

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP/NY
Form 10KSB
September 20, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-KSB

(X) Annual Report Under Section 13 or 15(d) of the Securities Exchange Act
of 1934. FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

() Transitional Report Under Section 13 or 15(d) of the Securities Exchange
Act of 1934. For the transition period from _____ to _____

Commission file number: 000-28679

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(Name of Small Business Issuer in Its Charter)

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

TNO Environmental Technology Valley

Laan van Westenenk 501

7334 DT Apeldoorn, The Netherlands

(Address of Principal Executive Offices)

011 31 55 534 7040

(Company's Telephone Number, Including Area Code)

Securities registered under Section 12(g) of the Securities and Exchange Act of 1934: NONE

Securities registered under Section 12(g) of the Securities and Exchange Act of 1934:

| Title of each class: | Name of each Exchange on |
|----------------------|--------------------------|
|----------------------|--------------------------|

| | Which registered |
|--|------------------|
|--|------------------|

| | |
|---|------|
| Common Stock - .0001 par value 7,322,030 issued | None |
|---|------|

| | |
|---|------|
| Series A Preferred - .0001 par value 535,985 issued | None |
|---|------|

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

Check if there is no disclosure of delinquent filers in response to 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant'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 KSB. []

State issuer's revenue for the most recent fiscal year: Zero

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or average bid and ask price of such common equity a of the specified date within the past 60 days: Market Value \$0.125.

State the number of shares outstanding of each of the issuers classes of common equity, as of the latest practicable date: Common Stock - .0001 par value 7,322,030 issued; Series A Preferred - .0001 par value 535,985 issued.

Documents incorporated by reference: None

Transitional small business disclosure format: Yes () No (X)

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

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For the year ended December 31, 2001

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

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Part I

Item I - Description of Business

FORM AND YEAR OF ORGANIZATION

Management of Environmental Solutions and Technology Corp. (MEST) was formed as a Delaware corporation on December 18, 1997 with 30,000,000 shares of authorized common stock at .0001 par value and 5,000,000 shares of preferred stock at .0001 par value. The Company as of December 31, 2001 has issued and outstanding 7,324,055 shares of its common stock and 535,985 Series A Preferred shares. The Company has not declared bankruptcy, entered into voluntary or involuntary receivership or any type of similar proceeding. Further, it has made no material reclassification, consolidation or purchase or sale of significant amount of assets not in the ordinary course of business during the calendar year 2001.

BUSINESS OF MEST

MEST was organized for purposes of commercializing a unique dewatering technology developed by The Netherlands Organization for Applied Scientific Research (TNO). This unique and proprietary process utilizes zeolite compound

to engage and dehydrate manure, sludge, bio-solids, plant, animal and fish waste.

The Company's initial mission was to raise sufficient capital to finance further research and development conducted at TNO to determine whether the zeolite dewatering process had practical application and could be commercialized. Through a collaborative effort between MEST and TNO, a definitive process has been designed, engineered and tested which incorporates a zeolite dehydration system and recuperation system for the zeolite drying compound. The Company management believes that it is technically feasible to utilize the zeolite dewatering technology in a commercial format. Collaborative testing between MEST and TNO has also yielded production costing information sufficient to lead management to conclude that commercial scale zeolite dewatering devices should be designed and built. The Company continues to utilize the MEST pilot plant at the TNO facility in Apeldoorn, The Netherlands to process materials which the Company considers candidates for commercially feasible dehydration.

MEST's principal objectives during calendar year 2001 were to demonstrate the functionality of the pilot plant; test various materials and determine whether the zeolite dewatering process was amendable to such materials; and to provide reliable estimates for processing costs so that the Company can determine which dehydratable materials may be most readily commercialized.

Based upon the results of the collaborative TNO research and market product research by the Company, the Company has determined to enter into the feed and animal nutrition industry converting organic waste materials into value added

and end products directed at livestock, fish, pet food and fertilizer industries. Management believes that this market is somewhat stable and that end products can be sold into the global commodities markets at varying rates of profitability depending upon the quality of the dewatered product. Management believes that the zeolite dewatering technology will emphasize quality dehydration due to its low temperature process. Management further believes that dehydrated organic waste materials derived through zeolite dewatering will be particularly marketable based upon these criteria:

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1. Precise and reproducible final moisture content;
2. Pasteurization of the final end product;
3. Reduced loss of functional properties or degradation of final product;
4. Low final product moisture content is needed to increase shelf life;
5. Low atmospheric emissions.

The Company anticipates the commercialization of its products by converting fish waste to fish meal, yeast or hops waste to livestock feed or rapeseed waste to livestock feed. The commodities markets for quality dehydrated materials as described above are readily accessible in the United States and globally. The Company anticipates its distribution method to be geographically linked with the location of the zeolite dewatering devices. Distribution will initiate from the dehydration facility.

There are numerous conventional methods of dehydrating food, waste and manure products. However, the Company is unaware of any competitor which utilizes the zeolite dewatering process in applications contemplated by the Company. Consequently, the Company fully intends to utilize its protective status as a patented technology in order to gain market acceptance and proliferation.

The machinery and equipment required for the zeolite dewatering process involves conventional processing equipment with few exceptions. The Company will be required to provide and fabricate certain specialized equipment involving the zeolite to substrate combination and segregation devices. Raw materials for the process such as zeolite and electricity are abundant and the suppliers will be selected based upon the location of the MEST equipment, price and service.

The Company derives its proprietary rights to the zeolite dewatering technology through MSTec B.V. MSTec B.V. is owned 50% by the Company and 50% by TNO. MSTec applied for a patent "Method and Apparatus for Processing Watery Substance with Zeolite" in The Netherlands on July 10, 1998. That patent was filed as an international patent on July 12, 1999 under patent number PCT/NL/99/00443. The patent is currently pending internationally but has already passed the international preliminary examinations as of April 18, 2000. Management believes that it will achieve its international patent status during calendar year 2002.

With respect to the Company's need for governmental approval of principal products or services, the Company defers to its discussion of potential

government regulation in its amended disclosure filed 11/15/01 in Item I. The Company anticipates upon location of its zeolite dewatering devices that the Company will be required to comply with any local, state or federal waste processing standards as well as air quality standards for emissions which may occur as a result of the dehydration or reprocessing of zeolite particles.

Management does not anticipate complex approval processes with any governmental agency.

The practical affect of governmental regulations on handling of waste products, packaging of dewatered materials and air emissions are not fully known at this time. For an expanded discussion regarding potential probable governmental regulation, please refer to an expanded discussion in the amended Form 10-SB filed 11/15/01. Remarkably, the Company's byproduct of the dewatering system is dust or pelletized dehydrated material suitable for sale and commercial feed or fertilizer markets. The zeolite dewatering process emits only minor quantities of heat and relatively innocuous gases. The Company anticipates no serious obstacles by local state or federal regulations. As the Company has already

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

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designed cleanliness into the dehydration system, cost and effects of governmental and environmental compliance has already been considered in the

design of the product and therefore should not be incremental cost factor.

During calendar year 2001, the total full time employees of the Company consists of one, the President of the Company. Other services and support are either contracted or part time.

REPORTS TO SECURITY HOLDERS

The Company is not required to deliver annual reports to its security holders but voluntary makes available through e-mail, facsimile or hard copy this Form 10K-SB which includes audited financial statements.

The Company files quarterly and annual reports with the Securities and Exchange Commission in accordance with Section 13 or 15(d) of the Securities and Exchange Act of 1934. Quarterly reports consist of disclosures and financial information required under Form 10-QSB. As the Company is a small business, quarterly reports are reviewed by its auditors. Annual reports filed by the Company are filed pursuant to Form 10-KSB and its financial reports are audited.

The public may read and copy any materials which it files with the Securities and Exchange Commission at the Securities and Exchange Commission's public reference room at 450 5th Street N.W., Washington D.C. 20549. The public may attain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. As the Company is an electronic filer, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The

SEC's Internet address is <http://www.sec.gov>. Interested shareholders may reach the Company at the following internet address info@mest-corp or at the Company's business office as indicated on the front page of this form 10-KSB.

Item II - Description of Property

MEST owns through MSTec B.V. rights to the patent method and apparatus for processing watering substance with zeolite (PCT/NL/99/00443) with the internationally filing date of July 12, 1999. MEST has been granted the right to fully commercialize manure, sludge and bio-solids by virtue of the licensing agreement with its subsidiary MSTec B.V.

The Company owns through MEST BV, the Company's wholly owned subsidiary, the pilot plant which is currently located at Laan van Westenenk 501, 7334 DT Apeldoorn, The Netherlands. The pilot plant consists of materials transportation devices, conveyers, augers, mixers, the zeolite mixing device, a segregator, a torbid reactor, pelletizer, mechanical linkage and conveyance systems and supporting hardware.

MEST owns the technical engineering packet developed by TNO which contains specifications and parameters for the design of the pilot zeolite dewatering device and devices of larger capacities.

The Company currently leases an office and processing center at the TNO facility for the sum of \$2,000.00 per month which lease expires in June 2006. The

Company has no desire or expectation to move its facility. There is no current plan of the Company to revise or develop further the pilot plant except to perform alterations and adjustments which will enhance the longevity of the machinery or prepare the machinery for particular applications.

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For the year ended December 31, 2001

The Company maintains a general liability insurance in the amount of \$1,200,000 which covers the Company's personnel and certain business liabilities. The Company also maintains property casualty insurance in the amount of \$1,500,000.00. Both policies are with AMEV Schadiverzekering N.V. and are effective from December 31, 2001 to December 31, 2002.

The Company received a request to inspect records served on MEST Corp. by shareholder Ingrid Ford through her lawyer, David Moule of Moule and Frank, 259 Fifth Avenue East, Eugene Oregon 97401. The request asked for Articles of Incorporation, Bylaws, Annual Reports, meetings and minutes, SEC filings, lists Of all shareholders and list by year of all officers and directors.

Additionally there has been a request to list by year management, personnel and their employment agreements and compensation. There is also a request for a list of all persons and companies who have sold stock in and on behalf of MEST, request includes the location of all corporate offices and bank accounts for MEST and all accountings prepared by Spicer Jeffreys and Company and by Aranthals en Partners. The Company plans to honor this request and is preparing

the approximate materials.

Item III - Legal Proceedings

MEST is not currently a party to any legal proceeding nor is its tangible personal property or intangible property subject to any known proceeding, claim, litigation or challenge.

MEST is not currently informed or aware of any pending proceeding or claim by any governmental authority in the United States or elsewhere.

Item IV - Submission of Matters to Vote of Security Holders

MEST did not convene a special or regular meeting of its shareholders during the fourth quarter of the Company's fiscal year which corresponds to calendar year 2001. As there was no annual or special meeting, no change was made to the directorship of the Company. There were no proxies solicited nor were votes taken.

Part II

Item V - Market Information

Principal market where the Company's common equity is traded is the pink sheets. Management believes that there is no significant trading activity in the stock and therefore no substantial market for the Company's share exists. However,

the Company's common stock is quoted as a pink sheet stock. The Company is not listed, applied for nor is the Company a member of a national exchange. The high and low sales prices of the stock for each quarter during calendar years 2000 and 2001 appear below:

| Time Period | High | Low |
|-------------|-----------|----------|
| ----- | ----- | ----- |
| 1st Qtr/00 | \$4.00 | \$2.00 |
| 2nd Qtr/00 | No Trades | |
| 3rd Qtr/00 | No Trades | |
| 4th Qtr/00 | \$1.00 | \$0.0625 |
| 1st Qtr/01 | \$1.0468 | |
| 2nd Qtr/01 | No Trades | |
| 3rd Qtr/01 | No Trades | |
| 4th Qtr/01 | \$0.125 | \$0.125 |

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The source of the foregoing information can be obtained on www.pinksheets.com.

Enter MESO in the box requiring the entry of the Company's trading symbol, locate the historical quote and data information as provided by Pink Sheets LLC.

The quotations reflect inter-dealer prices without retail markup, markdown, or commission and may not represent actual transactions. While the information provided by management reflects stock prices for the relevant periods shown,

management believes that the limited number of transactions involving purchases and sales of the Company's common equity does not constitute an established public trading market.

During calendar year 2001 which is the period covered by this Form 10-KSB, the Company has not sold, issued or distributed any equity securities and therefore does not provide the information required by 17 CFR Sec. 228.701. Within the past three years however, the Company has issued exempted securities which it has fully described in Part II, Item IV of the Amended Form 10-SB which was filed November 15, 2001. That description includes the type of securities offered on the exempted offerings and the amount of security sold, the proceeds to the Company and an accounting for all monies utilized by the Company up to June 30, 2001. No other company stock has been issued after June 30, 2001.

Item VI - Management's Discussion and Analysis or Plan of Operation

The Company provides the information required by 17 CFR 228.303(a) and provides a discussion regarding the Company's plan of operation for the next 12 months.

SUMMARY OF PRODUCT RESEARCH

The Company recently concluded preliminary testing of the Company's proprietary dewatering device. Utilizing the Zeolite Dewatering System has provided meaningful insight into actual production constraints and operations.

Management will concentrate on developing conveyors and airlock valves in the

torbid reactor which do not harm the Zeolite. This additional research is anticipated to cost less than \$20,000.00.

MARKETING PLAN

Management has engaged in the exercise of identifying financially productive applications for the Company's proprietary dewatering device. The Company has tested various bio-solids and sludges in the past to determine the ability of the Company's proprietary dewatering process to handle certain materials. This kind of research is ongoing and the Company actively solicits different varieties of bio-waste which may have value added in its dehydrated state. The Company plans to utilize this information to develop a more precise marketing plan which will concentrate on processes which offer financial return and which are amenable to the current status of MEST's dewatering technology.

In that regard, the Company has plans to assemble pilot plants in locations which provide constant sources of biological waste. In order to address processing requirements when the Company has finally identified site and product specific waste stream processing, Management has deemed it necessary to solicit bids from potential manufacturers in Europe and in the United States. As a preliminary matter, the Company estimates that a production facility will cost between \$500,000.00 and \$700,000.00 U.S.D. to fabricate a dewatering device in limited quantities. Specific engineering figures will be required in order for the Company to more accurately develop cost estimates for processing bio-solids,

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sludges or biological waste materials. The Company has previously engaged TNO to determine processing costs on the Company's pilot plan. The Company believes that it has certain useful information regarding the dewatering processing costs in a test format, more precise information should be developed by the financing production and employment of functional dewatering plants.

The Company has pursued an opportunity to locate and operate a Zeolite dewatering facility in Cordova, Alaska for purposes of processing fish waste. The Company intends to fully explore fish waste processing and make decisions regarding the Company's initial production application. The issue is whether the Company should sell dewatering devices to third parties and derive profits from the sale of equipment and machinery. The Company is entertaining the prospect of royalty or production based fees. Management has also considered retaining all vestiges of ownership in the Zeolite dewatering systems and derive profits from processing bio-solids or biological waste products.

FINANCIAL REQUIREMENTS

In the event the Company does not manufacture or contract for the further development and production of a Zeolite dewatering device, management estimates that current Company funding will last until September or October, 2002. As the

Company anticipates continuing operations and the development of up to five production quality devices, then the Company will need to raise additional capital to accomplish that purpose. The Company estimates that it will require approximately \$5,000,000.00 to administer the engineering project and to construct the dewatering devices in accordance with the Company's plans. In that regard, the Company intends to provide information to the Securities and Exchange Commission sufficient to clear the comment phase and then to proceed with a fully registered public offering to raise the \$5,000,000.00 required for the Company's plan of operations.

In order to implement the plans as outlined above, management anticipates hiring an operations manager close to the location where the dewatering devices will be manufactured. Prior to the delivery and installation of the dewatering devices to the operating locations, management will hire a team of no more than three operators for each dewatering system or it will subcontract the plant operations to a third party. The Company will budget in its operating expenses sufficient funding for either subcontracting services or for employee services to maintain plant operations. The time period between engagement of the subcontractor to build the devices and delivery is anticipated to be 4 to 6 months. Commencement of fabrication will depend on the Company's ability to raise additional capital.

Finances of the Company derive from two exempted offerings of MEST common shares and Preferred Series A. The Company has not earned income by virtue of sales of goods and services. The payment of employees, expenses, subcontractors and Company obligations has been made from capital raised by the sale of equity shares. The Company anticipates the need to raise

additional capital through public or private offerings and does not expect to earn revenues until late 2003.

Item VII - Financial Statements

The Company has provided and filed an audited balance sheet as of December 31, 2001 and an audited statement of income, cash flows and changes in stockholders' equity for the same time period. For additional historical financial information, please refer to the annual audits provided in the Company's Amended Form 10-SB filing November 15, 2001 which includes audits for years ending 1998, 1999 and 2000.

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FORM 10-KSB

For the year ended December 31, 2001

MANAGEMENT OF ENVIRONMENTAL
SOLUTIONS & TECHNOLOGY CORP.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

WILLIAMS & WEBSTER PS

CERTIFIED PUBLIC ACCOUNTANTS

BANK OF AMERICA FINANCIAL CENTER

601 W. RIVERSIDE, SUITE 1940

SPOKANE, WA 99201

(509) 838-5111

MANAGEMENT OF ENVIRONMENTAL

SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

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Board of Directors

Management of Environmental Solutions & Technology Corp.

Apeldoorn,

The Netherlands

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated balance sheets of Management of Environmental Solutions & Technology Corp. (a development stage company) as of December 31, 2001 and 2000 and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended and for the period from December 10, 1997 (inception) to December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with accounting standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Management of Environmental Solutions & Technology Corp. at December 31, 2001 and 2000, and the results of its operations and comprehensive loss, stockholders' equity and its cash flows for the years then ended and for the period from December 10, 1997 (inception) to December 31, 2001, in conformity with accounting standards generally accepted in the United States of America.

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

/s/ Williams & Webster, P.S.

Williams & Webster, P.S.

Certified Public Accountants

Spokane, Washington

August 29, 2002

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

| | 2001 | 2000 |
|--|------------|------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 203,652 | \$ 666,746 |
| Tax refunds receivable | 29,867 | 44,157 |
| Due from shareholders or related parties | - | 158,441 |
| Other receivables | 5,126 | - |
| Prepaid expenses | 2,836 | 19,274 |
| | ----- | ----- |
| Total Current Assets | 241,481 | 888,618 |
| | ----- | ----- |

| | | |
|--|-------|-------|
| Property and equipment (net of depreciation) | 3,201 | 7,182 |
|--|-------|-------|

| | | |
|--------------|------------|------------|
| | ----- | ----- |
| TOTAL ASSETS | \$ 244,682 | \$ 895,800 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|------------------|-----------|-----------|
| Accounts payable | \$ 38,979 | \$ 63,048 |
|------------------|-----------|-----------|

| | | |
|------------------------|---|---------|
| Loans, related parties | - | 109,090 |
|------------------------|---|---------|

| | | |
|------------------|-------|--------|
| Accrued expenses | 6,988 | 12,738 |
|------------------|-------|--------|

| | | |
|----------------|-------|---|
| Bank overdraft | 6,708 | - |
|----------------|-------|---|

| | | |
|---------------------------|--------|---------|
| | ----- | ----- |
| Total Current Liabilities | 52,675 | 184,876 |
| | ----- | ----- |

| | | |
|-------------------------------|---|---|
| COMMITMENTS AND CONTINGENCIES | - | - |
|-------------------------------|---|---|

Preferred stock - Series A; \$0.0001 par value

5,000,000 shares authorized, 535,985 issued

and outstanding, aggregate liquidation preference

| | | |
|----------------|----|----|
| of \$2,143,940 | 53 | 53 |
|----------------|----|----|

Common stock, \$0.0001 par value -

authorized 30,000,000 shares; 7,324,055

and 7,320,055 shares issued and outstanding,

| | | |
|--------------|-----|-----|
| respectively | 732 | 732 |
|--------------|-----|-----|

| | | |
|--|-------------|-------------|
| Additional paid-in capital | 3,221,643 | 3,149,176 |
| Stock options | 3,000,568 | 2,274,650 |
| Deficit accumulated during the development stage | (5,747,917) | (4,530,690) |
| Accumulated other comprehensive income (loss) | (283,072) | (182,997) |
| | ----- | ----- |
| Total Stockholders Equity | 192,007 | 710,924 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 244,682 | \$ 895,800 |
| | ===== | ===== |

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATION AND COMPREHENSIVE LOSS

<TABLE>

<CAPTION>

Period from

December 17,

1997

Years Ended

(Inception)

December 31,

to

----- December 31,

2001

2000

2001

<S>

<C>

<C>

<C>

REVENUES

\$ - \$ - \$ -

OPERATING EXPENSES

General and administrative 1,111,153 1,008,030 4,345,465

Research and development 72,980 63,782 608,357

Depreciation 3,980 4,177 10,691

Total Operating Expenses 1,188,113 1,075,989 4,964,513

LOSS FROM OPERATIONS (1,188,113) (1,075,989) (4,964,513)

OTHER INCOME (EXPENSES)

Interest income 60,746 75,446 170,229

Net loss from joint venture (88,121) (394,772) (951,101)

Interest expense (1,739) - (2,532)

| | | | |
|---|----------------|----------------|----------------|
| Total Other Income (Expenses) | (29,114) | (319,326) | (783,404) |
| | | | |
| LOSS BEFORE EXTRAORDINARY ITEM AND INCOME | | | |
| | | | |
| TAXES | (1,217,227) | (1,395,315) | (5,747,917) |
| | | | |
| Income taxes | - | - | - |
| ----- | | | |
| | | | |
| NET LOSS | (1,217,227) | (1,395,315) | (5,747,917) |
| | | | |
| OTHER COMPREHENSIVE LOSS | | | |
| | | | |
| Foreign currency translation loss | (100,075) | (97,293) | (283,072) |
| ----- | | | |
| | | | |
| COMPREHENSIVE (LOSS) | \$ (1,317,302) | \$ (1,492,608) | \$ (6,030,989) |
| ===== | | | |
| | | | |
| LOSS PER COMMON SHARE, BASIC AND DILUTED | \$ (0.18) | \$ (0.20) | |
| ===== | | | |
| | | | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES | | | |
| | | | |
| OUTSTANDING, BASIC AND DILUTED | 7,322,030 | 7,320,055 | |
| ===== | | | |
| </TABLE> | | | |

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

[illegible]

Inception,

| | | | | | | | | | | | | | | |
|---------------|---|----|---|---|----|---|----|---|----|---|----|---|----|---|
| Dec. 10, 1997 | - | \$ | - | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
|---------------|---|----|---|---|----|---|----|---|----|---|----|---|----|---|

Issuance of common

stock for cash on

Dec. 11, 1997 for

| | | | | | | | | | |
|------------------|---|---|-------|---|-------|---|---|---|-------|
| \$1.00 per share | - | - | 5,000 | 1 | 5,009 | - | - | - | 5,010 |
|------------------|---|---|-------|---|-------|---|---|---|-------|

Issuance of common

stock to acquire

STB corp. on Dec.

26, 1997 at \$1.00

| | | | | | | | | | |
|-----------|---|---|-----|---|-----|---|---|---|-----|
| per share | - | - | 175 | - | 175 | - | - | - | 175 |
|-----------|---|---|-----|---|-----|---|---|---|-----|

Net loss for year

| | | | | | | | | | |
|---------------------|---|---|---|---|---|---|----------|---|----------|
| ended Dec. 31, 1997 | - | - | - | - | - | - | (46,869) | - | (46,869) |
|---------------------|---|---|---|---|---|---|----------|---|----------|

Balance,

| | | | | | | | | | |
|---------------|---|---|-------|---|-------|---|----------|---|----------|
| Dec. 31, 1997 | - | - | 5,175 | 1 | 5,184 | - | (46,869) | - | (41,684) |
|---------------|---|---|-------|---|-------|---|----------|---|----------|

Issuance of common

stock as follows:

For cash on March

10, 1998 at \$.017

| | | | | | | | | | |
|-----------|---|---|-----------|-----|---------|---|---|---|---------|
| per share | - | - | 5,394,880 | 539 | 899,911 | - | - | - | 900,450 |
|-----------|---|---|-----------|-----|---------|---|---|---|---------|

To acquire

subsidiary on

April 9, 1998 at

| | | | | | | | | | |
|------------------|---|---|-----------|-----|--------|---|---|---|--------|
| \$0.01 per share | - | - | 1,920,000 | 192 | 19,808 | - | - | - | 20,000 |
|------------------|---|---|-----------|-----|--------|---|---|---|--------|

Issuance of

preferred stock

for cash:

December 1998 at

| | | | | | | | | | |
|------------------|--------|---|---|---|--------|---|---|---|--------|
| \$3.73 per share | 23,900 | 2 | - | - | 89,246 | - | - | - | 89,248 |
|------------------|--------|---|---|---|--------|---|---|---|--------|

Issuance of stock

options for

compensation on

Aug. 31, 1998 at

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

Net loss for year

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

Balance,

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

</table>

See accompanying notes and accountants review report.

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | Common Stock | | Additional | | Accumulated | Accumulated | |
|-----------------------|-----------------|--------|--------------|-----------|------------|-----------|-------------|---------------|---------|
| | Total | | Total | | Paid-in | | Deficit | Other | |
| | Number of | | Number of | | Capital | | During | Comprehensive | |
| Stockholders' | Shares | | Shares | | Options | | Development | Income | |
| Equity | Shares | Amount | Shares | Amount | Capital | Options | Stage | (Loss) | |
| <hr/> | | | | | | | | | |
| <hr/> | | | | | | | | | |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| <hr/> | | | | | | | | | |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 1998 | 23,900 | | 2 | 7,320,055 | 732 | 1,014,149 | 865,938 | (1,325,233) | |
| 15,284 | 570,872 | | | | | | | | |
| <hr/> | | | | | | | | | |
| <hr/> | | | | | | | | | |
| Issuance of | | | | | | | | | |
| preferred stock | | | | | | | | | |
| for cash: | | | | | | | | | |
| Jan. 1999 at | | | | | | | | | |
| \$3.92 per share | 23,350 | | 2 | - | - | 91,644 | - | - | 91,646 |
| Feb. 1999 at | | | | | | | | | |
| \$3.96 per share | 48,050 | | 4 | - | - | 190,196 | - | - | 190,200 |

Mar. 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|--------|---|---|---|--------|
| \$3.90 per share | 10,300 | 1 | - | - | 40,199 | - | - | - | 40,200 |
|------------------|--------|---|---|---|--------|---|---|---|--------|

April 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|--------|---|---|---|--------|
| \$4.00 per share | 11,300 | 1 | - | - | 45,199 | - | - | - | 45,200 |
|------------------|--------|---|---|---|--------|---|---|---|--------|

May 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|--------|---|---|---|--------|
| \$3.85 per share | 12,640 | 1 | - | - | 48,684 | - | - | - | 48,685 |
|------------------|--------|---|---|---|--------|---|---|---|--------|

June 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|---------|---|---|---|---------|
| \$4.01 per share | 82,900 | 8 | - | - | 332,237 | - | - | - | 332,245 |
|------------------|--------|---|---|---|---------|---|---|---|---------|

July 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|---------|---|---|---|---------|
| \$4.00 per share | 88,700 | 9 | - | - | 354,941 | - | - | - | 354,950 |
|------------------|--------|---|---|---|---------|---|---|---|---------|

Aug. 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|---------|---|---|---|---------|
| \$4.02 per share | 25,770 | 3 | - | - | 103,494 | - | - | - | 103,497 |
|------------------|--------|---|---|---|---------|---|---|---|---------|

Sept. 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|--------|---|---|---|--------|
| \$3.43 per share | 26,500 | 3 | - | - | 90,997 | - | - | - | 91,000 |
|------------------|--------|---|---|---|--------|---|---|---|--------|

Oct. 1999 at

| | | | | | | | | | |
|------------------|-------|---|---|---|--------|---|---|---|--------|
| \$4.22 per share | 6,200 | 1 | - | - | 26,174 | - | - | - | 26,175 |
|------------------|-------|---|---|---|--------|---|---|---|--------|

Nov. 1999 at

| | | | | | | | | | |
|------------------|--------|---|---|---|---------|---|---|---|---------|
| \$4.05 per share | 40,725 | 4 | - | - | 165,086 | - | - | - | 165,090 |
|------------------|--------|---|---|---|---------|---|---|---|---------|

Dec. 1999 at

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

Total preferred

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

Issuance of stock

options for

| | | | | | | | | | |
|---------------------|---|---|---|---|---|---------|-------------|-----------|---------|
| compensation on | | | | | | | | | |
| Aug. 31, 1999 at | | | | | | | | | |
| \$3.59 per share | - | - | - | - | - | 717,900 | - | - | 717,900 |
| Net loss for year | | | | | | | | | |
| ended Dec. 31, 1999 | - | - | - | - | - | - | (1,810,142) | (100,988) | |
| (1,911,130) | | | | | | | | | |

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

</table>

See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<TABLE>

<CAPTION>

| | | | | |
|-----------------|--------------|-------------|-------|--|
| | Accumulated | Accumulated | | |
| Preferred Stock | Common Stock | Deficit | Other | |

| Total | | | | | Additional | | During | Comprehensive | |
|---|--------------------|--------|-----------|-----------|------------|-----------|-------------|---------------|---------|
| Stockholders' | Number of | | Number of | | Paid-in | Stock | Development | Income | |
| Equity | Shares | Amount | Shares | Amount | Capital | Options | Stage | (Loss) | |
| | | | | | | | | | |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 1999 (85,704) | 427,485 979,050 | | 42 | 7,320,055 | 732 | 2,615,517 | 1,583,838 | (3,135,375) | |
| | | | | | | | | | |
| Issuance of preferred stock for cash: | | | | | | | | | |
| Jan. 2000 at | | | | | | | | | |
| \$4.08 per share | 8,300 | | 1 | - | - | 33,891 | - | - | 33,892 |
| Feb. 2000 at | | | | | | | | | |
| \$4.34 per share | 23,750 | | 2 | - | - | 103,054 | - | - | 103,056 |
| Mar. 2000 at | | | | | | | | | |
| \$4.37 per share | 4,500 | | 1 | - | - | 19,645 | - | - | 19,646 |
| April 2000 at | | | | | | | | | |
| \$4.16 per share | 61,700 | | 5 | - | - | 256,425 | - | - | 256,430 |
| May 2000 at | | | | | | | | | |
| \$4.30 per share | 5,250 | | 1 | - | - | 22,598 | - | - | 22,599 |
| June 2000 at | | | | | | | | | |
| \$4.19 per share | 5,000 | | 1 | - | - | 20,958 | - | - | 20,959 |

Total preferred

| | | | | | | | | |
|--------------------|---------|----|---|---|---------|---|---|---|
| stock issued: 2000 | 108,500 | 11 | - | - | 456,571 | - | - | - |
| 456,582 | | | | | | | | |

Issuance of stock

options for

compensation on

Aug. 31, 2000 at

| | | | | | | | | | |
|------------------|---|---|---|---|---|---------|---|---|---------|
| \$3.84 per share | - | - | - | - | - | 767,900 | - | - | 767,900 |
|------------------|---|---|---|---|---|---------|---|---|---------|

Expiration of

stock options on

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

Net loss,

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

Balance,

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

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

| | Preferred Stock | | | | Common Stock | | Additional | Accumulated | Accumulated |
|-----------------------|-----------------|--------|--------------|-----------|--------------|-----------|------------|-------------|---------------|
| | Preferred Stock | | Common Stock | | | | | Deficit | Other |
| Total | ----- | | ----- | | Additional | | | During | Comprehensive |
| Stockholders' Equity | Number of | | Number of | | Paid-in | Stock | | Development | Income |
| | Shares | Amount | Shares | Amount | Capital | Options | | Stage | (Loss) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | <s> | <c> | <c> | <c> | <c> | <c> | <c> | <c> | <c> |
| Balance carry-forward | | | | | | | | | |
| Dec. 31, 2000 | 535,985 | | 53 | 7,320,055 | 732 | 3,149,176 | | 2,274,650 | (4,530,690) |
| (182,997) | 710,924 | | | | | | | | |

Forgiveness of

| | | | | | | | | | |
|-----------------|---|---|---|---|--------|---|---|---|--------|
| debt by officer | - | - | - | - | 62,867 | - | - | - | 62,867 |
|-----------------|---|---|---|---|--------|---|---|---|--------|

Issuance of common

stock for cash at

\$2.40 per share

on Dec. 6, 2001,

net of \$2,400

| | | | | | | | | | |
|----------------|---|---|-------|---|-------|---|---|---|-------|
| financing cost | - | - | 4,000 | - | 9,600 | - | - | - | 9,600 |
|----------------|---|---|-------|---|-------|---|---|---|-------|

Issuance of stock

options for

compensation on

Dec. 31, 2001 at

| | | | | | | | | | |
|-------------------|---|---|---|---|---|---------|---|---|---------|
| \$3.63 per option | - | - | - | - | - | 725,918 | - | - | 725,918 |
|-------------------|---|---|---|---|---|---------|---|---|---------|

Net loss for year

| | | | | | | | | |
|---------------------|---|---|---|---|---|---|-------------|-----------|
| ended Dec. 31, 2001 | - | - | - | - | - | - | (1,217,227) | (100,075) |
| (1,317,302) | | | | | | | | |

Balance,

| | | | | | | | | | | | | | |
|---------------|---------|---------|----|-----------|----|-----|----|-----------|----|-----------|----|-------------|----|
| Dec. 31, 2001 | 535,985 | \$ | 53 | 7,324,055 | \$ | 732 | \$ | 3,221,643 | \$ | 3,000,568 | \$ | (5,747,917) | \$ |
| (283,072) | \$ | 192,007 | | | | | | | | | | | |

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</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

Period from

December 17,

1997

| | Years Ended | (Inception) | |
|--|----------------|----------------|----------------|
| | December 31, | to | |
| | ----- | December 31, | |
| | 2001 | 2000 | 2001 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (1,217,227) | \$ (1,395,315) | \$ (5,747,917) |
| Adjustments to reconcile net loss to | | | |
| net cash used in operating activities: | | | |
| Depreciation | 3,980 | 4,177 | 10,691 |
| Options granted as compensation | | 725,918 | 767,900 |
| | | | 3,077,656 |
| (Increase) decrease in assets: | | | |
| Tax refunds receivable | 14,290 | (10,575) | (29,867) |
| Other receivables | (5,126) | 2,247 | (5,126) |
| Prepaid expenses | 16,438 | (3,338) | (2,836) |
| Increase (decrease) in liabilities: | | | |
| Accrued liabilities | (5,750) | 12,738 | 6,988 |
| Accounts payable | (24,069) | (481,123) | 33,794 |
| | ----- | ----- | ----- |
| Net cash used in operating activities | (491,546) | (1,103,289) | (2,656,617) |
| | ----- | ----- | ----- |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | | |
|------------------------------------|---|---|-----------|
| Purchase of property and equipment | - | - | (13,893) |
| Loans provided to shareholders | - | - | (933,303) |

| | | | |
|-----------------------------------|---------|---------|---------|
| Payments on loans to shareholders | 112,218 | 774,862 | 887,080 |
|-----------------------------------|---------|---------|---------|

Net cash provided by (used in) investing

| | | | |
|------------|---------|---------|----------|
| activities | 112,218 | 774,862 | (60,116) |
|------------|---------|---------|----------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | | |
|--------------------|-------|---|-------|
| Overdrafts payable | 6,708 | - | 6,708 |
|--------------------|-------|---|-------|

| | | | |
|-----------------------------------|--------|---|---------|
| Proceeds from related party loans | 25,921 | - | 145,391 |
|-----------------------------------|--------|---|---------|

| | | | |
|---------------------------------|---|----------|----------|
| Payments on related party loans | - | (10,390) | (10,390) |
|---------------------------------|---|----------|----------|

| | | | |
|-------------------------------------|-------|---|---------|
| Proceeds from sales of common stock | 9,600 | - | 915,060 |
|-------------------------------------|-------|---|---------|

| | | | |
|--|---|---------|-----------|
| Proceeds from sales of preferred stock | - | 456,582 | 2,147,238 |
|--|---|---------|-----------|

| | | | |
|-------------------------------|---|---|--------|
| Cash acquired with subsidiary | - | - | 20,000 |
|-------------------------------|---|---|--------|

Net cash provided by (used in) financing

| | | | |
|------------|--------|---------|-----------|
| activities | 42,229 | 446,192 | 3,224,007 |
|------------|--------|---------|-----------|

| | | | |
|-------------------------------------|-----------|----------|-----------|
| Foreign currency translation (loss) | (125,995) | (97,108) | (308,622) |
|-------------------------------------|-----------|----------|-----------|

| | | | |
|---------------------------------|-----------|--------|---------|
| Net increase (decrease) in cash | (463,094) | 20,657 | 198,652 |
|---------------------------------|-----------|--------|---------|

| | | | |
|---------------------------|---------|---------|-------|
| Cash at beginning of year | 666,746 | 646,089 | 5,000 |
|---------------------------|---------|---------|-------|

| | | | |
|---------------------|------------|------------|------------|
| Cash at end of year | \$ 203,652 | \$ 666,746 | \$ 203,652 |
|---------------------|------------|------------|------------|

=====

</table>

See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

| | | |
|--------------|--------------|-------|
| Period from | | |
| December 17, | | |
| 1997 | | |
| Years Ended | (Inception) | |
| December 31, | to | |
| ----- | December 31, | |
| 2001 | 2000 | 2001 |
| ----- | ----- | ----- |

<S> <C> <C> <C>

SUPPLEMENTAL CASH FLOW DISCLOSURES:

| | | | | | | |
|-------------------|----|-------|----|---|----|-------|
| Interest paid | \$ | 1,544 | \$ | - | \$ | 2,337 |
| Income taxes paid | \$ | - | \$ | - | \$ | - |

NON-CASH INVESTING AND FINANCING

TRANSACTIONS:

| | | | | | | |
|--|----|---------|----|---------|----|-----------|
| Stock options granted for compensation | \$ | 725,918 | \$ | 767,900 | \$ | 3,077,656 |
| Stock issued for acquisitions | \$ | - | \$ | - | \$ | 20,175 |
| Notes payable, related party netted | | | | | | |
| with notes receivable related party | \$ | 46,233 | \$ | - | \$ | 46,233 |
| Forgiveness of debt by officer | \$ | 62,867 | \$ | - | \$ | 62,867 |

</TABLE>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 1 - ORGANIZATION AND HISTORY

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

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

On April 9, 1998, the Company issued 1,920,000 shares of its common stock to its president in exchange for all of the issued and outstanding shares of MEST, B.V., a Netherlands corporation, owned by the Company's president. Although MEST, B.V. had no recorded assets at the time of the transaction, the Company recorded the acquisition at a nominal value of \$0.01 per share. The aggregate acquisition cost of \$20,000, originally assigned to intangible assets, was

substantially written off by the end of 1998. Currently, MEST, B.V. is used to conduct the Company's business in the Netherlands. MEST, B.V. was acquired because it had certain data and technical information that the Company plans to use in its business.

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

The Company's year-end is December 31.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING METHOD

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

Development Stage Activities

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

USE OF ESTIMATES

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

Accordingly, upon settlement, actual results may differ from estimated amounts.

CASH AND CASH EQUIVALENTS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts for cash, accrued expenses and payables, and loans payable approximate their fair value. MEST's notes payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to MEST for a similar financial arrangement at December 31, 2001 and 2000.

RESEARCH AND DEVELOPMENT

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

diminution in value occurs.

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

COMPENSATED ABSENCES

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE INSTRUMENTS

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

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

From November 1, 1999 to February 17, 2000, the Company entered into a small number of foreign currency purchases for cash management purposes. The results of these short-term transactions, which generated an aggregate loss of \$7,124 in 1999 and an aggregate gain of \$4,262 in 2000, are included in Other

Comprehensive Income (Loss) as an element of foreign currency translation earnings. The Company engaged in no similar foreign currency purchases either prior to or subsequent to the aforementioned time frame.

ADVERTISING EXPENSES

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

LOSS PER SHARE

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROVISION FOR TAXES

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

At December 31, 2001, the Company had net deferred tax assets of approximately \$590,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been

established at December 31, 2001.

At December 31, 2001, the Company has net operating loss carryforwards of approximately \$2,950,000, which expire in the years 2017 through 2021. The Company recognized approximately \$3,000,000 of losses for the issuance of common stock options for services, which are not deductible for tax purposes, and are not included in the above calculation of deferred tax asset.

GOING CONCERN

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

As shown in the accompanying financial statements, the Company has no revenues, has incurred a net loss of \$1,217,227 for the year ended December 31, 2001, has an accumulated deficit of \$5,747,917. These factors indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The future of the Company is dependent upon successful and profitable operations from manufacturing, distributing, and selling its fertilizer products.

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of MEST and its wholly owned subsidiary, MEST, B.V. after elimination of intercompany accounts and transactions. Manure and Sludge Technology, B.V. ("MSTec"), a 50 percent

owned corporation is reflected in the financial statements on the equity method of accounting, and not included in the financial statements as an entity subject to consolidation.

Accounting for Stock Options Granted to Employees and Nonemployees

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

COMPREHENSIVE INCOME

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

IMPAIRED ASSET POLICY

In March 1995, the Financial Accounting Standards Board issued a statement, SFAS No. 121, titled "Accounting for Impairment of Long-lived Assets," which has been replaced by SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its

assets may not be recoverable. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by its assets to their respective carrying amounts.

The Company does not believe any adjustments are needed to the carrying value of its assets at December 31, 2001.

FOREIGN CURRENCY TRANSLATION GAINS/LOSSES

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

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

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

CONCENTRATION OF CREDIT RISK

The Company maintains its cash in the Netherlands financial institutions. These financial institutions are considered credit worthy and have not experienced any losses on deposits at December 31, 2001. The funds are valued in U.S. dollars and are fully insured.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS 144 replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This new standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations. Statement 144 required that these long-lived assets be measured at

the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. This statement is effective beginning for fiscal years after December 15, 2001, with earlier application encouraged. The Company adopted SFAS 144 and does not believe that the adoption will have a material impact on the financial statements of the Company at December 31, 2001.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 establishes guidelines related to the retirement of tangible long-lived assets of the Company and the associated retirement costs. This statement required that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. This statement is effective for financial statements issued for the fiscal years beginning after June 15, 2002 and with earlier application encouraged. The Company adopted SFAS No. 143 and does not believe that the adoption will have a material impact on the financial statements of the Company at December 31, 2001.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 provides for the elimination of the pooling-of-interest method of accounting for business combinations with an acquisition date of July 1, 2001 or later. SFAS No. 142 prohibits the amortization of goodwill and other intangible assets with indefinite lives and requires periodic reassessment of the underlying value of such assets for impairment. SFAS No. 142 is effective for fiscal years

beginning after December 15, 2001. An early adoption provision exists for companies with fiscal years beginning after March 15, 2001. The Company does not have assets with indeterminate lives.

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

NOTE 3 - RELATED PARTY TRANSACTIONS

LOANS FROM RELATED PARTIES

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

2000

Maurice Schelvis, (a shareholder of the
Company), unsecured, interest at 5%,
due on demand. \$ 5,590

Maurice Schelvis, (a shareholder of the
Company), unsecured, interest at 6%,
due on demand. 103,500

Total \$ 109,090

=====

The Company had no outstanding loans from related parties at December 31, 2001.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 3 - RELATED PARTY TRANSACTIONS (CONTINUED)

RECEIVABLE FROM RELATED PARTIES

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

| | 2000 |
|------------------|------------|
| | ----- |
| IJ-Beeher | \$ 48,917 |
| Jan Luiken, B.V. | 109,524 |
| | ----- |
| | \$ 158,441 |
| | ===== |

The Company had no receivables from related parties at December 31, 2001.

OTHER RELATED PARTY TRANSACTIONS

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

NOTE 4 - PLANT, PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Major additions and improvements are capitalized. Minor replacements, maintenance and repairs that do not

increase the useful lives of the assets are expensed as incurred. Depreciation of property and equipment is being calculated using the straight-line method over the expected useful lives of the assets. Depreciation expense for the periods ended December 31, 2001 and 2000 was \$3,980 and \$4,177, respectively.

NOTE 5 - PREFERRED STOCK

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 5 - PREFERRED STOCK (CONTINUED)

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

NOTE 6 - COMMON STOCK

The Company is authorized to issue 30,000,000 shares of \$0.0001 par value common stock: 7,324,055 and 7,320,055 shares were issued and outstanding at December 31, 2001 and 2000, respectively. Each holder of common stock has one,

non-cumulative vote per share on all matters voted upon by the shareholders.

There are no preemptive rights or other rights of subscription.

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

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

During the year ended December 31, 2001, the Company sold 4,000 shares of its common stock for cash at \$3.00 per share.

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

Manure and Sludge Technology, B.V. (hereinafter "MSTec") is a Netherlands corporation that was formed for the purpose of developing a process for use on a commercial basis that would economically dry and pasteurize manure and sludge into pellets that could be sold as organic fertilizer and other products.

Since its inception, MST has refined its technological process for use with other waste products such as bio-solids, fish and food waste, and paper pulp.

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

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

(CONTINUED)

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

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

TNO controls the research and activities of the joint venture while M.E.S.T. Corp.'s participation is investment with rights to products developed by the joint venture.

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

| 2001 | 2000 |
|------|------|
|------|------|

| | | |
|----------------------------------|--------------|--------------|
| | ----- | ----- |
| Current assets | \$ 117,858 | \$ 123,809 |
| Property, plant, and equipment | - | - |
| Other assets (net) | - | 50,624 |
| | ----- | ----- |
| Total assets | \$ 117,858 | \$ 174,433 |
| | ===== | ===== |
| Current liabilities | \$ 360,019 | \$ 210,753 |
| Long-term debt - related parties | 1,644,041 | 1,673,640 |
| | ----- | ----- |
| Total liabilities | 2,004,060 | 1,984,393 |
| Stockholders' equity | (1,886,202) | (1,709,960) |
| | ----- | ----- |
| Total liabilities and equity | \$ 117,858 | \$ 174,433 |
| | ===== | ===== |
| Net sales | \$ - | \$ - |
| Gross profit | \$ - | \$ - |
| Loss from continuing operations | \$ (174,242) | \$ (789,544) |
| Net loss | \$ (174,242) | \$ (789,544) |

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

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

(CONTINUED)

JOINT VENTURE ROYALTY AGREEMENT

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

SUBORDINATED LOAN AGREEMENT

Under the terms of an agreement dated January 22, 1999, the management of MEST committed the Company to loan approximately \$800,000 to MSTec in phases during

the year 1999. Repayment was intended to commence December 31, 1999, contingent upon MSTec generating an operating profit. Further, in the event of MSTec's default or bankruptcy, MEST agreed to subordinate its interest in the loan for the benefit of RABO bank in Apeldoorn, until all other debts of MSTec were paid. Upon payment of debts and obligations of MSTec, the loan from MEST would again be eligible for repayment of interest and principle.

OFFICE LEASE

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

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

Year Ending:

| | |
|-------------------|-----------|
| December 31, 2001 | \$ 20,500 |
| December 31, 2002 | \$ 24,000 |
| December 31, 2003 | \$ 24,000 |
| December 31, 2004 | \$ 24,000 |
| December 31, 2005 | \$ 24,000 |

NOTE 9 - STOCK OPTIONS

The Company has granted its officers options to purchase a total of 900,000 shares of the Company's common stock at an exercise price of \$0.50 per share. Following is a summary of the status of these performance-based options during the years ended December 31, 2001 and 2000.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 9 - STOCK OPTIONS (CONTINUED)

| | Number of | Weighted Average | | |
|----------------------------------|-----------|------------------|------|--|
| | Shares | Price per Share | | |
| | ----- | ----- | | |
| Outstanding at December 31, 1999 | 530,000 | \$ | 0.50 | |
| Granted | 200,000 | 0.50 | | |

| | | |
|---------|----------|------|
| Expired | (30,000) | 0.50 |
|---------|----------|------|

| | | |
|------------------------|---|---|
| Exercised or forfeited | - | - |
|------------------------|---|---|

Outstanding and exercisable at

| | | | |
|-------------------|---------|----|------|
| December 31, 2000 | 700,000 | \$ | 0.50 |
|-------------------|---------|----|------|

=====

Weighted average fair value of

| | | |
|-----------------------------|----|------|
| options granted during 2000 | \$ | 3.59 |
|-----------------------------|----|------|

=====

| | | | |
|----------------------------------|---------|----|------|
| Outstanding at December 31, 2000 | 700,000 | \$ | 0.50 |
|----------------------------------|---------|----|------|

| | | |
|---------|---------|------|
| Granted | 200,000 | 0.50 |
|---------|---------|------|

| | | |
|---------------------------------|---|---|
| Exercised, expired or forfeited | - | - |
|---------------------------------|---|---|

Outstanding and exercisable at

| | | | |
|-------------------|---------|----|------|
| December 31, 2001 | 900,000 | \$ | 0.50 |
|-------------------|---------|----|------|

=====

Weighted average fair value of

| | | |
|-----------------------------|----|------|
| options granted during 2001 | \$ | 3.63 |
|-----------------------------|----|------|

=====

The Company estimated the fair value of each stock option at the grant date by using the Black-Scholes option pricing model with the following weighted-average assumptions used: Dividend yield of zero percent; strike prices of \$0.50; expected volatility of 24.83%; risk-free interest rate of six percent and expected lives of five years. The weighted average fair value at date of grant for options granted to officers in the years ended December 31, 2001 and 2000 was \$3.63 and \$3.59 per option, respectively.

Compensation cost charged to operations was \$725,918 and \$767,900 during the years ended December 31, 2001 and 2000, respectively.

NOTE 10 - SUBSEQUENT EVENTS

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

FORM 10-KSB

For the year ended December 31, 2001

Item VIII - Changes and Disagreements with Accountants and Accounting and

Financial Disclosure

Management of Environmental Solutions and Technology Corp. (MEST or the "Company") previously engaged Arenthals en Partners Registered Accountants who are located at Reimersbeek 2, Post Bus 87081, 1080 JB Amsterdam, The Netherlands in order to do audits for the Company for the fiscal years/calendar years 1997, 1998 and 1999. The financial statements were provided by Arenthals en Partners to the Securities and Exchange Commission when the Company filed its 10-SB on December 28, 1999.

Due to the Commission's presumption that a U.S. based corporation would be audited by a U.S. firm familiar with U.S. generally accepted accounting principals and generally accepted auditing standards together with the Securities and Exchange Act rules and regulations, management deemed it in the best interest of the Company to retain a U.S. based auditing firm and certified public accountant which could perform auditing functions for and on behalf of the Company.

Consequently the Company engaged Williams & Webster, certified public accountants and business consultants who are located at Bank of America

Financial Center, 601 West Riverside, Suite 1940, Spokane, Washington, USA

99201-0611 as its auditor. Williams & Webster P.S. revised the Company's audits in response to the Commission's comments issued on February 11, 2000. The Company utilized audits performed by Williams & Webster and submitted this accounting on October 15, 2001 as its amended 10-SB in response to the Commission's comments.

Arenthals en Partners which has now become affiliated with Grant Thornton continues to serve as the Company's accountants in The Netherlands and provides accounting for the Company's periodic accounting reporting requirements under 10-QSB and 10-KSB. Arenthals accounting is provided to Williams & Webster P.S. who performs the annual audits and quarterly reviews. The Company cites no other reason other than the need to retain a U.S. based certified public accountant qualified to practice before the Securities and Exchange Commission as a reason for its change of auditor.

Part III

Item IX - Directors, Executive Officers, Promoters and Control Persons

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

<table>

| Name | Age | Position with Company |
|------|-----|-----------------------|
|------|-----|-----------------------|

<s> <c> <c>

Marieke Oudejans 30 President, Secretary, Director (12/97 to 4/01)

Greg Schmick 51 President, Secretary, Director (4/01 to present)

Maurice Schelvis 59 Vice President

Eugene M. Larabie 61 Vice President

Robert E. Johnson 65 Chief Financial Officer and Vice

President of Operations

</table>

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

Greg Schmick has been president and Secretary the Company since April, 2001. Mr Schmick has been a Director since February of 2000. Mr. Schmick was formerly President of International Soil Sciences, Inc., an Oregon corporation engaged in the business of consulting and recycling since 1998. For the past few years Mr. Schmick has been engaged in the business of consulting for recycling operations in the Pacific Northwest.

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

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

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

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

Item X - Executive Compensation

The following table sets forth in summary form the compensation received by (i) Marieke Oudejans, the Company's Former President, (ii) Maurice Schelvis, Eugene Larabie and Robert Johnson, the Company's Vice Presidents and (iii) Greg Schmick, the Company's current President and Secretary and (iv) by each other executive officer of the Company who received in excess of \$100,000 during the fiscal years ending December 31, 1997, 1998, 1999, 2000 and 2001.

<table>

| | | Other Annual Restricted Options | | | | |
|--------------------|--------|---------------------------------|-------|--------------|--------------|---------|
| Name and | Fiscal | Salary | Bonus | Compensation | Stock Awards | Granted |
| Principal Position | Year | (1) | (2) | (3) | (4) | (5) |
| ----- | | | | | | |
| <s> | <c> | <c> | <c> | <c> | <c> | <c> |
| Marieke Oudejans, | 1997 | - | | | | |
| President | 1998 | - | - | | 100,000 | |
| | 1999 | - | - | - | 100,000 | |
| | 2000 | \$87,602 | - | | 100,000 | |
| | 2001 | - | - | - | 100,000 | |
| | | | | | | |
| Maurice Schelvis, | 1997 | - | | - | | - |
| Vice President | 1998 | - | | - | 100,000 | |
| | 1999 | - | | - | 100,000 | |
| | 2000 | - | | - | 100,000 | |

| | | | | | | |
|---------------------|------|----------|---|---|---|---------|
| | 2001 | - | - | - | - | 100,000 |
| Greg Schmick, | 2000 | - | | - | | |
| President/Secretary | 2001 | \$16,000 | | - | | - |
| Eugene Larabie, | 1997 | - | | - | | |
| Vice President | 1998 | - | | - | | |
| | 1999 | - | | - | | |
| | 2000 | - | | - | | |
| | 2001 | - | | - | | |
| Robert Johnson, | 1997 | - | - | - | | |
| Vice President | 1998 | - | | - | | |
| | 1999 | - | | - | | |
| | 2000 | - | | - | | |
| | 2001 | - | | - | | |

</table>

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

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

(3) Any other annual compensation not properly categorized as salary or bonus, including perquisites and other personal benefits, securities or property.

Amounts in the table represents automobile allowances.

(4) Amounts reflect the value of the shares of the Company's common stock issued

as compensation for services.

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

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

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

* The Company's common stock did not begin to trade until July 1999.

From July, 1999 until June 2001, there has not been sufficient trading history or consistent market from which to base an opinion regarding the value of such shares.

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

<table>

| Name | Proposed Compensation | Time to be Devoted To Company's Business |
|-------------------|--------------------------|---|
| ----- | ----- | ----- |
| <s> | <c> | <c> |
| Marieke Oudejans | (1) | 100% (to 4/01) |
| Greg Schmick | 2,000/mo(4) | 100% (from 4/01) |
| Maurice Schelvis | -0- (2) | 50% |
| Eugene Larabie | -0- (3) | none |
| Robert E. Johnson | -0- (3) | none |
| Jan Pranger | -0- | none |

</table>

(1) The Company's previous plan to issue 1,100,000 shares of its common stock to Ms. Oudejans for services rendered to April 2001 is still under consideration. The Board of Directors has made no decision regarding the proposed issuance. Ms. Oudejans was compensated at the rate of \$87,602 per year beginning in 2000 which terminated with her employment in April 2001 but did not draw a salary from the incorporation of the Company to January 1, 2001.

- (2) The Board of Directors expects to compensate Maurice Schelvis with common stock for services provided to the Company in an amount not yet determined.
- (3) The Company plans to issue shares of its common stock, as well as options, to this person for services provided to the Company.
- (4) Mr. Schmick's stock option package is yet to be determined.

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

As of December 31, 2001 the Company had granted options for the purchase of the Company's common stock to the following persons:

<table>

| | Shares | Subject | Option | Expiration |
|--------------------|------------|---------|----------------|----------------------------------|
| Name | To | Option | Exercise Price | Date |
| ----- | ----- | ----- | ----- | ----- |
| <s> | <c> | <c> | <c> | |
| Marieke Oudejans | 100,000/yr | | \$0.50 | five years from Date of issue |
| Maurice Schelvis | 100,000/yr | | \$0.50 | five years from Date of issue |
| Frank J. Janssen | 50,000 | | \$0.50 | July 31, 2003 |
| Afris Holding B.V. | 50,000 | | \$0.50 | July 31, 2003 |

</table>

<table>

| | Value of Unexercised | | | |
|-------|-------------------------|-------------------|----------------------|----------------|
| Name | Shares | No. of Securities | In-The-Money | |
| | Acquired | Value | Underlying | Options/ |
| | on Exercise | Realized | Unexercised options/ | SARs at FY-end |
| | | SARs and FY-end | (dollars) | |
| | Exercisable and | Exercisable/ | | |
| | Unexercisable | Unexercisable | | |
| ----- | ----- | ----- | ----- | ----- |
| <s> | <c> | <c> | <c> | <c> |

| | | | | |
|-------------------|---|---|---------------|----------------|
| Marieke Oudejans | 0 | 0 | 400,000 | see footnote 1 |
| Maurice Schelvis | 0 | 0 | 400,000 | see footnote 1 |
| Frank J. Janssen | 0 | 0 | 50,000/50,000 | see footnote 1 |
| Afris Holdings BU | 0 | 0 | 50,000/50,000 | see footnote 1 |

</table>

The Company is unable to place a value of exercisable or unexercisable options due to the lack of historical or current market activity. However, footnote 9 on the Notes to Consolidated Financial Statements represented compensation costs to operations as follows: 1998 - \$865,938; 1999 - \$717,900; 2000 - \$767,900; 2001 - \$725,918.00.

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

Item XI - Security Ownership of Certain Beneficial Owners and Management

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS.

The following table sets forth the number of and percentage of outstanding shares of common stock beneficially owned by the Company's shareholders owning more than 5% of the Company's common stock as of December 31, 2001. The company has only one class of common shares and one class of Series A Preferred Shares.

<table>

| Shares of | | |
|------------------|------------------|------------------|
| Name and Address | Common Stock (1) | Percent of Class |
| ----- | ----- | ----- |

| <s> | <c> | <c> |
|------------------|---------------|--------|
| Marieke Oudejans | 2,260,000 (2) | 29.44% |

#68 Willem Van Weldomme LAAN

P.C. 1082 KW

Amsterdam, The Netherlands

| | | |
|------------------|---------------|--------|
| Maurice Schelvis | 2,010,000 (2) | 26.19% |
|------------------|---------------|--------|

Stadhouderskade 142

1074 BA Amsterdam

The Netherlands

| | | |
|--------------------|-----------|--------|
| Beneficial holders | 4,270,000 | 55.63% |
|--------------------|-----------|--------|

as a Group (2 persons)

</table>

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

SECURITY OWNERSHIP OF CURRENT MANAGEMENT.

The following table sets forth the number and percentage of outstanding shares of common stock beneficially owned by the Company's officers and directors as of December 31, 2001. The company has only one class of common shares.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

<table>

Shares of

| Name and Address | Common Stock (1) | Percent of Class |
|------------------|------------------|------------------|
|------------------|------------------|------------------|

| ----- | | | |
|------------------------------------|---------------|--------|--|
| <s> | <c> | <c> | |
| Greg Schmick President, Director | -0- | 0.00% | |
| TO Environmental Technology Valley | | | |
| Laan van Westenenk 501 | | | |
| 7334 DT Apeldoorn, The Netherlands | | | |
| Maurice Schelvis | 2,010,000 (2) | 26.19% | |
| Vice President, Director | | | |
| Stadhouderskade 142 | | | |
| 1074 BA Amsterdam | | | |
| The Netherlands | | | |
| Eugene M. Larabie, Director | -0- | 0.00% | |
| 507-595 Howe St. | | | |
| Vancouver, British Columbia | | | |
| Canada V6C 2T5 | | | |
| Robert E. Johnson, Director | -0- | 0.00% | |
| L1901-1600 Beach Avenue | | | |
| Vancouver, British Columbia | | | |
| Canada V6G 7Y6 | | | |
| All Officers and Directors | 2,010,000 | 26.19% | |
| as a Group (4 persons) | | | |
| </table> | | | |

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

Item XII - Certain Relationships and Related Transactions

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

<table>

| Number | | | |
|------------------|---------|-----------|---|
| Name | Date | of Shares | Consideration |
| ----- | | | |
| <s> | <c> | <c> | <c> |
| Marieke Oudejans | 4-9-98 | 1,920,000 | All of the issued and out-standing shares of M.E.S.T., B.V. |
| Marieke Oudejans | 4-08-98 | 2,100,000 | \$25 and founder s services |
| Maurice Schelvis | 3-10-98 | 250,000 | \$25 and founder s services |

</table>

An accounting of the loans made by the Company's principals, Marieke Oudejans and Maurice Schelvis, appear in four related party transactions and Note 10 "Subsequent Events" which are attached to the consolidated financial statements for years ending December 31, 2001. Please refer to the Amended

Form 10-SB filed November 15, 2001. The loans, forgiveness of debt and reconciliation occurred May 15, 2001 and explanations have been made as a part of the audited accounting.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

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For the year ended December 31, 2001

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

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

Item XIII - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601

- (2) Plan of Acquisition, reorganization, arrangement,
liquidation or succession. (2)
- (3)(i) Articles of Incorporation (2)
- (3)(ii) Bylaws. (2)
- (4) Instruments defining the rights of security holders,
including indentures. (2)
- (9) Voting trust agreements. (1)
- (10) Material contracts. (2)
- (11) Statement re: computation of per share earnings. (1)
- (13) Annual or quarterly reports, Form 10Q (1)
- (16) Letter re: change in certifying accountant. (1)
- (18) Letter re: change in accounting principles . (1)
- (20) Other documents or statements to security holders. (1)
- (21) Subsidiaries of the Registrant. (attached)
- (22) Published report regarding matters submitted
to vote of security holders. (1)
- (23) Consents of Experts and counsel. (1)
- (24) Power of Attorney. (1)
- (27) Financial Data Schedule (no longer required) (1)
- (99) Additional Exhibits. (1)

(1) These items have either been omitted or are not applicable

(2) Incorporated by reference to previous filing

(b) Reports on Form 8-K:

The company filed no Form(s) 8K during the last quarter of the period covered by this report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

FORM 10-KSB

For the year ended December 31, 2001

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Management of Environmental solutions and Technology, Corp.

(Registrant)

/s/ Greg Schmick

By:-----

Greg Schmick, President

Date: September 11, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Greg Schmick

By:-----

Greg Schmick, President

Date: September 19, 2002

This report shall be furnished to security holders after this report has been filed with the Securities and Exchange Commission on this Form.

