

Financial Statements

ENVIRORESOLUTIONS, INC.
Condensed Consolidated Balance Sheet

| | September 30, 2008 |
|---|-------------------------------|
| | <u>(Unaudited)</u> |
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 408,793 |
| Receivable from third parties | 7,388 |
| Prepaid expenses | <u>16,103</u> |
| Total current assets | 432,284 |
| Property and equipment, net | <u>30,341</u> |
| Total assets | <u><u>\$ 462,625</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities | |
| Accounts payable and accrued expenses | \$ 15,210 |
| Shareholder loans | <u>51,684</u> |
| Total current liabilities | <u>66,894</u> |
| Stockholders' Equity | |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 47,831,625 issued and outstanding | 47,831 |
| Paid in capital | 2,811,252 |
| Accumulated deficit | <u>(2,463,352)</u> |
| Total stockholders' equity | <u>395,731</u> |
| Total liabilities and stockholders' equity | <u><u>\$ 462,625</u></u> |

Financial Statements

ENVIRORESOLUTIONS, INC.
Condensed Consolidated Statement of Operations

| | For the Three Months Ended September 30, 2008 | For the Nine Months Ended September 30, 2008 |
|---|--|---|
| | (Unaudited) | (Unaudited) |
| Revenue | \$ - | \$ - |
| Operating expenses | | |
| General and administrative expenses | 170,323 | 426,249 |
| Management fees (including stock based compensation) | 87,192 | 1,616,504 |
| | <u>\$ (257,515)</u> | <u>\$ (2,042,753)</u> |
| Net loss | | |
| Per share data: | | |
| Basic and diluted net loss per share | <u>\$ (0.01)</u> | <u>\$ (0.04)</u> |
| Weighted average Class A common shares outstanding - basic and diluted | <u>47,831,625</u> | <u>47,166,596</u> |

Financial Statements

ENVIRORESOLUTIONS, INC.
Condensed Consolidated Statement of Cash Flows

| | For the Three Months Ended September 30, 2008 | For the Nine Months Ended September 30, 2008 |
|---|--|---|
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (257,515) | \$ (2,042,753) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | |
| Depreciation expense | 1,946 | 5,837 |
| Stock based compensation | 8,193 | 1,417,504 |
| Changes in: | | |
| Receivable from third parties | (6,506) | (2,425) |
| Prepaid expenses | 9,745 | (11,314) |
| Accounts payable | 2,441 | (74) |
| | <u>(241,696)</u> | <u>(633,225)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of equipment | <u>(11,121)</u> | <u>(18,499)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sale of common stock | 0 | 759,923 |
| Costs incurred in private offering | (50,000) | (50,000) |
| Repayment of shareholders' loans | 2,253 | (17,158) |
| | <u>(47,747)</u> | <u>692,765</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (300,564) | 41,041 |
| CASH AND EQUIVALENTS, Beginning of period | <u>709,357</u> | <u>367,752</u> |
| CASH AND EQUIVALENTS, End of period | <u>\$ 408,793</u> | <u>\$ 408,793</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | <u>\$ 242</u> | <u>\$ 487</u> |
| Income taxes paid | <u>\$ -</u> | <u>\$ -</u> |

See accompanying notes to the condensed consolidated financial statements.

Financial Statements

ENVIRORESOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

EnviroResolutions, Inc. (the “Company”), was incorporated in the State of Delaware on May 23, 1988. The Company is in the process of developing, through its licensed technology, air and water pollution control equipment.

Basis of Presentation

The accompanying unaudited financial statements of EnviroResolutions, Inc. contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of September 30, 2008, and its results of operations, and its cash flows for the three-months and nine-months ended September 30, 2008. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted. The Company believes that the disclosures in the financial statements are adequate to make the information presented not misleading.

The accompanying condensed consolidated financial statements include the accounts and transactions of the Company and Ecogen Power Corporation a variable interest entity in which the Company is the primary beneficiary. The Company has no established source of material revenue, has incurred a net loss for the nine months ended September 30, 2008 of \$2,042,753, and has and has an accumulated deficit since its inception of \$2,463,352. These conditions raise substantial doubt as to the Company’s ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary. However, no assurance can be given that the Company will be successful in raising additional capital. Further, even if the company raises additional capital, there can be no assurance that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and expected significant revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to cease operations.

Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Variable Interest Entities

Variable interest entities (VIEs) are primarily entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved are evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Company has minority equity interests, but 100% of voting control in Ecogen Power Corporation (“Power”). The Company has concluded that Power is a VIE and that it is the primary beneficiary. Accordingly, the Company’s consolidated financial statements include the accounts of Power.

Stock Based Compensation

The Company accounts for stock-based compensation under SFAS No. 123R, “Share- based Payment” and SFAS No. 148, “Accounting for Stock-Based Compensation--Transition and Disclosure--An amendment to SFAS No. 123.” These standards define a fair value based method of accounting for stock-based compensation. In accordance with SFAS Nos. 123R and 148, the cost of stock-based employee compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using the Black-Scholes option-pricing model, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period. During the three-months ended September 30, 2008, the Company recognized \$8,193 in compensation expense in the granting of options to an employee (See Note 4). During the nine months ended September 30, 2008, the Company recognized \$500,000 of compensation expense under SFAS No. 123R for 500,000 shares of its common stock issued for legal services and \$917,504 in compensation expense in the granting of options to certain management, employees and consultants (See Note 4).

Issuance of Stock for Non-Cash Consideration

All issuances of the Company’s stock for non-cash consideration have been assigned a per share amount equaling either the market value of the shares issued or the value of consideration received, whichever is more readily determinable. The majority of the non-cash consideration received pertains to services rendered by consultants and others and has been valued at the market value of the shares on the dates issued.

Use of Estimates

Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable, accrued expenses and notes payable. Pursuant to SFAS No. 107, "*Disclosures About Fair Value of Financial Instruments*," the Company is required to estimate the fair value of all financial instruments at the balance sheet date. The Company considers the carrying values of its financial instruments in the financial statements to approximate their fair values.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less, plus all certificates of deposit.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the related assets. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Expenditures for maintenance and repairs are charged to operations as incurred; additions, renewals and betterments are capitalized.

Long-Lived Assets

The Company accounts for its long-lived assets in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. As of September 30, 2008, the Company did not deem any of its long-term assets to be impaired.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "*Accounting for Income Taxes*." Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax benefits or

Financial Statements

consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that the asset will not be realized through future operations.

Loss Per Share

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share as not been presented since the effect of the assumed conversion of warrants to purchase common shares would have an anti-dilutive effect. The only potential common shares as of September 30, 2008 were 2,000,000 warrants and 2,260,000 options that have been excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 52,091,625 and 49,434,220 for the three months and nine-months ended September 30, 2008, respectively.

Recent Accounting Pronouncements

The Company plans to adopt in the first quarter of fiscal 2009, the Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("SFAS No. 157") for all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The adoption of SFAS No. 157 should not have a significant impact on our consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance.

In October 2008, the Financial Accounting Standards Board ("FASB") issued Financial Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on our consolidated financial statements or the fair values of our financial assets and liabilities.

In December 2008, the FASB issued Financial Staff Position ("FSP") Financial Accounting Standard No.

Financial Statements

140-4 and FASB Interpretation 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP FAS 140-4" and "FIN 46(R)-8"). The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. FSP FAS 140-4 and FIN 46(R)-8 became effective for us on December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a significant impact on our consolidated financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2008:

| | |
|--------------------------------|------------------|
| Office furniture and fixtures | \$ 6,643 |
| Computer | 12,630 |
| Equipment | 17,164 |
| Automobile | <u>3,000</u> |
| | 39,437 |
| Less: Accumulated depreciation | <u>9,096</u> |
| | <u>\$ 30,341</u> |

Depreciation expense for the three months and nine months ended September 30, 2008 amounted to \$1,946 and \$5,837, respectively.

NOTE 4 - EQUITY

Common stock

The Company is authorized to issue 100,000,000 shares with a par value of \$0.001. Each share is entitled to one vote.

During the nine-months ended September 30, 2008, the Company issued 500,000 shares to its attorney for legal services valued at \$500,000. The Company valued the shares based upon the per share price it received on its common stock offering as discussed below,

During the nine-months ended September 30, 2008, the Company issued 267,857 shares of its common stock for \$280,000 pursuant to two private offerings.

During the nine-months ended September 30, 2008, the Company issued 1,000,000 units for \$500,000. Each unit consists of one share of the Company's common stock and one warrant to purchase one share of the Company's common stock at \$0.75 per share for the period of one year.

Options

On February 22, 2008, the Company granted options to purchase 2,260,000 shares of its common stock

Financial Statements

to certain management, employees and consultants. The options expire 5 years from date of grant and are exercisable at a \$.86 per share. Of the 2,260,000 options, 2,204,000 are available for exercise as of September 30, 2008. The remaining 20,000 become vested as of December 31 2008. The options were valued at \$925,696 using the Black-Sholes Option Model based upon a market price of \$.88 per share, expected life of 5 years, risk free interest rate of 2.81% per annum and expected volatility of 48.99%. Of the \$925,696, the total amount charged to operations during the nine months ended September 30, 2008 amounted to \$917,504. The remaining \$8,192 pertains to the value assigned to the options vesting at December 31, 2008.

The following is a summary of the outstanding options:

| | <u>Number of Shares</u> | <u>Weighted average Exercise price</u> |
|----------------------------------|-----------------------------|--|
| Outstanding – December 31, 2007 | - | \$ - |
| Granted | 2,260,000 | \$ 0.86 |
| Exercised | - | - |
| Cancelled | - | - |
| Outstanding – September 30, 2008 | <u>2,260,000</u> | <u>\$ 0.86</u> |

NOTE 5 – COMMITMENTS

Management Agreements

The Company has a management agreement with the Chief Operating Officer of the Company. The management agreement is for a term of 5 years commencing August 28, 2007 in the amount of \$12,500 per month.

The Company also has a management agreement with the General Manager of the Company. The management agreement is for a term of 5 years commencing September 12, 2007 in the amount of \$15,000 per month.

Facilities Lease

The Company leases its facilities under an operating lease commencing September 1, 2007 for a period of 3 years. Current monthly rent is \$2,685 increasing to \$2,790 per month on September 1, 2009. The Company is responsible for the applicable portion of operating expenses and property taxes. Rent expense for the three months and nine months ended September 30, 2008 amounted to \$11,192 and \$32,424.

Financial Statements

Minimum future rental payments at September 30, 2008 is as follows:

| | |
|------------------------------|-------------|
| September 30, | |
| 2009 | \$ 32,325 |
| 2010 | 30,690 |
| | <hr/> |
| Total minimum lease payments | \$ 63,015 |
| | <hr/> <hr/> |

Automobile Lease

The Company leases a vehicle under a non-cancellable operating lease for a period of four years commencing September 15, 2007. The lease is paid in monthly installments of \$568.

Minimum future rental payments at September 30, 2008 is as follows:

| | |
|------------------------------|-------------|
| September 30, | |
| 2009 | \$ 6,816 |
| 2010 | 6,816 |
| 2011 | 6,816 |
| | <hr/> |
| Total minimum lease payments | \$ 20,448 |
| | <hr/> <hr/> |

NOTE 6 – CONTINGENCIES

On November 9, 2004, Power modified its licensing agreement pertaining to patented technology utilized in air and water pollution control. Under the original agreement, Power was required to pay a 6% royalty on sales generated on products developed through the technology. The terms of the modified agreement commence upon Power receiving funds from a \$10,000,000 offering or upon election of Power. This offering has since lapsed and is no longer available.

The modified terms of the license include Power paying the Licensor \$100,000 as an advance royalty and to continue paying him advance royalties of \$15,000 per month, as long as the Licensor provides services to Power in respect to Power's products and technologies. In addition, Power will grant the Licensor an option to purchase up to 100,000 shares of common stock at \$.25 per share for a period of 5 years and to make payments of \$5,000 per month to the spouse of the Licensor commencing on first day of the month following his death. Under the modified terms of the license agreement, the royalty is reduced to 3%. The royalty obligation is satisfied once the Licensor received a total of \$5,000,000.

As of September 30, 2008, no royalties have accrued and Power has yet to elect to modify the original terms of the license agreement. Further, a dispute exists between the Licensor and the Company over the Licensor's assertion that the license is invalid. The dispute is ongoing.

Financial Statements

NOTE 7 – SUBSEQUENT EVENTS

On October 22, 2008 the Company entered into a contract with New Media Advisors to conduct an Investor Relations Program in Europe for a period of 30 days at a cost of \$25,000.

On October 28, 2008, the Board of Directors granted 2,260,000 stock options to certain members of management, employees, and consultants at an exercise price of \$0.30 per share for a period of five years.