

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP/NY  
Form 10QSB  
October 17, 2002

U.S. Securities and Exchange Commission

Washington D.C. 20549

Form 10-QSB

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

TRANSITION REPORT PURSUANT TO 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)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court. Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practicable date:

Common Stock - .0001 par value 7,320,055 issued

Series A Preferred - .0001 par value 535,985 issued

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

<page> 1

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

TABLE OF CONTENTS

	PAGE
Part I - FINANCIAL INFORMATION	3
Item 1 - Financial Statements	3
Accountant's Review Report	5

Balance Sheet.....6

Statements of Operation.....7

Statement of Shareholders' Equity 8

Statements of Cash Flow.....12

Notes to Financial Statements.....14

Item 2 - Management's Discussion and Analysis of Financial

Condition and Results of Operations.....27

PART II OTHER INFORMATION.....29

SIGNATURES.....30

<page> 2

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

PART I - FINANCIAL INFORMATION

Item I - Financial Statements

The Board of Directors of Management of Environmental Solutions and Technology Corp. (MEST) as currently constituted, serves as the committee which performs and functions as the audit committee on behalf of the Company. The Company has provided interim financial statements prepared by the Company's accountants, Arentshals Grant Thornton, which have been reviewed by the Company's independent public accountant utilizing Professional Standards of Procedures for conducting such reviews in accordance with generally accepted auditing standards. Please refer to the interim financial statements provided in accordance with 17 CFR {section}228.310(b).

MANAGEMENT OF ENVIRONMENTAL  
SOLUTIONS & TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

WILLIAMS & WEBSTER, P.S.

CERTIFIED PUBLIC ACCOUNTANTS

BANK OF AMERICA FINANCIAL CENTER

W 601 RIVERSIDE, SUITE 1940

SPOKANE, WA 99201

(509) 838-5111

<page>

---

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

TABLE OF CONTENTS

ACCOUNTANT'S REVIEW REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Comprehensive Loss	3
Consolidated Statement of Stockholders' Equity	4



Consolidated Statements of Cash Flows

5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6

<page>

---

To the Board of Directors  
Management of Environmental  
Solutions & Technology Corp.

Apeldoorn, The Netherlands

#### ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying consolidated balance sheets of Management of Environmental Solutions & Technology Corp. (a development stage company) as of June 30, 2002 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the three months and six months ended June 30, 2002, for the three months and six months ended June 30, 2001, and for the period from December 10, 1997 (inception) to June 30, 2002. These financial statements are the responsibility of the Company's management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in

conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2001 were audited by us and we expressed an unqualified opinion on them in our report dated August 29, 2002. We have not performed any auditing procedures since that date.

As discussed in Note 2, the Company has been in the development stage since its inception on December 10, 1997 and has had recurring losses and no revenues.

The Company's decision is to perfect its technological application before entering the market. Realization of a major portion of the assets is dependent upon the Company's ability to meet its future financing requirements and the success of future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Williams & Webster, P.S.

Williams & Webster, P.S.

Certified Public Accountants

Spokane, Washington

September 3, 2002

&lt;page&gt;

---

 MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

## CONSOLIDATED BALANCE SHEET

June 30,  
2002    December 31,  
(Unaudited)    2001

-----

## ASSETS

## CURRENT ASSETS

Cash	\$ 84,913	\$ 203,652
Tax refunds receivable	46,650	29,867
Receivables, related parties	39,725	-
Other receivables	498	5,126
Prepaid expenses	2,836	2,836

-----

Total Current Assets	174,622	241,481
----------------------	---------	---------

-----

PROPERTY AND EQUIPMENT (net of depreciation)	1,643	3,201
--	-------	-------

-----

TOTAL ASSETS	\$ 176,265	\$ 244,682
--------------	------------	------------

=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES

Accounts payable	\$ 105,067	\$ 38,979
Accrued expenses	9,334	6,988
Deferred costs	7,909	-
Bank overdraft	6,126	6,708
	-----	-----
Total Current Liabilities	128,436	52,675
	-----	-----

COMMITMENTS AND CONTINGENCIES - -

## STOCKHOLDERS' EQUITY

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,

30,000,000 shares authorized,

7,320,055 shares issued and outstanding 732 732

Additional paid-in capital 3,221,643 3,221,643

Stock options 3,000,568 3,000,568

Deficit accumulated during development stage (5,981,096) (5,747,917)

Accumulated other comprehensive loss	(194,071)	(283,072)
-----		
Total Stockholders' Equity	47,829	192,007
-----		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 176,265	\$ 244,682
=====		

See accompanying notes and accountants review report.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATION AND COMPREHENSIVE LOSS

				Period from	
				December 17,	
				1997	
Three Months Ended		Six Months Ended		(Inception)	
June 30,		June 30,		to	
-----		-----		June 30,	
2002	2001	2002	2001	2002	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
-----					

REVENUES	\$	-	\$	-	\$	-	\$	-	\$	-
-----										
OPERATING EXPENSES										
General and administrative		44,072		114,536		118,802		117,877		4,464,267
Research and development		-		70,982		-		131,871		608,357
Depreciation		116		918		943		1,901		11,634
-----										
Total Operating Expenses		44,188		186,436		119,745		251,649		5,084,258
LOSS FROM OPERATIONS		(44,188)		(186,436)		(119,745)		(251,649)		(5,084,258)
OTHER INCOME (EXPENSES)										
Interest income		8,345		15,573		12,863		26,251		183,092
Net gain (loss) from										
joint venture		(144,386)		(77,935)		(125,907)		(77,935)		(1,077,008)
Interest expense		(185)		-		(390)		-		(2,922)
-----										
Other Income (Expense)		(136,226)		(62,362)		(113,434)		(51,684)		(896,838)
-----										
LOSS BEFORE INCOME TAXES		(180,414)		(248,798)		(233,179)		(303,333)		(5,981,096)
INCOME TAX EXPENSE		-		-		-		-		-
-----										



NET LOSS	(180,414)	(248,798)	(233,179)	(303,333)	(5,981,096)
----------	-----------	-----------	-----------	-----------	-------------

OTHER COMPREHENSIVE INCOME (LOSS)

Foreign currency translation

gain (loss)	81,977	(11,501)	89,001	(89,597)	(194,071)
-------------	--------	----------	--------	----------	-----------

-----

COMPREHENSIVE LOSS	\$ (98,437)	\$ (260,299)	\$ (144,178)	\$ (392,930)	\$(6,175,167)
--------------------	-------------	--------------	--------------	--------------	---------------

NET LOSS PER COMMON SHARE,

BASIC AND DILUTED	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.04)
-------------------	-----------	-----------	-----------	-----------

WEIGHTED AVERAGE NUMBER OF

COMMON SHARES OUTSTANDING,

BASIC AND DILUTED	7,320,055	7,320,055	7,320,055	7,320,055
-------------------	-----------	-----------	-----------	-----------

See accompanying notes and accountants' review report.

<page> 7

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

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

<page> 8

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<TABLE>

<CAPTION>

Accumulated Accumulated

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

Edgar Filing: MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP/NY - Form 10QSB

\$4.01 per share	82,900	8	-	-	332,237	-	-	-	332,245
July 1999 at									
\$4.00 per share	88,700	9	-	-	354,941	-	-	-	354,950
Aug. 1999 at									
\$4.02 per share	25,770	3	-	-	103,494	-	-	-	103,497
Sept. 1999 at									
\$3.43 per share	26,500	3	-	-	90,997	-	-	-	91,000
Oct. 1999 at									
\$4.22 per share	6,200	1	-	-	26,174	-	-	-	26,175
Nov. 1999 at									
\$4.05 per share	40,725	4	-	-	165,086	-	-	-	165,090
Dec. 1999 at									
\$4.14 per share	27,150	3	-	-	112,517	-	-	-	112,520
-----									
-----									
Total preferred									
stock issued 1999	403,585	40	-	-	1,601,368	-	-	-	
1,601,408									
Issuance of stock									
options for									
compensation on									
Aug. 31, 1999 at									
\$3.59 per share	-	-	-	-	-	717,900	-	-	717,900
Net loss for year									
ended Dec. 31, 1999	-	-	-	-	-	-	(1,810,142)	(100,988)	
(1,911,130)									
-----									
-----									

Balance,

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

</table>

See accompanying notes and accountants' review report.

<page> 9

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

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

Balance carry-forward

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

-----

-----

Issuance of

preferred stock

for cash:

Jan. 2000 at

\$4.08 per share	8,300	1	-	-	33,891	-	-	-	33,892
------------------	-------	---	---	---	--------	---	---	---	--------

Feb. 2000 at

\$4.34 per share	23,750	2	-	-	103,054	-	-	-	103,056
------------------	--------	---	---	---	---------	---	---	---	---------

Mar. 2000 at

\$4.37 per share	4,500	1	-	-	19,645	-	-	-	19,646
------------------	-------	---	---	---	--------	---	---	---	--------

April 2000 at

\$4.16 per share	61,700	5	-	-	256,425	-	-	-	256,430
------------------	--------	---	---	---	---------	---	---	---	---------

May 2000 at

\$4.30 per share	5,250	1	-	-	22,598	-	-	-	22,599
------------------	-------	---	---	---	--------	---	---	---	--------

June 2000 at

\$4.19 per share	5,000	1	-	-	20,958	-	-	-	20,959
------------------	-------	---	---	---	--------	---	---	---	--------

-----

-----

Total preferred

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

Issuance of stock

options for

compensation on

Aug. 31, 2000 at



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

Expiration of  
stock options on

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

Net loss,

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

Balance,

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

</table>

See accompanying notes and accountants review report.

<page> 10

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<TABLE>

<CAPTION>

Total	Preferred Stock		Common Stock		Accumulated		Accumulated		
	Number of Stockholders' Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Stock Options	Deficit During Development Stage	Other Comprehensive Income (Loss)	
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 (1,317,302)	-	-	-	-	-	-	(1,217,227)	(100,075)	
------------------------------------	---	---	---	---	---	---	-------------	-----------	--

Balance,

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

Net loss for

period ended

June 30, 2002	-	-	-	-	-	(233,179)	89,001	(144,178)	
---------------	---	---	---	---	---	-----------	--------	-----------	--

Balance,

June 30, 2002

(Unaudited) (194,071) \$	535,985 \$	53	7,324,055 \$	732 \$	3,221,643 \$	3,000,568 \$	(5,981,096) \$		
	47,829								

=====

</table>

See accompanying notes and accountants review report.

<page> 11

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

Period from  
December 17,  
1997  
Six Months Ended (Inception)  
June 30, to

	----- June 30,		
	2002	2001	2002
	(Unaudited)	(Unaudited)	(Unaudited)
	-----		
<S>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (233,179)	\$ (303,333)	\$ (5,981,096)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	943	1,901	11,634
Options granted as compensation	-	-	3,077,656
(Increase) decrease in assets:			
Tax refunds receivable	(16,783)	23,305	(46,650)
Other receivables	4,628	(1,921)	(498)
Prepaid expenses	-	19,274	(2,836)
Increase (decrease) in liabilities:			
Accounts payable	66,088	(30,683)	99,882
Accrued liabilities	2,346	2,487	9,334
Other liabilities	7,909	-	7,909
	-----		
Net cash used by operating activities	(168,048)	(288,970)	(2,824,665)
	-----		

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property and equipment	-	-	(13,893)
Loans to related parties	(172,952)	-	(1,106,255)

Payments on loans to shareholders	133,227	112,218	1,020,307
-----			
Net cash provided (used) by investing activities	(39,725)	112,218	(99,841)
-----			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Overdrafts payable	(582)	-	6,126
Proceeds from the sale of preferred stock	-	-	2,147,238
Proceeds from the sale of common stock	-	-	915,060
Proceeds from related parties loans	-	-	145,391
Payments on related party loans	-	-	(10,390)
Cash acquired with subsidiary	-	-	20,000
-----			
Net cash provided (used) by financing activities	(582)	-	3,223,425
Foreign currency translation gain (loss)	89,616	(88,966)	(219,006)
-----			
Net increase (decrease) in cash	79,913	(118,739)	(265,718)
Cash, beginning of period	203,652	666,746	5,000
-----			
Cash, end of period	\$ 84,913	\$ 401,028	\$ 84,913
=====			

&lt;/table&gt;



Income taxes paid	\$	-	\$	-	\$	-
-------------------	----	---	----	---	----	---

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Stock options granted for compensation	\$	-	\$	-	\$	3,077,656
--	----	---	----	---	----	-----------

Stock issued for acquisitions	\$	-	\$	-	\$	20,175
-------------------------------	----	---	----	---	----	--------

Notes payable, related party netted with

note receivable, related party	\$	-	\$	46,223	\$	46,233
--------------------------------	----	---	----	--------	----	--------

Forgiveness of debt by officer	\$	-	\$	62,867	\$	62,867
--------------------------------	----	---	----	--------	----	--------

</TABLE>



See accompanying notes and accountants' review report.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS  
& TECHNOLOGY CORP.  
(A DEVELOPMENT STAGE ENTERPRISE)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

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.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

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 June 30, 2002 and December 31, 2001.

#### 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.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Derivative Instruments

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

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

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

in 1999 and an aggregate gain of \$4,262 in 2000, are included in Other Comprehensive Income (Loss) as an element of foreign currency translation earnings. The Company engaged in no similar foreign currency purchases either prior to or subsequent to the aforementioned time frame.

#### Compensated Absences

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

#### Advertising Expenses

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



<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

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 June 30, 2002, the Company had net deferred tax assets of approximately \$430,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been

established at June 30, 2002.

At June 30, 2002, the Company has net operating loss carryforwards of approximately \$5,800,000, which expire in the years 2017 through 2022. 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.

#### Loss Per Share

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

#### Going Concern

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

As shown in the accompanying financial statements, the Company has no revenues, has incurred a net loss of \$233,179 for the six months ended June 30, 2002, has

an accumulated deficit of \$5,981,096 and has had no sales. The future of the Company is dependent upon successful and profitable operations from manufacturing, distributing, and selling its fertilizer products. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS  
& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

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.

#### Interim Financial Statements

The interim financial statements for the period ended June 30, 2002, included herein have not been audited, at the request of the Company. They reflect all adjustments, which are, in the opinion of management, necessary to present fairly the results of operations for the period. All such adjustments are normal recurring adjustments. The results of operations for the period presented is not necessarily indicative of the results to be expected for the full fiscal year.

#### Impaired Asset Policy

In March 1995, the Financial Accounting Standards Board issued a statement, SFAS No. 121, titled "Accounting for Impairment on Long-lived Assets," which has been replaced by SFAS No. 144, "Accounting for Impairment of Disposal of

Long-Lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by its assets to their respective carrying amounts.

The Company does not believe any adjustments are needed to the carrying value of its assets at June 30, 2002.

#### 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."

<page>

---

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation Gains/Losses

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

Property and Equipment

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

Concentration of Credit Risk

The Company maintains its cash in the Netherlands financial institutions. These financial institutions are considered credit worthy and have not

experienced any losses on deposits at June 30, 2002. The funds are valued in U.S. dollars and are fully insured.

#### Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which updates, clarifies and simplifies existing accounting pronouncements. FASB No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related tax effect was rescinded, as a result, FASB 64, which amended FASB 4, was rescinded as it was no longer necessary. FASB 145 amended FASB 13 to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions.

Management has not yet determined the effects of adopting this Statement on the financial position or results of operations.

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

the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. This statement is effective beginning for fiscal years after December 15, 2001, with earlier application encouraged. The Company adopted SFAS 144 and does not believe that the adoption will have a material impact on the financial statements of the Company at June 30, 2002.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 establishes guidelines related to the retirement of tangible long-lived assets of the Company and the associated retirement costs. This statement required that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. This statement is effective for financial statements issued



for the fiscal years beginning after June 15, 2002 and with earlier application encouraged. The Company adopted SFAS No. 143 and does not believe that the adoption will have a material impact on the financial statements of the Company at June 30, 2002.

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.

#### Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. This reclassification has resulted in no changes to the Company's accumulated deficit or net losses presented.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 3 - RELATED PARTY TRANSACTIONS

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

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.

#### NOTE 4 - PLANT, PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Major additions and improvements are capitalized. Minor replacements, maintenance and repairs that do not increase the useful lives of the assets are expensed as incurred. Depreciation of property and equipment is being calculated using the straight-line method over the expected useful lives of the assets. Depreciation expense for the periods ended June 30, 2002 and 2001 was \$943 and \$1,901, 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 June 30, 2002 and December 31, 2001. Each share of Series A preferred stock is entitled to a dividend at the rate of \$0.30 per share if the board of directors declares a dividend, although no dividends have been declared. Upon liquidation or dissolution of the Company, each outstanding share of Series A

preferred stock is entitled to a distribution of \$4.00 per share prior to any distribution to common stock shareholders. Series A preferred stock is non-voting, and each share is convertible into one share of the Company's common stock at any time after June 1, 1999.

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

#### NOTE 6 - COMMON STOCK

The Company is authorized to issue 30,000,000 shares of \$0.0001 par value common stock: 7,324,055 and 7,324,055 shares were issued and outstanding at March 31, 2002 and December 31, 2001, 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.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 6 - COMMON STOCK (CONTINUED)

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.

MEST's investment in the joint venture is recorded as \$0 on MEST's balance sheet because MSTec's debt and losses exceeds MEST's share of investment in the joint venture. MEST's investment in the joint venture totaled \$816,000 at June 30, 2002 and December 31, 2001. 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, whereby 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.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

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

(CONTINUED)

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

TNO controls the research and activities of the joint venture while MEST

Corp.'s participation is 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.

	June 30,	December 31,
	2002	2001
	-----	-----
Current assets	\$ 2,931	\$ 117,858
Property, plant, and equipment	-	-
	-----	-----
Other assets (net)	-	-
Total assets	\$ 2,931	\$ 117,858
	=====	=====
Current liabilities	\$ 310,876	\$ 360,019
Long-term debt - related parties	1,830,070	1,644,041
	-----	-----
Total liabilities	2,140,946	2,004,060
Stockholders' equity	(2,138,015)	(1,886,202)
	-----	-----
Total liabilities and equity	\$ 2,931	\$ 117,858
	=====	=====
Net sales	\$ -	\$ -
Gross profit	\$ -	\$ -



Loss from continuing operations	\$ (251,813)	\$ (176,242)
Net loss	\$ (251,813)	\$ (176,242)

#### Joint Venture Royalty Agreement

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

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Subordinated loan agreement

In forming the joint venture of MSTec, the Company committed to loan to MSTec approximately \$800,000, which funds were in fact advanced to MSTec in 1999 and 2000.

Under 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 its loan until such time as all other creditors were paid in full.

At the date of these financial statements, no funds advanced by the Company to MSTec have been repaid.

Office lease

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

Future minimum rental commitments under the operating lease are as follows at

June 30, 2002:

Year Ending:

December 31, 2002           \$ 24,000

December 31, 2003           \$ 24,000

December 31, 2004           \$ 24,000

December 31, 2005           \$ 24,000

December 31, 2006           \$ 12,000

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS  
& TECHNOLOGY CORP.  
(A DEVELOPMENT STAGE ENTERPRISE)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002

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 periods ended June 30, 2002 and December 31, 2001.

	Number of Shares	Weighted Average Price per Share
	-----	-----
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
=====	

Outstanding at December 31, 2001	900,000	\$0.50
Granted	-	-
Exercised, expired or forfeited	-	-

-----		
Outstanding and exercisable at		
June 30, 2002	900,000	\$0.50
=====		

The Company estimated the fair value of each stock option at the grant date by using the Black-Scholes option pricing model with the following weighted-average assumptions used: Dividend yield of zero percent; strike price of \$0.50; expected volatility of 24.83%; risk-free interest rate of six percent and expected lives of five years. The weighted average fair value at date of grant for options granted to officers in the year ended December 31, 2001 was \$3.63 per option. Compensation cost charged to operations was \$725,918 during the year ended December 31, 2001.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

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

The Company provides the information required by 17 CFR {section}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 reiterates its research summary contained in the first quarter 10-QSB filed with the Securities and Exchange Commission. Prior summary accurately apprizes the Commission and the investors regarding ongoing product research by the Company.

The Company has an ongoing research project with the Company's partner, Netherlands Organization for Applied Scientific Research (TNO). The purpose of the research and development is to better preserve the zeolite through the drying, segregating and reconditioning process. The zeolite dewatering system necessarily includes mechanical conveyance, mixing, desegregation and a thermal regeneration process which necessarily places zeolite in contact with mechanical conveyance devices, processing materials, segregation screens and the torbid reactor. The Company is attempting to minimize the gravity of mechanical contact in order to preserve the zeolite material.

As the Company proceeds forward to product production quality dewatering devices, the Company anticipates certain mechanical engineer exercises designed to maximize reliability of the dewatering system. The Company expects that the majority of technical improvements and recommendations will come necessarily through the contracting of the fabrication of initial MEST zeolite dewatering devices. Management expects that the dewatering process will undergo certain design changes which lend the zeolite dewatering process to commercial application and constant use.

Plan of Operation

Management previously identified applications for the zeolite dewatering technology to convert certain organic waste materials into livestock, fish and pet food products. The initial waste stream which has been targeted by Management for conversion to livestock, fish and pet food products have also been identified as fish waste and beer yeast waste.

Fish meal is a ground solid product that is obtained by removing most of the water and some or most of the oil from fish or fish waste. Dewatered fish meal is exceptionally rich in proteins and contains essential amino acids in significant concentrations. Fish meal also contains a "growth factor" which is desirable for livestock feed.

The Company has identified locations where it may obtain constant sources of fish waste or catches which are harvested specifically for the fish meal market. Much of fish meal and fish oil are currently produced from small oily fish such as herring, mackerel, sardines, anchovies, pilchards and sand eels. An estimated 30.4 million tons representing 24% of the total inland and marine world catch were reduced to fish meal and fish oil in 1999. It is estimated that a full one-third of all fish landed globally is utilized for fish meal and oil.



<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

The zeolite dewatering technology is particularly well suited for the dehydration and reduction of fish waste to fish meal. The zeolite process uniformly and rapidly dehydrates a hydrated mass. The zeolite process can be regulated in terms of the heat applied to a given biomass. Since heat and uniform dehydration can be well controlled, the Company is optimistic that it will be able to produce a highly desirable dehydrated fish meal product for the livestock or pet food industry.

The Company has also identified the beer yeast waste stream as a potential and significant source of raw material. Virtually all breweries throughout the world are confronted with the challenge of disposing of their waste material. Management believes that beer yeast dehydrated properly can be a valuable livestock feed product. Brewery waste materials which are mostly yeast contain protein levels desirable in livestock feed. The zeolite dewatering process is well suited for reduction of brewery waste materials by reason of its uniform application and low temperature dehydration. Initial testing of brewery waste materials at the Company's pilot plant indicates that the zeolite dewatering technology also dissipates the two to three percent alcohol residue which is left in the waste stream.

In order to effectuate the business plans of the Company to process fish and

beer yeast waste, the Company has approached EC Company located in Portland, Oregon to design and build the first five production units of the zeolite dehydration devices. EC Company is based out of Portland, Oregon and has over 60 years of experience. EC Company currently generates approximately \$200,000,000.00 per year and employs over 1,000 craftsmen, engineers and managers. Management believes that EC Company is a reputable engineering design and fabrication facility capable of assisting the Company to produce a well engineered, high quality processing system.

The Company has entered negotiations with EC Company for a design build relationship and is currently reviewing a proposed contract for the production of zeolite systems. Generally, the agreement calls for consideration paid by the Company to EC Company for the design and fabrication of zeolite dewatering systems on a turnkey basis. This is a non-exclusive agreement which can be cancelled at any time. The Company is likely to execute this contract once the financial plans for the Company have solidified. Please refer to the discussion under financial requirements below.

#### Financial Requirements

Financial requirements as disclosed in the 10-QSB for the first quarter of 2002 remain accurate. The Company has estimated that it will need approximately \$5,000,000.00 in order to fabricate, transport, install and commence operations for five zeolite dewatering devices. Management plans to obtain the necessary funding to build the dewatering devices by making a fully registered public offering in the near future.

The Company has begun preparing to make a fully registered public offering by completing the 10-SB registration and comment phase. The Company has engaged counsel to draft a public offering disclosure to the Securities and Exchange Commission anticipating a fully registered public offering of the Company's common stock. Details of the public offering will be made available in the Company's next quarterly disclosure.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

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 or 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.

The Company currently has sufficient finances for operations through September 2002. The Company does not have sufficient finances to assemble and perform

the due diligence, legal and accounting work requisite for representation to the Securities and Exchange Commission and public investors. The Company is currently seeking interim financial assistance in order to maintain operations through the end of the year and the time period which is required to market the public offering.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

## **PART II - OTHER INFORMATION**

### **Item I - Legal Proceedings**

The Company received a request to inspect records served on MEST Corp. by shareholder Ingrid Ford through her lawyers, David Moule of Moule and Frank, 259 Fifth Avenue East, Eugene, OR 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 appropriate materials. Other than the request indicated above, Management is not aware of any other claims, legal proceedings, litigation or complaints against the Company during the calendar months April, May and June of 2002. Accordingly the Company provides no information regarding such claims or litigation as required by Item 103 of Regulation S-B.

### **Item II - Changes in Securities and Use of Proceeds**

There has been no change in any instrument defining the rights of any holders of any class of registered securities and accordingly no discussion is provided

regarding such changes or modifications to the rights of any affected shareholders. The Company has not issued any class of securities, registered or otherwise, which limit or affect the securities already outstanding.

The Company has not sold, issued or distributed any equity securities during the period covered by this report and consequently does not provide the information required by 17 CFR §228.701. The Company incorporates by reference all of Part II Item 4 of the Amended Form 10-SB filed 10/15/01 to describe unregistered offerings, funds raised by the sale of the Company's Common and Preferred Stock and the use of proceeds.

The Company anticipates and is preparing to offer common stock through a fully registered public offering in the near future. The Company does not anticipate a change in any rights of any shareholders with respect to such an offering. However, attendant to the offering of additional securities will be a dilution which will be fully described in the offering documents.

### Item III - Defaults upon Senior Securities

a. Management is unaware of any material default in the payment of principal interest a sinking or purchase fund installment or any other material default regarding any indebtedness of the Company which amounts to 5% of the total assets.

b. Management is not aware of any material arrearage in the payment of dividends as the Board of Directors has not declared any dividends payable for

reasons that the Company has not generated profits from which to make dividend payments.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

Item IV - Submission of Matters to a Vote of Security Holders

For the period in question of the second calendar quarter consisting of April through June inclusive of 2002 there were no matters submitted to security holders. No special or annual meeting was convened. Consequently the Company provides no details regarding solicitation of proxies as a result of any such meeting or the subject matter and results for such meetings.

Item V - Other Information

The Company received on February 12th and February 27th additional comments from the Securities and Exchange Commission concerning the Company's Amended Form 10-SB. The Company continues its amendment process in order to resolve all questions and inquiries by the Securities and Exchange Commission. As of



the date that this Form 10-QSB pertaining to the second quarter of 2002 was filed, all comments tendered by the Securities and Exchange Commission have been answered. The Company awaits further comments by the Securities and Exchange Commission and will continue to amend its Form 10-SB until all legal and accounting issues have been resolved.

Item VI - Exhibits and Reports

Pursuant to 17 CFR {section}228.601(b)(21) subsidiaries of MEST are MEST B.V., a wholly owned subsidiary, and MSTec B.V., a subsidiary owned 50% by The Netherlands Organization for Applied Scientific Research (TNO) and 50% by MEST, both of which are incorporated and organized in Amsterdam, The Netherlands. Both entities do business under their full corporate names.

- (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 (2)

- |      |  |     |
|------|--|-----|
| (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.  | (2) |
| (22) | Published report regarding matters submitted<br>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) No disclosure necessary

(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.

<page>

---

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended June 30, 2002

SIGNATURES

In accordance with the requirements of the Security Exchange Act of 1934, the

Registrant has caused this report to be signed on its behalf by the undersigned,  
duly authorized.

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(Registrant)

By: /s/ Greg Schmick

-----

Greg Schmick, President

Date: October 10, 2002

-----

<page>