

**SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

	<u>PAGE</u>
Report of independent registered public accounting firm	1
Consolidated financial statements:	
Balance sheets	2
Statements of operations	3
Statements of stockholders' deficit	4
Statements of cash flows	5
Notes to financial statements	6 - 22

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Solucorp Industries, Ltd

We have audited the accompanying consolidated balance sheet of Solucorp Industries, Ltd. and subsidiaries ("the Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board. (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Solucorp Industries, Ltd. and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's dependence on outside financing, lack of sufficient working capital, and recurring losses from operations raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

De Meo, Young, McGrath

De Meo, Young, McGrath of Fort Lauderdale, LLC

Fort Lauderdale, Florida
October 29, 2007

DYM

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SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	ASSETS	
	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 20,734	\$ 9,147
Accounts receivable, net of allowance for doubtful account of \$255,855 for 2005 and 2004	373,202	172,851
Inventories, net	1,110,259	282,640
Prepaid expenses and other	<u>2,867,260</u>	<u>-</u>
Total current assets	<u>4,371,455</u>	<u>464,638</u>
Property and equipment, net of accumulated depreciation of \$73,141 for 2005 and \$67,005 for 2004	<u>24,543</u>	<u>-</u>
Other assets:		
Goodwill	-	2,134,086
Intellectual property – technology, net of accumulated amortization of \$180,000 for 2005 and \$60,000 for 2004	1,620,000	1,740,000
Patents, net	180,166	72,506
Loan receivable – related party	<u>125,050</u>	<u>27,833</u>
Total other assets	<u>1,925,216</u>	<u>3,974,425</u>
Total assets	<u>\$ 6,321,214</u>	<u>\$ 4,439,063</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	\$ 2,244,917	\$ 1,870,003
Payroll taxes payable (including penalties and interest)	1,552,891	1,107,282
Accrued expenses	445,684	913,678
Other liabilities	35,000	35,000
Other loans payable	1,649,264	-
Notes payable - stockholders	1,165,986	106,060
Convertible debentures	<u>1,407,513</u>	<u>-</u>
Total current liabilities	<u>8,501,255</u>	<u>4,032,023</u>
Long Term Debt:		
Convertible debentures, net of current portion including debt discount	<u>1,501,293</u>	<u>1,075,159</u>
Commitments, contingencies and other matters	<u>-</u>	<u>-</u>
Stockholders' deficit:		
Common stock, no par value; 200,000,000 shares authorized, 50,408,705 and 42,654,041 shares issued and outstanding	54,657,027	41,842,502
Accumulated deficit	(59,553,937)	(43,551,196)
Accumulated comprehensive income	1,391,742	1,391,742
Un-amortized stock-based compensation	<u>(176,167)</u>	<u>(351,167)</u>
Total stockholders' deficit	<u>(3,681,334)</u>	<u>(668,119)</u>
Total liabilities and stockholders' deficit	<u>\$ 6,321,214</u>	<u>\$ 4,439,063</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenue	\$ 540,459	\$ 562,371
Cost of goods sold	<u>98,585</u>	<u>-</u>
Gross profit	<u>441,874</u>	<u>562,371</u>
Operating expenses:		
Selling, general and administrative (including stock and option based compensation of \$ 5,790,750 and \$11,743,127 in 2005 and 2004 respectively)	12,194,270	13,693,403
Depreciation and amortization	<u>126,136</u>	<u>80,792</u>
	<u>12,320,406</u>	<u>13,774,195</u>
Loss from operations	<u>(11,878,532)</u>	<u>(13,211,824)</u>
Other income (Expenses):		
Interest expense	(1,995,034)	(1,204,924)
Write off of goodwill	(2,134,086)	-
Other	<u>4,911</u>	<u>51,653</u>
Other income (Expenses)	<u>(4,124,209)</u>	<u>(1,153,271)</u>
Net loss	<u>\$(16,002,741)</u>	<u>\$(14,365,095)</u>
Net loss per common share	<u>\$ (0.32)</u>	<u>\$ (0.41)</u>
Weighted average number of shares outstanding	<u>46,531,373</u>	<u>35,177,305</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Common Stock Shares	Amount	Accumulated Deficit	Un-amortized Stock-based Compensation	Accumulated Comprehensive Income	Total
Balance, January 1, 2004	29,405,336	\$24,467,996	\$(29,186,101)	\$ (206,667)	\$1,391,742	\$ (3,533,029)
Year ended December 31, 2004:						
Net loss	-	-	(14,365,095)	-	-	(14,365,095)
Exercise of options	5,344,000	740,250	-	-	-	740,250
Beneficial conversion feature of convertible debt	503,088	1,380,812	-	-	-	1,380,812
Stock issued in payment of obligations	172,482	495,015	-	-	-	495,015
Stock and option based compensation	3,179,135	11,743,127	-	(144,500)	-	11,598,627
Stock issued in connection with business acquisition	4,050,000	3,015,302	-	-	-	3,015,302
Balance, December 31, 2004	42,654,041	\$41,842,502	\$(43,551,196)	\$ (351,167)	\$1,391,742	\$ (668,118)
Balance, January 1, 2005	42,654,041	\$41,842,502	\$(43,551,196)	\$ (351,167)	\$1,391,742	\$ (668,118)
Year ended December 31, 2005:						
Net loss	-	-	(16,002,741)	-	-	(16,002,741)
Shares paid for but not issued in this period	-	65,000	-	-	-	65,000
Common Stock	-	633,595	-	-	-	633,595
Beneficial conversion feature of convertible debt	-	5,638,437	-	-	-	5,638,437
Exercise of options	4,736,709	584,504	-	-	-	584,504
Stock issued in payment of obligations	233,955	102,239	-	-	-	102,239
Stock and option based compensation	2,784,000	5,790,750	-	175,000	-	5,965,750
Balance, December 31, 2005	50,408,705	\$54,657,027	\$(59,553,937)	\$ (176,167)	\$1,391,742	\$ (3,681,334)

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows used in operating activities:		
Net loss	<u>\$(16,002,741)</u>	<u>\$(14,365,095)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Write off of goodwill	2,134,086	-
Write off of patents	-	49,447
Depreciation and amortization	126,136	80,792
Discount on convertible debentures, net	3,744,363	-
Amortization of stock based compensation	175,000	77,500
Stock-based compensation	5,790,750	11,743,127
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	(200,351)	(145,621)
Inventories	(827,619)	1,000
Prepaid expenses and other assets	(2,995,155)	157,396
Increase (Decrease) in:		
Accounts payable	374,914	97,339
Payroll taxes payable	445,609	-
Accrued expenses payable	(467,994)	214,600
Stock issued in payment of obligations	<u>102,239</u>	<u>-</u>
Total adjustments	<u>8,401,978</u>	<u>12,275,580</u>
Net cash used in operating activities	<u>(7,600,763)</u>	<u>(2,089,515)</u>
Cash flows used in investing activities:		
Patent expenditures	<u>(107,660)</u>	<u>(42,749)</u>
Cash flows from financing activities:		
Proceeds from convertible debentures	3,727,721	1,413,273
Proceeds from stockholder notes payable	1,165,986	-
Proceeds from other notes payable	1,543,204	-
Proceeds from common stock	698,595	-
Proceeds from exercise of stock options	584,504	740,250
Bank overdraft	<u>-</u>	<u>(12,112)</u>
Net cash provided by financing activities	<u>7,720,010</u>	<u>2,141,411</u>
Net increase in cash	11,587	9,147
Cash, beginning	<u>9,147</u>	<u>-</u>
Cash, ending	<u>\$ 20,734</u>	<u>\$ 9,147</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies:

Organization:

Solucorp Industries, Ltd. (formerly World Tec Industries, Inc.), (“the Company”), was originally incorporated under the laws of British Columbia, Canada. The Company was formed through a merger of Livingstone Energy Corp. and Intelicom Systems, Ltd. on June 30, 1987. On April 4, 1997, the Company changed its corporate domicile from British Columbia to the Yukon Territory.

On December 4, 1992, the Company acquired Environmental Training Institute, Inc. (“ETI”), a wholly owned subsidiary, incorporated under the laws of New Jersey. ETI was acquired because of its certifications in environmental compliance training. In February 2002, the Company changed the name of ETI to Integrated Fixation System Co. (“IFS”).

On May 7, 1991, the Company formed EPS Environmental, Inc. (“EPS”) d/b/a Solucorp Industries, a wholly owned subsidiary, incorporated under the laws of British Columbia. EPS was created to be the research and development and sales/marketing arm for the company’s technologies.

On June 30, 2004, the Company acquired a Florida company, Wits, Inc. (“Wits”), which owned and had licenses to certain industry patents for cleaning contaminated water. The Company plans to utilize the intellectual property (patents, licenses, and other Wits technology) to expand its customer base as well as to provide additional services to its current customers. Under the purchase, the Company acquired all of the outstanding common stock of Wits, in exchange for 4,050,000 shares of restricted common stock of the Company. The Company, under a separate agreement, issued options to purchase 1,200,000 shares of the Company’s common stock at an exercise price of \$1.75 per share to the management team of Wits as an incentive to continue their services. The options expire at various times through 2008. The Company subsequently changed the number of shares issued as part of the acquisition as discussed in footnote 14.

Business:

Solucorp Industries, Ltd., is a developer and provider of patented, cost effective, permanent technologies for the remediation and prevention of hazardous heavy metal contamination. Solucorp Industries, Ltd. operates three wholly owned subsidiaries: Solucorp Industries, Integrated Fixation System Company Inc., and Wits, Inc. Wits, Inc., founded in 2001 and acquired by Solucorp in June 2004, is capable of supplying package systems to treat contaminated wastewater.

Principles of consolidation:

The consolidated financial statements include the accounts of Solucorp Industries, Ltd. and its wholly owned subsidiaries, EPS, IFS and Wits. All significant intercompany accounts and transactions have been eliminated.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

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:

Statement of Financial Accounting Standards ("SFAS") No. 107, "*Disclosures About Fair Value of Financial Instruments*", requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practical to estimate that value. The amounts reported for accounts receivable, prepaid expenses, loans payable, accounts payable and accrued expenses and convertible debentures approximate fair value. The convertible debentures amount reported approximates fair value due to the market interest rate.

Concentration of credit risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. At various times during the year, the Company had cash balances in excess of federally insured limits. The Company maintains its cash balance with high quality financial institutions, which management believes reduces such risk.

Ninety nine percent of the Company's revenues for the year ended December 31, 2005 were generated from one customer in Ravenna, Italy. Ninety five percent of the Company's revenues for the year ended December 31, 2004 were generated from one customer in East Providence, Rhode Island.

Inventory:

Inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis, and market is determined on net realizable value.

Intellectual Property:

Intellectual property represents the patents purchased by the corporation as part of the asset purchase of Wits, Inc. on July 1, 2004. The value was determined by independent valuation professionals as of July 1, 2004 as part of the valuation of the acquisition of Wits. The intellectual property is amortized over the lives of the assets, which is fifteen years.

Patents:

The Company's patents and patent applications related to the Company's technologies are amortized over the lives of the patents, which is fifteen years.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

Goodwill:

Goodwill represents the excess of cost over fair value of net assets acquired through acquisitions. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and other indefinite lived intangible assets are no longer amortized, but are reviewed annually for impairment. As of December 31, 2005, the Company determined an impairment of Goodwill existed for the period ended on this date. The valuation resulted in the entire goodwill being written off. This amount represents the entire Goodwill that was recorded on June 30, 2004 for the excess of cost over fair value of net assets acquired in the WITS transaction.

Property and equipment:

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated lives of the assets, five to seven years. Expenditures, which significantly extend useful asset lives, are capitalized. Repairs and maintenance are charged to expense as incurred.

Revenue recognition:

Revenue from the sale of products, which contain the Company's patented solutions, is recognized when the product is shipped, all of the Company's obligations have been fulfilled, and collection is reasonably assured. Revenue from the Company's licensing agreement is recognized at the time costs are incurred, sales are completed, or profits are realized related to the remediation and sale of sites owned by its exclusive licensee in accordance with the license agreement described in Note 13. No VAT tax has been accrued on the Company's Italian soil remediation contract since the payments were made from an Italian company to a foreign company. Foreign companies are exempt from paying VAT.

Stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" (APB No. 25). The Company has not adopted any incentive stock option plans for employees. However from time to time, the Company does grant stock options for services rendered by employees and others as well as to individuals as an inducement to loan the company funds. The company follows SFAS No. 25 for these transactions, which require the options to be expensed at fair value at the date of their grant. The Company has, for the purpose of these financial statements, accounted for the issuance of the stock options by applying the Black-Scholes option method.

Income taxes:

The Company accounts for income taxes under SFAS No. 109, "*Accounting for Income Taxes*". SFAS No. 109 requires an asset and liability approach for financial reporting for income taxes. Under SFAS No. 109, deferred taxes are provided for temporary differences between the carrying values of assets and liabilities for financial reporting and tax purposes at the enacted rates at which these differences are expected to reverse.

Comprehensive income:

The Company accounts for comprehensive income in accordance with Statement of Financial Accounting Standards (SFAS) No. 130, "*Reporting Comprehensive Income*". Amounts are reported net of income taxes, if any, and include gains and losses on foreign currency translation adjustments, if any.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

Shipping and handling fees and costs

Costs incurred for transportation of products to customers are recorded as a component of cost of goods sold.

Use of estimates:

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions related to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and intangibles, inventories, the valuation of assets and liabilities in the purchase price allocation for business acquisitions, operating expenses and accruals, and deferred income tax assets.

Segment information:

The Company has adopted SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information.*" SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. The Company operates in one segment for management reporting purposes.

Earnings (loss) per share:

The Company has adopted SFAS Statement No. 128, "Earnings per Share". The statement establishes standards for computing and presenting earnings per share (EPS). It requires dual presentation of basic and diluted EPS on the face of the income statement. There is no presentation of diluted loss per share in 2004 or 2005 as the effect of common stock options were antidilutive. The Company's weighted average shares outstanding were 46,531,373 and 35,177,305 for 2005 and 2004, respectively. The difference between weighted average shares outstanding and actual shares outstanding is due to weighting. Note 11 discusses the issuance of options to employees, consultants, stockholders and directors.

Pro-forma information regarding net income and earnings per share is required by SFAS No. 123, "*Accounting for Stock-Based compensation,*" and has been determined as if the Company had accounted for its stock options under the fair value method of that Statement. The fair value for these options was estimated at the grant date using a Black-Scholes option pricing model with the following weighted average assumptions for 2005 and 2004 respectively: risk-free interest rate of 1.45% and 1.56%, dividend yield of 0% and 0%, volatility factor of the expected market price of the Company's common stock of 175% and 377%; and weighted average expected life of the options of 2.0 years for 2005 and 2004.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is expensed at the time of issuance since the options are exercisable immediately upon issuance.

Stock-based compensation costs of \$5,790,750 and \$11,743,127 are reflected in the Company's net loss for December 31, 2005 and 2004, respectively

	<u>2005</u>	<u>2004</u>
Net loss and pro forma net loss	\$ 16,002,741)	\$(14,365,095)
Basic loss per share:		
As reported	\$ _____ (.32)	\$ _____ (.41)
Pro forma	\$ _____ (.32)	\$ _____ (.41)

Recent accounting pronouncements:

In December 2004, the Financial Accounting Standards Board issued SFAS Statement No. 123(R), "*Share-Based Payment*," a revision of SFAS Statement No. 123, that will significantly change the accounting for employee stock options and other equity-based compensation. The standard requires companies to expense the fair value of stock options on the grant date and is effective for interim or annual periods beginning after December 15, 2005. The Company had no employee stock options granted during this period.

In 2002, the Company adopted the disclosure provisions of SFAS No. 148, "*Accounting for Stock-Based Compensation - Transition and Disclosure* (an amendment to FASB Statement No. 123)." SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In January 2003, the FASB issued FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*." In December 2003, the FASB issued FIN No. 46R, which clarified certain issues identified in FIN 46. FIN 46R requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of the voting interests. A variable interest entity is generally defined as an entity which is unable to finance its activities or where the owners of the entity lack the risks and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this interpretation must be applied at the beginning of the first interim or annual period beginning after March 1, 2004. The Company does not have any interest in variable interest entities and therefore this accounting pronouncement did not have an impact on the Company's financial position and results of operations.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

Recent accounting pronouncements: (continued)

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "*Amendment of Statement 135 on Derivative Instruments and Hedging Activities.*" SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have any impact on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.*" SFAS No. 150 requires that certain financial instruments, which under previous guidance were recorded as equity, be recorded as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. The Company adopted SFAS No. 150 on June 1, 2003. The adoption of this statement did not have any effect on the Company's financial position, results of operations or cash flows.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,*" an interpretation of SFAS No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. This statement addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. This interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. This statement did not have an impact on the Company's financial position or results of operations.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities.*" This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 became effective in the second quarter of fiscal 2003 and did not have an impact on the results of operations or financial position of the Company.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets.*" SFAS No. 144, which was adopted by the Company in the first quarter of fiscal 2003, requires testing for recoverability of long-lived assets whenever events or circumstances indicate that the carrying value may not be recoverable. An impairment loss shall be recognized when the carrying value of a long-lived asset exceeds its fair value. The adoption of SFAS No. 144 did not have a material effect on the consolidated financial statements.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "*Accounting for Asset Retirement Obligations.*" The statement addresses accounting for and reporting obligations relating to the retirement of long lived assets by requiring 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 statement was effective for the Company's financial statements for the year ended December 31, 2003. The adoption of SFAS No. 143 did not have a material effect on the consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Description of business and significant accounting policies: (continued)

Recent accounting pronouncements: (continued)

Also in June 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 requires companies to account for goodwill and other intangibles in the following manner. Intangible assets, which are acquired, shall be recognized and measured based on fair value. Recognized intangible assets are to be amortized over their useful life. Goodwill and intangible assets determined to have an indefinite life are not amortized. Intangible assets that are not amortized and goodwill shall be tested for impairment annually.

The provisions of SFAS No. 142 had a material effect on the consolidated financial statements in 2005 as set forth in Note 14.

2. Summary of significant risks and uncertainties:

U.S. Securities and Exchange Commission matters:

In December 1999, the U.S. Securities and Exchange Commission ("SEC.") filed a civil injunction against the Company alleging that six senior officers and directors of the Company, including the then president, chief financial officer, directors, and an outside consultant, engaged in a deliberate and systematic scheme to defraud investors over a four-year period. The complaint alleged that the Company's senior management publicly announced contracts that did not exist, and materially overstated revenues for existing contracts. In 2003, the Company reached an agreement with the SEC, resulting in permanent suspensions or prohibitions of all but one of the parties named in the action.

Consulting agreement:

In April 2003, the Company renewed a consulting agreement, the scope of which was to assist the company with raising capital, with an individual who is subject to permanent injunction as a result of the SEC actions described above. The terms of the renewed agreement are substantially the same as the original agreement. See Notes 13 and 14 for the terms of the agreement.

Employment agreement:

In August 2003, the Company entered into an employment agreement with the former President of the Company who is subject to permanent consent decrees as a result of the SEC actions described above. The individual now serves as the President of one of the Company's wholly-owned subsidiaries which is the main operating entity. See Notes 13 and 14 for the terms of the agreement.

Board members subject to SEC action:

Two members of the Company's board of directors are subject to permanent consent decrees as a result of the SEC actions described above. They and the Company were permanently enjoined from violating certain antifraud reporting and rules for insider provisions of the Securities Exchange Acts.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2. Summary of significant risks and uncertainties: (continued)

Going concern:

As of December 31, 2005, the Company reflected a retained earnings deficit of \$(59,553,937) and a working capital deficiency (deficiency of current assets over current liabilities) of \$4,129,800. The Company had negative cash flows from operations of \$11,345,126 and \$2,089,515 for the years ended December 31, 2005 and 2004 respectively and the Company auditors have set forth a going concern in their audit report.

The Company has encountered severe financial hardship over the last several years resulting from SEC and other litigation, and, as a consequence, has lost its bonding capabilities and is unable to raise enough capital to secure and finance its own operating projects. These circumstances raise substantial doubt regarding the Company's ability to continue as a going concern. Management's plans regarding these issues and the Company's future depend on the following:

- The ability to continue to secure license agreements with third parties on its patented technology,
- The ability to sell its reagents directly to contractors for remediation projects
- The ability to act as the general contractor on "Brownsfield" projects generated by its exclusive licensee, and
- The ability to continue to successfully raise capital through the equity and debt markets.

There is no assurance that the Company will be successful in implementing its plans regarding these issues, or be able to raise sufficient capital or generate sufficient cash flows from operations to be able to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

3. Inventories:

The Company's inventory is composed of the following components:

	<u>2005</u>	<u>2004</u>
Chemicals	\$1,110,259	\$434,440
Allowance for obsolete inventory	<u> -</u>	<u>(151,800)</u>
	<u>\$1,110,259</u>	<u>\$282,640</u>

4. Prepaid Expense

On February 24, 2005 the Company entered into a two year marketing and promotions agreement with a public relations firm in the amount of \$4,800,000. The scope of the agreement was to develop market awareness of the Company's proprietary technologies. The firm received 2,000,000 shares of the Company's stock which was valued at \$2.40 per share. A portion of the contract value (\$2,000,000) was expensed in 2005. The balance of \$2,800,000 has been reflected as a prepaid expense and will be expensed in subsequent periods. The remaining

balance of the prepaid expense represents an advance payment of \$67,260 for inventory that was received in February 2006.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

5. Patents:

The Company's patents are composed of the following components:

	<u>2005</u>	<u>2004</u>
Issued cost patents	\$ 54,603	\$ 54,603
Patents pending	129,958	22,298
Accumulated amortization	<u>(4,395)</u>	<u>(4,395)</u>
	<u>\$ 180,166</u>	<u>\$ 72,506</u>

6. Property and equipment:

The Company's property and equipment is composed of the following components:

	<u>Estimated Useful Lives (Year)</u>	<u>2005</u>	<u>2004</u>
Furniture and Fixtures	5-7	\$ 67,005	\$ 67,005
Vehicle	5	30,679	-
Less: Accumulated depreciation		<u>(73,141)</u>	<u>(67,005)</u>
		<u>\$ 24,543</u>	<u>\$ -</u>

Depreciation expense was \$6,136 and \$3,064 for the years ended December 31, 2005 and 2004 respectively.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

7. Convertible debt:

In accordance with EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios', ("EITF No. 98-5"), we determined that in fact the convertible debentures had beneficial conversion features in that the embedded conversion feature was an in-the-money issuance. Therefore the embedded beneficial conversion feature present in the convertible debenture needed to be valued separately at issuance. The convertible debentures meet the definition of "conventional convertible debt" because the number of shares which may be issued upon the conversion of the debt is fixed. Therefore, the conversion feature qualifies for equity classification.

The convertible debentures, which expire two years after issuance, were assigned a value of \$0, estimated using the Black-Scholes valuation model. The following assumptions were used to determine the fair value of the debentures using the Black-Scholes valuation model: a term of two years, risk free rate of 7.00%, volatility of between 95%-116% (depending on the date of issue), and dividend yield of zero. The values assigned to both the debenture and conversion feature were allocated based on their fair market values. The amount allocated as a discount on the convertible debentures for the value of the conversion option will be amortized to interest expense, using the effective interest method, over the term of the convertible debentures.

The convertible debenture liability is as follows at December 31, 2005:

	<u>2005</u>	2004
Convertible debentures payable	\$5,327,288	\$1,413,272
Less: unamortized discount on debentures	<u>(2,418,482)</u>	<u>(338,113)</u>
Convertible debentures, net	<u>\$2,908,806</u>	<u>\$1,075,159</u>

8. Notes payable – stockholders:

	<u>2005</u>	<u>2004</u>
Loans and advances from stockholders	<u>\$1,165,986</u>	<u>\$106,060</u>

The Company received loans from various stockholders during the years 2005 and 2004. The notes ranged from 3 months to 1 year in duration with 7 –10% interest rates.

The Company has a revolving line of credit with a major stockholder in the amount of \$4,000,000. Any outstanding balance on the line of credit bears interest at an annual rate of 8%. All monies drawn down on the line are due within one year. The line of credit is secured by the Company's patents. The outstanding balance on the line of credit was overpaid at December 31, 2004 by the amount of \$27,833 and is reported as a loan receivable from a related party at that date. There was no outstanding balance on the line of credit as of December 31, 2005.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

9. Non-cash investing and financing activities:

During 2005 and 2004 the company issued 233,955 and 172,482 shares of common stock as payment for obligations in the amount of \$102,239 and \$495,015 respectively.

During 2005 and 2004 the Company issued 2,784,000 and 3,179,135 shares of common stock that were valued at \$5,790,750 and \$11,743,127 respectively to employees, consultants, and board members as consideration for services rendered. The total amount was charged to expense during the year.

On June 30, 2004 the company acquired Wits. Under the purchase, the company acquired all of the outstanding common stock of Wits in exchange for 4,050,000 shares (subsequently modified as described in Note 14 subsequent events) of restricted common stock of the Company with a value of \$3,015,402. After the completion of a new independent valuation the entire goodwill was written off.

Fair value of technology acquired	\$1,800,000
Inventory acquired	\$ 194,866
Fixed assets acquired	\$ 44,313
Goodwill on acquisition	\$ 2,134,086
Stock Issued in acquisition	\$(3,015,402)
Liabilities assumed	\$(1,157,863)

10. Income taxes:

A reconciliation of income tax computed at the statutory federal rate to income tax expense (benefit) is as follows

	<u>2005</u>	<u>2004</u>
Tax provision at the statutory rate of 35% - Ordinary Income	\$ (4,431,485)	\$ (5,027,783)
Tax provision at the statutory rate of 35% - Goodwill	(746,930)	-
State income taxes, net of federal income tax - Ordinary Income	(167,694)	(197,879)
State income taxes, net of federal income tax - Goodwill	(25,814)	-
Change in valuation allowance	5,355,873	5,199,612
Permanent items	<u>16,050</u>	<u>16,050</u>
	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2005 and 2004 are presented below:

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Net operating loss carry-forward	\$ 34,587,009	\$21,925,623
Less: Valuation allowance	<u>(34,587,009)</u>	<u>(21,925,623)</u>
Net	<u>-</u>	<u>-</u>
Net operating loss carry-forward Goodwill	\$ 2,134,086	-
Less: Valuation allowance	<u>(2,134,086)</u>	<u>-</u>
Net	<u>-</u>	<u>-</u>

Net deferred tax asset

\$ _____ - \$ _____ -

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

10. Income taxes: (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Because of the historical losses incurred by the Company, the net deferred tax assets have been fully reduced by a 100% valuation allowance. The valuation allowance for the net deferred tax assets was approximately \$37 million and \$22 million as of December 31, 2005 and 2004, respectively.

At December 31, 2005, the Company had net operating loss carry-forwards available for Federal tax purposes of approximately \$49,664,399. These carry-forwards expire through 2024.

11. Stock options:

The Company has issued common stock options to employees, consultants, stockholders and directors. A summary of the Company's stock options as of December 31, 2005 and 2004 is presented below:

	<u>2005</u>		<u>2004</u>	
	<u>Shares</u>	Weighted Average Exercise <u>Price</u>	<u>Shares</u>	Weighted Average Exercise <u>Price</u>
Outstanding at the beginning of the year (including adjustment of 423,910 at January 1, 2004)	11,970,183	\$.69	11,704,183	\$.11
Granted	1,280,500	\$1.31	5,610,000	\$1.12
Exercised	<u>(4,736,709)</u>	\$.12	<u>(5,344,000)</u>	\$.13
Weighted average fair value of options granted not including options where the price has yet to be determined		\$.69		\$.69
Outstanding at the end of the year	<u>8,513,974</u>		<u>11,970,183</u>	
Options exercisable at the end of the year	<u>8,513,974</u>		<u>11,970,183</u>	

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

11. Stock options: (continued)

The following table summarizes information for stock options outstanding at December 31, 2005 and 2004:

<u>Range of Exercise Prices</u>	<u>2005 Options Outstanding</u>			<u>2004 Options Outstanding</u>		
	<u>Number Outstanding at 12/31/05</u>	<u>Weighted Remaining in Years</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding at 12/31/04</u>	<u>Weighted Remaining in Years</u>	<u>Weighted Average Exercise Price</u>
0.10 – 0.15	2,528,974	2.87	\$.10	5,880,183	2.87	\$.10
0.21 – 0.30	1,250,000	1.76	.25	2,000,000	2.52	.27
0.50 – 0.75	675,000	0.89	.59	675,000	1.78	.59
1.00 – 1.99	2,020,000	1.24	1.53	2,075,000	1.95	1.53
2.00 – 4.99	240,000	1.45	2.03	240,000	2.00	2.03
5.00 – 10.00	100,000	2.69	7.00	100,000	3.25	7.00
To be determined upon exercise	<u>1,700,000</u>	-	-	<u>1,000,000</u>	-	-
Total	<u>8,513,974</u>			<u>11,970,183</u>		

12. Related party transactions:

The Company entered into a consulting agreement with a member of a director's immediate family. See Note 13. Total expense related to this agreement amounted to \$1,149,000 and \$268,000 for the years ended December 31, 2005 and 2004 respectively. The Company paid stockholders and directors consulting fees for services, which amounted to \$2,572,700 and \$2,138,771 for the years ended December 31, 2005 and 2004, respectively. All related party transactions were made at arms length prices.

13. Commitments, contingencies and other matters:

License agreements:

In June 1998, the Company entered into a license agreement, which was amended and restated in March 2000, with Geomar Holdings Ltd., LLC ("Geomar") granting Geomar exclusive worldwide marketing rights of the Company's soil remediation processes for the life of the Company's related patents, and granting the Company specific rights and compensation as general contractor for remediation projects secured by Geomar. The Company is compensated based upon a percentage of costs incurred in the soil remediation process, and proceeds and profits from the sale of remediated property. The Company earned revenues from the agreement of \$0 and \$541,425 during the years ended December 31, 2005 and 2004, respectively.

Lawsuits:

SEC Law suit: On May 1, 1998, the SEC suspended trading of the Company stock and initiated an investigation into various matters concerning the Company. The SEC then proceeded to file a lawsuit against the Company and certain present and former directors, officers, and outside consultants. This lawsuit was followed by a number of class action suits, which were eventually consolidated into one class action law suit and was subsequently dismissed. In March of 2003, the Company and three individual defendants reached a settlement with the SEC. The order in the civil injunctive action brought by the SEC found that certain officers and

directors had violated the antifraud provision of the securities laws and permanently barred certain individuals from serving as an officer or director of any publicly traded company, as well as other injunctive relief.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

13. Commitments, contingencies and other matters: (continued)

EWT Law suit: The Company previously filed a law suit against Environmental Waste Technologies ‘EWT’ for work successfully completed by the Company. In 2004, the Company received a default judgment of approximately \$960,000, inclusive of punitive damages, against EWT. No funds were received from this lawsuit during 2004 and 2005 and it is unknown whether any amount will be recovered in the future. The original receivable of \$255,855 has been 100% reserved with an allowance for doubtful accounts.

Other Law suits: The Company, in the normal course of business, is defendant in various lawsuits. These lawsuits range in amounts from approximately \$10,000 to \$300,000. The lawsuits, in both New York and Florida, are being defended by the company’s legal counsel. The lawsuits, aggregating approximately \$550,000, are in various stages of legal defense and their outcome is uncertain at this time. As a result of such uncertainty, we are unable to estimate the ultimate outcome of any of the subsequently mentioned claims, and, accordingly, no provision for loss has been recorded. We believe that individually, and in the aggregate, the ultimate settlement of the subsequently mentioned claims should not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Office lease:

In July 2001, the Company entered into a lease for office space in New York for a period of five years at an annual rent of \$60,000. In January 2003, the Company reached a settlement with the landlord regarding past due rent and repairs, and based on this settlement stipulation, the Company has the following future minimum lease obligations:

2006	<u>\$96,000</u>
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During 2005 and 2004 the Company paid \$104,128 and \$67,974 respectively for the lease of office space in New York and Florida.

Consulting and employment agreements:

In August 2003, the Company entered into an employment agreement with the President of a subsidiary for a ten (10) year term. The agreement calls for payment of \$150,000 per year with 10% increases per year for the entire term. In addition to the base salary, the Company is obligated to pay a bonus of \$100,000 to \$250,000 based on the profit of the Company, as well as granting options to purchase 140,000 shares of the Company’s common stock at an exercise price of \$0.10 per share each year. Pursuant to the agreement the Company issued to the President of the subsidiary options to purchase 700,000 shares of the Company’s common stock at an exercise price of \$0.10 per share, exercisable over two year. The President of the subsidiary was formerly the President of the parent company. The Board of Directors has authorized the President of the Company to renegotiate the employment agreement. For the year ended December 31, 2005, the company has not finalized any of the negotiations nor changed this agreement. Subsequent to the year-end the Company bought out this agreement as discussed in Note 14.

In April 2003, the Company entered into a consulting agreement with a related party in which the Company is obligated to pay \$150,000 per year, with 10% increases each year for a ten-year term. In addition, the Company is to pay an annual bonus of \$100,000 to \$250,000 based on the profit of the Company, as well as granting options to purchase 150,000 shares of the Company’s common stock at an exercise price of \$0.10 per share each year. Pursuant to the agreement, the Company issued to the consultant options to purchase 800,000 shares of the Company’s common stock at an exercise price of \$.10 per share, exercisable over two years. The

individual has been a consultant to the Company for several years and is a member of the immediate family of a director of the Company. The Board of Directors has authorized the President of the Company to renegotiate

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

13. Commitments, contingencies and other matters: (continued)

the consulting agreement. For the year ended December 31, 2005, the Company has not finalized any of the negotiations nor changed this agreement. Subsequent to the year-end the Company bought out this agreement as discussed in Note 14.

In January of 2004, the Company entered in an agreement with a venture capital financial advisory firm to assist in raising funds through equity and/or debt placement as needed by the Company. A consultant to Solucorp Industries, Ltd. is also affiliated with a venture capital firm. The fee for services under this five-year agreement is \$400,000 per year or 750,000 shares of restricted stock of the Company. At the end of the second year the company had the option to buy out the balance of the contract for a payment of \$800,000 or 1,500,000 shares of the Company common stock. Subsequent to the year-end 2005 the Company bought out this agreement as discussed in Note 14.

14. Subsequent Events:

Business acquisition:

As discussed in Note 1, on June 30, 2004, the Company acquired Wits which owned and had licenses to certain industry patents for cleaning contaminated water. Under the purchase, the Company acquired all of the outstanding common stock of the Florida entity in exchange for 4,050,000 shares of restricted common stock of the Company. The Company, under a separate agreement, issued options to purchase 1,200,000 shares of the Company's common stock at an exercise price of \$1.75 per share to the management team of the acquired Florida company as an incentive to continue their services. The options expire at various times through 2008. In 2005 the company determined that certain representations made to it in the transaction were overstated. The Board of each company decided to amend the terms of the acquisition. Under the new terms the acquisition shares were reduced and the Company requested that the shareholders return ½ of the shares issued in the acquisition. The Company agreed to reissue these shares upon reaching certain predetermined profits and market values. To date, none of these shares have been reissued. A significant portion, representing 89% of the new shareholders, returned their shares issued in the transaction. This resulted in the shares issued being reduced from 4,050,000 to 2,213,315. In 2006, the Company offered to release the other shareholders from any claims against them, in return for a 2-year restriction on their sale of the stock. The shares would be held in escrow by the company and released at a rate of 10% a quarter, for the first twelve months, and 15% a quarter, for the subsequent twelve months.

A business valuation of Wits was prepared as of June 30, 2004 to account for the acquisition of Wits, Inc. An integral part of the valuation was a ten-year sales forecast prepared by management. The forecasted revenue for the two years subsequent to the acquisition was \$3,750,000 and the actual revenue was \$-0-. For the year ended December 31, 2005 management's valuation of the Wits transaction resulted in an impairment of Goodwill for the entire amount originally recorded of \$2,134,086.

In December of 2006, the Company bought out the three consulting agreements with the related parties and entered into three new agreements with companies ("consultants") to provide consulting services regarding certain processes owned by the Company. These agreements are with related parties and are at arms length.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

14. Subsequent events: (continued)

- 1) As discussed in Note 13 in August 2003, the Company entered into an employment agreement with the President of a subsidiary for a ten (10) year term. This agreement was bought out in December 2006. Upon execution of the buy-out the Company paid \$400,000 in deferred payments and issue 400,000 shares of common stock. In December 2006 the Company also entered into a new three (3) year agreement with a company related to this person. The new agreement calls for the payment of \$200,000 per year with 10% increases each year as well as entitlement to an option to purchase 150,000 shares of the Company's common stock during each year of the term of the agreement. The option is exercisable at \$1.00 per share, subject to change due to possible change in the capitalization of the Company. In addition, the consultant is entitled to an annual bonus of 1% of the gross profits of the Company or \$100,000, whichever is greater, provided it does not exceed \$250,000. The terms of the new agreement are considered to be at arms length.
- 2) As discussed in Note 13 in April 2003, the Company entered into a consulting agreement with a venture capital firm. This firm provides funding assistance to the Company. This agreement was bought out in December 2006. Upon execution of the buy-out the Company agreed to pay \$1,000,000 and issue 850,000 shares of common stock. In December 2006 the Company also entered into a new three (3) year agreement with this consultant. This agreement calls for the payment of \$250,000 per year as well as entitlement to an option to purchase 500,000 shares of the Company's common stock. The option is exercisable, at any time, at 20% below market value per share and expires three (3) years from the date of issuance. The consultant is also entitled to shares in the new company which will own all of the interest and rights of IFS, as well as royalties on the new company's sales.
- 3) The Company entered into an agreement in December 2006 with a related party to perform consulting services. This new three (3) year agreement calls for the payment of \$250,000 per year with 10% increases each year as well as entitlement to an option to purchase 600,000 shares of the Company's common stock during each year of the term of the agreement. The option is exercisable at \$1.00 per share, subject to change due to possible change in the capitalization of the Company. In addition the consultant is entitled to an annual bonus of 1% of the gross profits of the Company or \$100,000, whichever is greater, provided it does not exceed \$250,000.

As discussed in Note 13 in January of 2004, the Company entered in an agreement with a venture capital financial advisory firm to assist in raising equity and/or debt as needed by the Company. This agreement was bought out in 2006 based on an agreement reached in December of 2005 which required the Company to pay the venture capital firm \$2,000,000 in full by September 30, 2006 and issue the venture capital firm 500,000 restricted shares of common stock. All payments and issuance of stock was made on a timely basis.

Convertible subordinated debentures totaling \$3,418,585 issued between February 22, 2004 and March 16, 2005 were currently due and payable as of May 2007. Of this amount debenture holders with debentures with the amount of \$866,768 have agreed to extensions between six and twelve months in duration. The balance of the debentures totaling \$2,202,404 are in default as of May 2007.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

14. Subsequent events: (continued)

On March 8, 2007 the Securities and Exchange Commission announced the temporary suspension pursuant to Section 12(k) of the Securities Exchange Act of 1934 of trading in the Securities of Solucorp Industries, Ltd., commencing at 9:30 am on March 8, 2007 and terminating at 11:59 pm on March 21, 2007. The Commission ordered this trading suspension because of questions that arose regarding the adequacy and accuracy of publicly disseminated information concerning among other things (1) The Company's assets, (2) The Company's business operations, (3) The Company's current financial conditions, and/or (4) financial arrangement involving the issuance of the Company's shares. The SEC submitted a list of questions to the Company. The company prepared a formal response to the SEC and submitted it in June 2007. There has been no further correspondence from the SEC on this matter.