment by Ocean Tire Recycling & Processing Co., Inc. to pay, when necessary, lease payments on the prototype TCS System. As part of the agreement, the Company will repay Ocean Tire Recycling & Processing Co., Inc. in cash or through the issuance of stock. The lease payments, under the accounting provisions for an operating lease, have been recorded as a Research and Development expense and the debt obligation included in loans from related parties. During the year ended June 30, 2001, 6,500,000 common shares were issued under the agreement as a partial Settlement. During the year ended June 30, 2002, an additional 4,553,102 common shares were issued under the agreement to a designated person assigned by Ocean Tire Recycling & Processing Co., Inc.

F-17

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 11- Exchange of Debt for Common Stock

During the fiscal year ended June 30, 2002, the Company recorded an increase in common stock and additional paid-in capital of \$1,169,166 representing issuances of stock in lieu of cash payments for debts owed. During the year ended June 30, 2003, the Company recorded increases in common stock and additional paid-in capital of \$456,583 reflecting the exchange of common stock for debts owed.

Note 12- Common Stock

During the years ended June 30, 2003 and the year ended June 30, 2002, the Company issued common stock in exchange for services performed totaling \$136,375 and \$ 333,325, respectively. Included in the year ended June 30, 2002 are payments to Officers of the Company for salary and expenses in the amount of \$57,796. During the year ended June 30, 2003, the Company issued common stock in exchange of services performed totaling \$43,250. The amount for the year ended June 30, 2003 did not include any payments to Officers of the Company in exchange for salary and expenses. The dollar amounts assigned to such transactions have been recorded at the fair value of the services received.

On January 31, 2001, the Company's stockholders approved an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock, par value \$0.001, from 165,000,000 shares to 250,000,000 shares.

As of June 30, 2003, the Company had 249,895,892 Common shares issued and outstanding.

Edgar Filing: TIREX CORP - Form 10KSB

Note 13- Stock Plan

The Company established a Stock Plan in June of 2000 whereby key personnel of the Company, consultants and other persons who have made substantial contributions to the Company may be issued shares as compensation and incentives through Awards, Options or Grants under the terms set forth in the Stock Plan. The Stock Plan originally called for the issuance of a maximum of 7,000,000 shares of stock as Awards, the issuance of a maximum of 7,000,000 shares of stock to underlie Options and the issuance of a maximum of 7,000,000 shares of stock that may be issued as Grants. Awards and Options can only be given to individuals who have been either in the employ of the Company, an Officer, Director or consultant for the preceding six months. Awards are not fully vested until the end of three years with one twelfth of the aggregate award vesting at the end of each quarter. If the Awardee is terminated for cause or resigns, the unvested portion of the award is forfeited. Options can be exercised at any time and upon exercise, the underlying stock is fully vested with the purchaser. The Options are not transferable and are exercisable for two years after which time they expire. If the Optionee is terminated for cause or resigns, all unexercised options are forfeited. A Grant can only be given to persons who have made a substantial contribution to the Company and the shares are not forfeitable. On January 31, 2001, the Company amended the Stock Plan providing for an additional 3,000,000 shares being allocated as Grants and additional 2,000,000 shares allocated to be given as Options. On May 30, 2001, the Stock Plan was further amended reallocating 7,000,000 shares to be given as Awards to allow 5,000,000 of the shares to be used for Options and 2,000,000 of the shares to be used as Grants. There were no stock issuances under the Stock Plan for the year ended June 30, 2000.

During the year ended June 30, 2001, the Company issued 9,300,000 shares as Grants under the Stock Plan at an average stock price of \$.093 for an aggregate consideration of \$867,374. During the year ended June 30, 2002, the Company issued 750,000 shares as Grants under the Stock Plan at an average stock price of \$.016 for an aggregate consideration of \$12,031.

F-18

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 13- Stock Plan (continued)

During the year ended June 30, 2001, the Company had the following transactions as Options under the Stock Plan:

	Number of Shares	Avg. Exercise Price	Aggregate Consideration
	-----	-----	-----
Granted and unexercised at beginning of year	Nil	--	--

Edgar Filing: TIREX CORP - Form 10KSB

Granted and exercised during the year	9,698,228	\$	0.131	\$ 1,273,334
Granted and unexercised at end of year	Nil		--	--

The exercise price at the time the Options were granted and exercised was approximately equal to the market price at that time.

There were no Options granted or exercised during the year period ended June 30, 2003.

Note 14- Convertible Debt

 In the event that holders of convertible rights of option exercise such rights of conversion the Company does not have a sufficient number of authorized shares conversion stock to fulfill such obligations and a shareholder meeting would be required to approve the additional authorized number of shares. There is no assurance that the shareholders would approve the increase to the number of authorized shares of stock to meet the conversion obligations under the various conversion agreements or options.

Note 15- Acquisition by Merger of RPM Incorporated

 During November 1997, the Company entered into a merger agreement with RPM Incorporated ("RPM"). The Company acquired all of the assets and liabilities of RPM by acquiring all of the outstanding common stock of RPM in exchange for common stock in the Company on a unit for unit basis. RPM ceased to exist following the exchange.

The assets and liabilities acquired by the Company from RPM consisted of the proceeds from the sale of debentures of \$535,000. The financing fees on the issuance of the debentures, totaling \$61,755, were included as an expense in the statement of operations for the year ended June 30, 1998. A total of 535,000 shares were issued as a result of the merger valued at \$16,050. A total of \$16,050 was received for this stock.

The Company entered into an additional agreement with the former shareholders of RPM for consulting services for a period of 5 years expiring in June 2002. Pursuant to this consulting agreement, 3,000,000 shares of common stock were issued valued at \$240,000. Other than the consulting agreement and the issuance of the debentures, RPM was inactive.

For accounting purposes, the Company recorded the merger as a purchase and not as a pooling of interests.

Note 16- Government Assistance

 The Company is eligible for and has made claims for tax credits related to scientific research and experimental development expenditures made in Canada. These amounts, under Canadian Federal and Provincial tax law in conjunction with its annual tax return filings, need not be offset against taxes otherwise payable to become refundable to the Company at the end of its fiscal year. As such, during the year ended June 30, 2003, the Company received approximately \$504,000, which has been recorded as an increase in stockholders' equity paid-in capital. Also, during the year ended June 30, 2001, the Company received approximately

Edgar Filing: TIREX CORP - Form 10KSB

\$353,725, which has also been recorded as an increase in stockholders' equity paid-in capital. During the year ended June 30, 2002, the Company recorded additional tax credits in the amount of \$246,970, bringing the reported receivable balance from these governments from \$246,970 as of June 30, 2002 to zero as of June 30, 2003.

F-19

THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Notes to Consolidated Financial Statements

Note 17- Commitments

The Company leased office and warehouse space at an annual minimum rent of \$80,000 for the first year, \$160,000 for the second year and \$200,000 per year for the third through the fifth years. The lease expired in 2003. The Company was responsible for its proportionate share of any increase in real estate taxes and utilities. Also, under the terms of the lease, the Company was required to obtain adequate public liability and property damage insurance.

Rental expense for the years ended June 30, 2003 and June 30, 2002 amounted to \$124,442 and \$205,141, respectively.

The lease contains a second ranking moveable hypothec in the amount of \$300,000 on the universality of the Company's moveable property.

At June 30, 2003 the Company was in arrears of rent, including interest and related charges, in the amount of \$560,000.

Note 18- Litigation

An action was instituted by Plaintiffs, a Canadian resident and a Canadian corporation, in a Canadian court alleging a breach of contract and claims damages of approximately \$508,600 representing expenses and an additional approximate amount of \$1,874,000 in loss of profits. The current action follows two similar actions taken in United States courts, the first of which was withdrawn and the second of which was dismissed based on forum non-convenience and other considerations. A detailed answer has been filed by the Company denying all liability, stating further that Plaintiffs failed to comply with their obligations. Counsel for the Company believes that the Company has meritorious defenses to all of the Plaintiffs claims. The action is still pending.

A Plaintiff instituted an action, a Canadian corporation, in August 2001 in a Canadian court claiming approximately \$63,000 is due and owing from the manufacture and delivery of tire disintegrators. The Company is preparing its defense and a cross claim against the Plaintiff as the product delivered was defective and the Company believes it is entitled to a reimbursement of sums paid. The action is still pending.

An action was instituted by a Plaintiff, the Company's landlord, against the Company in June 2001 for arrears of rent in the amount of approximately \$113,900. The Company is currently in negotiation with its landlord and the action is still pending. As of June 30, 2003, the

Edgar Filing: TIREX CORP - Form 10KSB

Company was in arrears of rent and property taxes to its landlord in the amount of approximately \$560,000.

Note 19- Accumulated Other Comprehensive Loss

The deficit accumulated during the development stage included other accumulated comprehensive loss totaling \$106,137.

F-20