

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
AUDITED FINANCIAL STATEMENTS
FOR DECEMBER 31, 2006 AND 2005

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES

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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, 2006 and 2005 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, 2006 and 2005 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, LLP

Fort Lauderdale, Florida
May 6, 2009

DYM

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SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

	ASSETS	
	2006	<u>2005</u>
Current assets:		
Cash	\$ 209,325	\$ 20,734
Accounts receivable, net of allowance for doubtful account of \$255,855 for 2006 and 2005	636,945	373,202
Inventories, net	-	1,110,259
Prepaid expenses and other	<u>1,184,711</u>	<u>2,867,260</u>
Total current assets	<u>2,030,981</u>	<u>4,371,455</u>
Property and equipment, net of accumulated depreciation of \$79,277 for 2006 and \$73,141 for 2005	<u>18,407</u>	<u>24,543</u>
Other assets:		
Goodwill	-	-
Intellectual property – technology, net of accumulated amortization of \$180,000 for 2005	-	1,620,000
Patents, net	391,340	180,166
Loan receivable	100,000	-
Loan receivable – related party	<u>119,640</u>	<u>125,050</u>
Total other assets	<u>610,980</u>	<u>1,925,216</u>
Total assets	<u>\$ 2,660,368</u>	<u>\$ 6,321,214</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:		
Accounts payable	\$ 2,448,087	\$ 2,244,917
Payroll taxes payable (including penalties and interest)	1,896,961	1,552,891
Accrued expenses	1,227,669	445,684
Other liabilities	35,000	35,000
Other loans payable	1,653,589	1,649,264
Notes payable - stockholders	1,065,927	1,165,986
Convertible debentures	<u>3,855,255</u>	<u>1,407,513</u>
Total current liabilities	<u>12,182,488</u>	<u>8,501,255</u>
Long Term Debt:		
Convertible debentures, net of current portion including debt discount	<u>586,242</u>	<u>1,501,293</u>
Commitments, contingencies and other matters	-	-
Stockholders' deficit:		
Common stock, no par value; 200,000,000 shares authorized, issued and outstanding 56,531,716 for 2006 and 50,408,705 shares for 2005	61,913,534	54,657,027
Accumulated deficit	(73,362,472)	(59,553,937)
Accumulated comprehensive income	1,391,742	1,391,742
Un-amortized stock-based compensation	<u>(51,167)</u>	<u>(176,167)</u>
Total stockholders' deficit	<u>(10,108,362)</u>	<u>(3,681,334)</u>
Total liabilities and stockholders' deficit	<u>\$ 2,660,368</u>	<u>\$ 6,321,214</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenue	4,141,291	\$ 540,459
Cost of goods sold	<u>2,753,736</u>	<u>98,585</u>
Gross profit	<u>1,387,555</u>	<u>441,874</u>
Operating expenses:		
Selling, general and administrative (including stock and option based compensation of \$3,214,475 and \$5,790,750 in 2006 and 2005 respectively)	6,331,037	4,572,993
Accounting	503,498	136,840
Advertising	26,052	37,592
Blending/Screening	-	161,607
Consulting Fees	3,528,576	3,818,884
Directors Fees	29,534	33,900
Legal Expense	161,292	96,809
Medical Premium	87,393	92,932
Public Relations	2,447,943	2,021,574
Wages	1,099,926	1,221,139
Depreciation and amortization	<u>6,136</u>	<u>126,136</u>
	<u>14,221,387</u>	<u>12,320,406</u>
Loss from operations	<u>(12,833,832)</u>	<u>(11,878,532)</u>
Other income (Expenses):		
Interest expense	(1,015,503)	(1,995,034)
Write off of goodwill	-	(2,134,086)
Other	<u>40,800</u>	<u>4,911</u>
Other income (Expenses)	<u>(974,703)</u>	<u>(4,124,209)</u>
Net loss	<u>\$ (13,808,535)</u>	<u>\$ (16,002,741)</u>
Net loss per common share	<u>\$ (0.26)</u>	<u>\$ (0.34)</u>
Weighted average number of shares outstanding	<u>52,459,524</u>	<u>46,531,373</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Common Stock Shares	Amount	Accumulated Deficit	Un-amortized Stock-based Compensation	Accumulated Comprehensive Income	Total
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)
Stock Payable	-	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
	<u>7,754,664</u>	<u>12,814,525</u>	<u>(16,002,741)</u>	<u>175,000</u>	<u>-</u>	<u>(3,013,216)</u>
Balance, December 31, 2005	<u>50,408,705</u>	<u>\$54,657,027</u>	<u>\$(59,553,937)</u>	<u>\$ (176,167)</u>	<u>\$1,391,742</u>	<u>\$(3,681,334)</u>
Year ended December 31, 2006:						
Net loss	-	-	(13,808,535)	-	-	(13,808,535)
Stock Payable	-	123,300	-	-	-	123,300
Common Stock	2,718,425	2,189,503	-	-	-	2,189,503
Beneficial conversion feature of convertible debt	-	564,560	-	-	-	564,560
Exercise of options	434,586	88,459	-	-	-	88,459
Stock issued in payment of obligations	570,000	834,500	-	-	-	834,500
Stock and option based compensation	2,400,000	3,456,185	-	125,000	-	3,581,185
	<u>6,123,011</u>	<u>7,256,507</u>	<u>(13,808,535)</u>	<u>125,000</u>	<u>-</u>	<u>(6,427,028)</u>
Balance, December 31, 2006	<u>56,531,716</u>	<u>\$61,913,534</u>	<u>\$(73,362,472)</u>	<u>\$ (51,167)</u>	<u>\$1,391,742</u>	<u>\$(10,108,362)</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows used in operating activities:		
Net loss	<u>\$(13,808,535)</u>	<u>\$(16,002,741)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Write off of goodwill	-	2,134,086
Write off of intellectual property	1,620,000	-
Depreciation and amortization	6,136	126,136
Discount on convertible debentures, net	2,432,905	3,744,363
Amortization of stock based compensation	125,000	175,000
Stock-based compensation	3,456,185	5,790,750
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	(263,743)	(200,351)
Inventories	1,110,259	(827,619)
Loan Receivable	(100,000)	-
Prepaid expenses and other assets	1,587,959	(2,995,155)
Increase (Decrease) in:		
Accounts payable	203,170	374,914
Payroll taxes payable	344,070	445,609
Accrued expenses payable	(118,233)	(467,994)
Stock issued in payment of obligations	<u>834,500</u>	<u>102,239</u>
Total adjustments	<u>8,698,733</u>	<u>8,401,978</u>
Net cash used in operating activities	<u>(2,470,327)</u>	<u>(7,600,763)</u>
Cash flows used in investing activities:		
Patent expenditures	<u>(211,174)</u>	<u>(107,660)</u>
Cash flows from financing activities:		
Proceeds from convertible debentures	564,560	3,727,721
Proceeds (repayment) from stockholder notes payable	(100,055)	1,165,986
Proceeds from other notes payable	4,325	1,543,204
Proceeds from common stock	2,312,803	698,595
Proceeds from exercise of stock options	<u>88,459</u>	<u>584,504</u>
Net cash provided by financing activities	<u>2,870,092</u>	<u>7,720,010</u>
Net increase in cash	188,591	11,587
Cash, beginning	<u>20,734</u>	<u>9,147</u>
Cash, ending	<u>\$ 209,325</u>	<u>\$ 20,734</u>

See notes to consolidated financial statements.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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.

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.

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, Waste Innovative Technology Solutions, Inc. ("Wits"), which owned and had licenses to certain industry patents for cleaning contaminated water. The Company planned 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. The Company decided not to pursue this business and in 2005 and 2006 expensed the goodwill and intellectual property associated with the acquisition. See Footnote 10.

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.

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, 2006 AND 2005

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

Cash:

Cash is composed of the Company's various bank accounts.

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, 2006 were generated from one customer in Ravenna, Italy. Ninety nine percent of the Company's revenues for the year ended December 31, 2005 were generated from one customer in Ravenna, Italy.

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:

The Company has determined that the Intellectual property had no value and it has been written it off in 2006.

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.

Goodwill:

Goodwill represented the excess of cost over fair value of net assets acquired through acquisition of WITS. 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.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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

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.

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. The Company issued shares to certain employees for services, but did not issue stock options to any employees during 2006.

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.

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.

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, 2006 AND 2005

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 2005 or 2006 as the effect of common stock options were antidilutive. The Company's weighted average shares outstanding were 52,459,524 and 46,531,373 for 2006 and 2005, respectively. Note 11 discusses the issuance of options to employees, consultants, stockholders and directors.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 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 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 \$3,456,185 and \$5,790,750 are reflected in the Company's net loss for December 31, 2006 and 2005, respectively

	<u>2006</u>	<u>2005</u>
Net loss and pro forma net loss	<u>\$(13,808,535)</u>	<u>\$(16,002,741)</u>
Basic loss per share:		
As reported	<u>\$ (.26)</u>	<u>\$ (.34)</u>
Pro forma	<u>\$ (.26)</u>	<u>\$ (.34)</u>

Recent accounting pronouncements:

In December 1995, 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 2003, 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 that 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, 2006 AND 2005

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

Recent accounting pronouncements: (continued)

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 15.

2. Summary of significant risks and uncertainties:

Going concern:

As of December 31, 2006, the Company reflected a retained earnings deficit of \$(73,362,472) and a working capital deficiency (deficiency of current assets over current liabilities) of \$11,910,440. The Company had negative cash flows from operations of \$2,470,327 and \$7,600,763 for the years ended December 31, 2006 and 2005 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 maintain its supplier of the primary chemical ingredient,
- 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.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

3. Inventories:

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

	<u>2006</u>	<u>2005</u>
Chemicals	\$ -	\$1,110,259
Allowance for obsolete inventory	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$1,110,259</u>

There was no inventory as of December 31, 2006 because there were no additional remediation projects at this time.

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. An additional portion of the contract value (\$2,400,000) was expensed in 2006. The balance of \$400,000 has been reflected as a prepaid expense and will be expensed in 2007. Funds paid for a demonstration project in the amount of \$364,711 are also included in the prepaid expenses category.

5. Patents:

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

	<u>2006</u>	<u>2005</u>
Issued patents - cost	\$ 54,603	\$ 54,603
Patents pending	341,132	129,958
Accumulated amortization	<u>(4,395)</u>	<u>(4,395)</u>
	<u>\$ 391,340</u>	<u>\$ 180,166</u>

6. Property and equipment:

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

	Estimated Useful Lives (Year)	<u>2006</u>	<u>2005</u>
Furniture and Fixtures	5-7	\$ 67,005	\$ 67,005
Vehicle	5	30,679	30,679
Less: Accumulated depreciation		<u>(79,277)</u>	<u>(73,141)</u>
		<u>\$ 18,407</u>	<u>\$ 24,543</u>

Depreciation expense was \$6,136 and \$6,136 for the years ended December 31, 2006 and 2005 respectively.

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7. Other Loans Payable:

The Company entered into a Senior Secured Exchangeable Note in December 2006 with a financing company in the amount of \$1,500,000 with an interest rate of 12% and a maturity date of two years, which is included in the other loans payable amount of \$1,653,589 reflected on the balance sheet. The Senior Secured Exchangeable Note was in default as of November 2008 due to non-payment. The Company and the financing company have agreed to extend the date of repayment until November 2009.

8. 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 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 were first issued in February 2004, expire two years after issuance, and were assigned a value 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%-135% (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. A total of \$1,911,982 and \$1,301,657 were charged to interest expense for the years ended December 31, 2006 and 2005, respectively.

The convertible debenture liability is as follows at December 31, 2006:

	<u>2006</u>	<u>2005</u>
Convertible debentures payable	\$5,655,389	\$5,327,288
Less: unamortized discount on debentures	<u>(1,213,892)</u>	<u>(2,418,482)</u>
Convertible debentures, net	<u>\$4,441,497</u>	<u>\$2,908,806</u>

9. Notes payable – stockholders:

	<u>2006</u>	<u>2005</u>
Loans and advances from stockholders	<u>\$1,065,927</u>	<u>\$1,165,986</u>

The Company received loans from various stockholders during the years 2006 and 2005. The unsecured 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. There was no outstanding balance on the line of credit as of December 31, 2006 and 2005.

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10. Non-cash investing and financing activities:

During 2006 and 2005 the company issued 570,000 and 233,955 shares of common stock as payment for obligations in the amount of \$834,500 and \$102,239 respectively.

During 2006 and 2005 the Company issued 2,400,000 and 2,784,000 shares of common stock that were valued at \$3,456,185 and \$5,790,750 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 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 in 2005. In 2006, the fair value of the technology was determined to have no value and subsequently written off.

11. Income taxes:

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

	<u>2006</u>	<u>2005</u>
Tax provision at the statutory rate of 35% - Ordinary Income	\$ (3,797,480)	\$(5,178,415)
State income taxes, net of federal income tax - Ordinary Income	(346,241)	(193,508)
Change in valuation allowance	4,143,721	5,355,873
Permanent items	<u>-</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, 2006 and 2005 are presented below:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Net operating loss carry-forward	\$26,238,231	\$22,094,510
Less: Valuation allowance	<u>(26,238,231)</u>	<u>(22,094,510)</u>
Net	<u>-</u>	<u>-</u>

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11. Income taxes: (continued)

In assessing the realization 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 \$26 million and \$22 million as of December 31, 2006 and 2005, respectively.

At December 31, 2006, the Company had net operating loss carry-forwards available for Federal tax purposes of approximately \$26 million. These carry-forwards expire through 2024.

12. 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, 2006 and 2005 is presented below:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year (including adjustment of 423,910 at January 1, 2004)	8,513,974	\$.69	11,970,183	\$.69
Granted	4,125,000	\$1.00	1,280,500	\$1.31
Expired	(1,899,935)			
Exercised	(434,586)	\$.10	(4,736,709)	\$.12
Weighted average fair value of options granted not including options where the price has yet to be determined		\$.79		\$.69
Outstanding at the end of the year	<u>10,304,453</u>		<u>8,513,974</u>	
Options exercisable at the end of the year	<u>10,304,453</u>		<u>8,513,974</u>	

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12. Stock options: (continued)

The following table summarizes information for stock options outstanding at December 31, 2006 and 2005:

<u>Range of Exercise Prices</u>	<u>2006 Options Outstanding</u>			<u>2005 Options Outstanding</u>		
	<u>Number Outstanding at 12/31/06</u>	<u>Weighted Remaining in Years</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding at 12/31/05</u>	<u>Weighted Remaining in Years</u>	<u>Weighted Average Exercise Price</u>
0.10 – 0.15	2,666,953	1.78	\$.10	2,528,974	2.87	\$.10
0.21 – 0.30	750,000	1.76	.25	1,250,000	1.76	.25
0.50 – 0.75	675,000	0.72	.59	675,000	0.89	.59
1.00 – 1.99	3,712,500	1.04	1.05	2,020,000	1.24	1.53
2.00 – 4.99	200,000	1.25	2.00	240,000	1.45	2.03
5.00 – 10.00	100,000	2.19	7.00	100,000	2.69	7.00
To be determined upon exercise	<u>2,200,000</u>	-	-	<u>1,700,000</u>	-	-
Total	<u>10,304,453</u>			<u>8,513,974</u>		

13. Related party transactions:

The Company entered into a consulting agreement with a member of a director's immediate family. Total expense related to this agreement amounted to \$264,000 and \$1,149,000 for the years ended December 31, 2006 and 2005 respectively. The Company paid stockholders and directors consulting fees for services, which amounted to \$727,596 and \$2,572,700 for the years ended December 31, 2006 and 2005, respectively. All related party transactions were made at arms length prices.

14. Commitments, contingencies and other matters:

Lawsuits: The Company, in the normal course of business, is defendant in various lawsuits. These lawsuits range in amounts from approximately \$10,000 to \$550,000. The lawsuits, in both New York and Florida, are being defended by the company's legal counsel. The lawsuits, aggregating approximately \$800,000, 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. A lawsuit for \$330,000 was dismissed by the court in 2008.

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. After negotiations with the landlord, the Company has the following future minimum lease obligations:

2007 \$96,000

During 2006 and 2005 the Company paid \$129,301 and \$104,128 respectively for the lease of office space in New York and Florida.

SOLUCORP INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. Commitments, contingencies and other matters: (continued)

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. In 2006, the Company bought out this agreement for \$400,000, which was recorded under selling, general and administrative expense on the statement of operations, and 400,000 shares of restricted stock.

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 the consulting agreement. For the year ended December 31, 2005, the Company has not finalized any of the negotiations nor changed this agreement. In 2006, the Company bought out this agreement for \$1,000,000, which was recorded under selling, general and administrative expense on the statement of operations, and 850,000 shares of restricted stock.

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. In 2006, the Company bought out this agreement for \$2,000,000, which was recorded under selling, general and administrative expense on the statement of operations, and 500,000 shares of restricted stock.

In September 2006, the Company signed an agreement for consulting services to perform scientific duties in the development and optimization of the IFS technologies. The Consultant was to also assist in the preparation concerning the establishment, development, and operation of the new company (See Footnote 15). In consideration for his services the consultant would receive 500,000 options to purchase the Company's common shares at a price 20% below the market at the time of issuance. The Consultant will receive 10% of the outstanding common shares in the new company when it is established. The Consultant would also receive royalty payments in the amount of 1% of the sales made by the new company for its IFS products or \$100,000 annually, whichever is greater. No Royalties shall be paid to the Consultant until the new company has been established. The agreement further states that the Company shall own any and all patents, patent applications, improvements, technology, trade secrets, goodwill, and any other proprietary information relating to IFS, that are developed, invented, created, conceived or reduced to practice by Consultant (which shall be deemed the product of work for hire).

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

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.

- 1) As discussed above 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 above 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.

15. Subsequent events:

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.

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15. Subsequent events (continued):

A former Solucorp employee has brought a lawsuit against Solucorp and its former officers in Rockland County New York Supreme Court relating to options that the former employee believes he is entitled to. Solucorp vehemently disagrees with his position and the action is being vigorously defended on Solucorp's behalf.

In September 2007 a lawsuit was filed against the company by a former employee for non-payment of wages in the amount of approximately \$75,000. This action is still pending.

In July 2008 a judgment was entered against one of the Company's subsidiaries for non-payment of a loan in the amount of \$59,360 plus legal fees.

In September 2008, a lawsuit was filed by the Company in the United States District Court- Southern District of New York against a consultant and his company. The company has alleged several causes of action against the Defendants and is seeking damages in excess of \$25 million dollars. In response to the action, in October 2008, the Defendants filed a counterclaim in which they are seeking ownership of some of the Company's proprietary technologies. The Company has filed a reply to their counterclaims denying all allegations of wrongdoings and asserting ownership to all Company assets. The litigation is proceeding and discovery is being exchanged between the parties (See Footnote 14).

In November 2008 the Company was sued for non-payment of a loan in the amount of \$27,000 plus interest. Action is still pending.