TIREX CORP
Form 10QSB/A
May 16, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A
(Amendment No. 1)

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number 33-17598-NY

THE TIREX CORPORATION
(Exact Name of Small Business Issuer as Specified in Its Charter)

| | |
|---|---|
| Delaware | 22-2824362 |
| (State or other jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

3828 St. Patrick, Montreal, Quebec, Canada, H4E 1A4
(Address of Principal executive offices)

(514) 933-2518
(Issuer's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding for each of the issuer's classes of common equity, as of May 10, 2002: 216,808,072 shares

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

The Tirex Corporation
(A Development Stage Company)

TABLE OF CONTENTS





The financial statements are unaudited. However, pursuant to SEC requirements, the consolidated financial statements have been reviewed by the Company's independent auditor. Readers are cautioned that a review engagement does not constitute an audit. Management of registrant believes that all necessary adjustments, including normal recurring adjustments, have been reflected to present fairly the financial position of registrant at March 31, 2002 and the results of its operations and changes in its cash position for the three and nine month periods ended March 31, 2002 and 2001 and for the period from inception of operations (March 26, 1993).

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2002

| | (Unaudited) March 31, 2002 | (Audited) June 30, 2001 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ -1,343 | $ 1,356 |
| Accounts receivable | 1,623 | -- |
| Notes receivable | 17,093 | 13,342 |
| Sales taxes receivable | -- | 47,350 |
| Inventory | 72,313 | 75,959 |
| Research and Experimental Development tax credits receivable | 170,445 | 361,029 |
| Prepaid expenses and deposits | 72,712 | 126,639 |
| | 332,844 | 625,675 |
| Property and equipment, at cost, net of accumulated depreciation of $239,393 | 2,095,657 | 2,136,956 |
| Other assets | | |
| Investment, at cost | 89,500 | -- |
| Prepaid expenses and deposits | 209,000 | 309,614 |
| | 298,500 | 309,614 |
| | $ 2,727,001 | $ 3,072,245 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilties | $ 1,254,273 | $ 1,259,446 |
| Current portion of long-term debt | 22,447 | 381,111 |
| | 1,276,720 | 1,640,557 |

| | | |
|---|---|---|
| Other liabilities | | |
| Long-term deposits and notes | 217,500 | 217,500 |
| Government loans (net of current) | 169,791 | 80,500 |
| Capital lease obligations (net of current) | 26,960 | 26,960 |
| Convertible notes | 750,000 | 750,000 |
| Convertible note | 185,556 | 185,556 |
| Loans from related parties | 1,257,535 | 1,204,663 |
| | 2,607,342 | 2,465,179 |
| | 3,884,062 | 4,105,736 |
| Stockholders' Equity (Deficit) | | |
| Common stock, $.001 par value, authorized 250,000,000 shares, issued and outstanding 197,363,834 shares (June 30, 2001 - 176,366,408 shares) | 197,364 | 176,366 |
| Additional paid-in capital | 23,709,525 | 22,592,701 |
| Deficit accumulated during the development stage | (24,904,900) | (23,622,329) |
| Unrealized gain (loss) on foreign exchange | (159,049) | (180,229) |
| | (1,157,061) | (1,033,491) |
| | $ 2,727,001 | $ 3,072,245 |

2

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

| | Three months ended March 31 | | Nine month March |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Revenues | $ -- | $ -- | $ 1,424 |
| Cost of Sales | -- | -- | 854 |
| Gross profit | -- | -- | 570 |
| Operations | | | |
| General and administrative | 198,665 | 745,338 | 797,219 |
| Depreciation and amortization | 13,627 | 68,071 | 41,299 |
| Research and development | 120,791 | 359,282 | 362,805 |

| | | | |
|---|---|---|---|
| Total Expense | 333,083 | 1,172,691 | 1,201,323 |
| Loss before other expenses (income) | (333,083) | (1,172,691) | (1,200,753) |
| Other expenses (income) | | | |
| Interest expense | 25,401 | 21,623 | 79,680 |
| Interest income | -- | -- | -- |
| Income from stock options | -- | -- | -- |
| Loss on disposal of equipment | -- | -- | -- |
| | 25,401 | 21,623 | 79,680 |
| Net loss | (358,484) | (1,194,314) | (1,280,433) |
| Other comprehensive loss | | | |
| Loss (gain) on foreign exchange | 175 | (67,773) | 2,139 |
| Net loss and comprehensive loss | $ (358,659) | $ (1,126,541) | $ (1,282,572) |
| Basic and Diluted net loss and comprehensive loss per common share | $(0.00) | $(0.01) | $(0.01) |
| Weighted average shares of common stock outstanding | 192,114,478 | 163,831,175 | 192,114,478 |

3

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

| | Three months ended March 31 | | Nine M |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Cash flows from operating activities: | | | |
| Net loss | $ (358,659) | $ (1,126,541) | $ (1,282,57 |

| | | | |
|---|---|---|---|
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 13,627 | 68,071 | 41,29 |
| (Gain) loss on disposal and abandonment of assets | -- | -- | - |
| Stock issued in exchange for interest | -- | -- | - |
| Stock issued in exchange for services and expenses | -- | 444,235 | 367,27 |
| Stock options issued in exchange for services | -- | -- | - |
| Unrealized (loss) gain on foreign exchange | 1,953 | (49,213) | 21,18 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Account receivable | 2 | -- | (1,62 |
| Inventory | 64 | 5,175 | 3,64 |
| Sales tax receivable | -- | 4,455 | 47,35 |
| Research and experimental development tax credits receivable | (27,447) | 239,674 | 190,58 |
| Other assets | 24,365 | (166,597) | 154,54 |
| (Decrease) increase in : | | | |
| Accounts payables and accrued liabilities | 100,788 | (199,253) | 7,20 |
| Accrued salaries | -- | -- | (12,37 |
| Due to stockholders | -- | -- | - |
| Net cash used in operating activities | (245,307) | (779,994) | (463,49 |
| Cash flow from investing activities: | | | |
| Decrease (Increase) in notes receivable | 15 | (5,144) | (3,75 |
| Reduction in notes receivable | -- | -- | - |
| Investment | -- | -- | (89,50 |
| Equipment | -- | -- | - |
| Equipment assembly costs | -- | -- | - |
| Organization cost | -- | -- | - |
| Reduction in security deposit | -- | -- | - |
| Net cash used in investing activities | 15 | (5,144) | (93,25 |
| Cash flow from financing activities: | | | |
| Loans from related parties | 231,163 | (198,343) | 210,99 |
| Deferred financing costs | 12,303 | 52,975 | 66,23 |
| Proceeds from deposits | -- | -- | - |
| Payments on notes payable | -- | -- | - |
| Proceeds from convertible notes | -- | -- | - |
| Proceeds from notes payable | -- | -- | - |
| Payments on lease obligations | -- | (3,583) | - |
| Proceeds from issuance of convertible subordinated debentures | -- | 935,556 | - |
| Proceeds from loan payable | -- | -- | - |
| Payments on loan payable | -- | -- | (292,29 |
| Proceeds from issuance of stock options | -- | -- | - |
| Proceeds from grants | -- | -- | 569,11 |
| Proceeds from issuance of common stock | -- | -- | - |
| Proceeds from additional paid-in capital | -- | -- | - |
| Net cash provided by financing activities | 243,466 | 786,605 | 554,04 |

| | | | |
|---|---|---|---|
| Net (decrease) increase in cash and cash equivalents | (1,826) | 1,467 | (2,69 |
| Cash and cash equivalents - beginning of period | 483 | 11,455 | 1,35 |
| Cash and cash equivalents - end of period | $ (1,343) | $ 12,922 | $ (1,34 |

4

Supplemental Disclosure of Non-Cash Activities:
During the nine month period ended March 31, 2002 and the year ended June 30, 2001, the Company recorded an increase in common stock and in additional paid-in capital of $231,001 and $1,559,101, respectively, which was in recognition of the payment of debt. During the nine month period ended March 31, 2002 and the year ended June 30, 2001, stock was issued in exchange for services performed and expenses in the amount of $367,273 and $872,215, respectively. During the year ended June 30, 2001, stock options were issued in exchange for services totalling $512,377. No stock options were issued for services performed and expenses during the nine month period ended March 31, 2002.

Convertible debentures were exchanged into common stock totaling $20,000 during the year ended June 30, 2001. Accrued interest of $4,200 was also converted into common stock during the year ended June 30, 2001. For the nine month period ended March 31, 2002, there were no convertible debentures or accrued interest converted into common stock.

Supplemental Disclosure of Cash Flow Information:

| | | | | |
|---|---|---|---|---|
| Interest paid | $ 7,191 | $ 10,347 | $ 40,504 | $ 48,987 |
| Income taxes paid | $ -- | $ -- | $ -- | $ -- |

5

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

Note 1 SUMMARY OF ACCOUNTING POLICIES

CHANGE OF NAME
On July 11, 1997, the Company changed its name from Tirex America, Inc. to The Tirex Corporation.

NATURE OF BUSINESS
The Tirex Corporation and Subsidiaries (the "Company") was incorporated under the laws of the State of Delaware on August 19, 1987. The Company was originally organized to provide comprehensive health care services, but due to its inability to raise sufficient capital, was unable to implement its business plan. The Company became inactive in November 1990.

REORGANIZATION

On March 26, 1993, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Louis V. Muro, currently an officer and a director of the Company, and former Officers and Directors of the Company (collectively the "Seller"), for the purchase of certain technology owned and developed by the Seller (the "Technology") to be used to design, develop and construct a prototype machine and thereafter a production quality machine for the cryogenic disintegration of used tires. The Technology was developed by the Seller prior to their affiliation or association with the Company.

DEVELOPMENTAL STAGE
At March 31, 2002, the Company is still in the development stage. The operations consist mainly of raising capital, obtaining financing, developing equipment, obtaining customers and supplies, installing and testing equipment and administrative activities.

BASIS OF CONSOLIDATION
The consolidated financial statements include the consolidated accounts of The Tirex Corporation, Tirex Canada R&D Inc., The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. Tirex Canada R&D Inc. is held 51% by certain shareholders of the Company. The shares owned by the certain shareholders are held in escrow by the Company's attorney and are restricted from transfer thereby allowing for a full consolidation of this Company. The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. are 100% held by the Company. All subsidiary companies except Tirex Canada R&D Inc. are dormant. All inter-company transactions and accounts have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS
For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less, were deemed to be cash equivalents.

INVENTORY
The Company values inventory, which consists of finished goods and equipment held for resale, at the lower of cost (first-in, first-out method) or market.



PROPERTY AND EQUIPMENT
Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five years.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are reflected in earnings.

INVESTMENT
An investment made by the Company, in which the Company owns less than a 20% interest, is stated at cost value. The cost value approximates the fair market value of the investment.

ESTIMATES
Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD NO. 123

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. SFAS 123 encourages, but does not require, companies to record stock-based compensation and other costs paid by the issuance of stock at fair value. The Company has chosen to account for stock-based compensation, stock issued for non-employee services and stock issued to obtain assets or in exchange for liabilities using the fair value method prescribed in SFAS 123. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD NO. 128

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, Earnings per Share. SFAS 128 replaces the presentation of Primary EPS with a presentation of Basic EPS and replaces the presentation of Fully Diluted EPS with a presentation of Diluted EPS. It also requires dual presentation of Basic and Diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. SFAS 128 also requires restatement of all prior-period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the determination of Diluted Earnings Per Share.



A Basic Earnings per Share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted Earnings per Share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended June 30, 1997. For the years ended June 30, 2001 and 2000, Primary Loss per Share was the same as Basic Loss per Share and Fully Diluted Loss per Share was the same as Diluted Loss per Share. A net loss was reported in 2001 and 2000, and accordingly, in those years, the denominator for the Basic EPS calculation was equal to the weighted average of outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock because to do so would have been anti-dilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At March 31, 2002 and June 30, 2001, respectively, the carrying value of all financial instruments was not materially different from fair value.

INCOME TAXES

The Company has net operating loss carryovers of approximately $24.9 million as of March 31, 2002, expiring in the years 2004 through 2017. However, based upon present Internal Revenue Service regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock and there has been a change in control as defined by the Internal Revenue Service regulations, a substantial portion of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, effective July 1993. SFAS No. 109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

The Company has research and experimental development tax credits receivable from the Canadian Federal government and the Quebec Provincial government amounting to $170,445 at March 31, 2002 compared to $361,029 as of June 30, 2001. These are the result of tax credits for research and experimental development expenditures made by the Company which are not contingent upon any offset against any income taxes otherwise payable.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date for monetary items and historical rates of exchange for non-monetary items with the resulting translation adjustment recorded directly to a separate component of shareholders' equity. Income and expense accounts are translated at average exchange rates during the year. Currency transaction gains or losses are recognized in current operations.



REVENUE RECOGNITION

Revenue from the sale of TCS Systems will be recognized when the installed product is accepted by the customer. All other revenue from other products will be recognized when shipped to the customer.

Note 2   GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of $3,112,138 during the year ended June 30, 2001 and an additional net loss for the nine month period ended March 31, 2002 in the amount of $1,282,572.

In March 1993, the Company had begun its developmental stage with a new business plan. As of March 2000, the Company had developed a production quality prototype of its patented system for the disintegration of scrap tires, but nonetheless continued its research and development efforts to improve the machine's performance and to permit greater flexibility in design for specific customer applications. Due to the Company's lack of working capital during the three month period ended March 31, 2002 all rubber crumb production has ceased and research and development efforts have been hampered. Pending receipt of funding from operations, government assistance, loans or equity financing, crumb rubber production and previous research and development efforts will not be resumed. While the Company has engaged the process of marketing the TCS System to numerous potential clients since the beginning of the fiscal year commencing July 1, 2000, as of March 31, 2002, the Company had not yet consummated an unconditional purchase order for a TCS System.

The Company is dependent on the success of its marketing of its TCS Plants, and/or raising funds through equity sales, bank or investor loans, governmental grants or a combination of these, to continue as a going concern. The Company's uncertainty as to its ability to generate revenue and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 FINANCING COST

During the year ended June 30, 1999, the Company incurred costs of $158,255 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the year ended June 30, 2000 was $125,291, reducing this account balance to zero. During the year ended June 30, 2001, the Company incurred costs of $180,557 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the year ended June 30, 2001 was $79,943. Amortization of financing costs for the nine month period ended March 31, 2002 was $66,239.

Note 4 PROPERTY AND EQUIPMENT

As of March 31, 2002, plant and equipment consisted of the following:

| | |
|---|---|
| Furniture, fixtures and equipment | $ 159,889 |
| Leasehold improvements | $ 175,161 |
| Construction in progress-equipment | $ 2,000,000 |
| Subtotal | $ 2,335,050 |
| Less: Accumulated depreciation and amortization | $ 239,393 |
| Total | $ 2,095,657 |

Depreciation and amortization expense charged to operations for the year ended June 30, 2001 was $147,611. Depreciation and amortization expense charged to operations for the nine month period ended March 31, 2002 was $41,299.



Note 5 GOVERNMENT LOANS

Canada Economic Development

Loan payable under the Industrial Recovery Program for Southwest Montreal amounting to 20% of certain eligible costs incurred (maximum loan $333,300) repayable over four years commencing March 31, 1999 and ending March 31, 2002, unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing).

Loans payable under the Program for the Development of Quebec SMEs based on 50% of approved eligible costs for the preparation of market development studies in certain regions. Loans are unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing).

| | |
|---|---|
| Loan repayable over five years commencing June 30, 2000 and ending June 30, 2004 | $ 51,811 |
| Loan repayable over five years commencing June 30, 2001 and ending June 30, 2005 | 56,775 |
| Loan repayable in amounts equal to 1% of annual sales in Spain and / or Portugal throughout June 30, 2007, to a maximum of | |

| | |
|---|---|
| the balance of the loan outstanding. If no sales occur on or before this date in Spain and Portugal, the loan will become non-repayable. | 14,000 |
| Loan repayable in amounts equal to 11/2% of annual sales in Spain and / or Portugal through June 30, 2004 to a maximum of the balance of the loan outstanding. If no sales occur before this date in Spain and Portugal, the loan will become non-repayable. | 66,5000 |
| | 189,086 |
| Less: Current portion | 19,295 |
| Long-term portion | $ 169,791 |

Principal repayments are as follows:

| June 30 | Amount |
|---|---|
| 2002 | $ 19,295 |
| 2003 | 30,082 |
| 2004 | 105,129 |
| 2005 | 20,580 |
| 2006 | -- |
| 2007 | 14,000 |
| | 189,086 |

During the nine month period ended March 31, 2002, the Company was declared in default, with respect to the loan under the Industrial Recovery Program for Southwest Montreal, as a result of a late installment repayment and as such was obligated to repay the entire remaining balance due on the loan.

10

Note 6 CAPITAL LEASE OBLIGATIONS

The Company leases certain manufacturing equipment under agreements classified as capital leases. The cost and the accumulated amortization for such equipment as of June 30, 2001 was $62,400 and $24,960, respectively. The cost and accumulated amortization for such equipment as of March 31, 2002 was $62,400 and $34,320, respectively. The equipment under capital leases has been included in property and equipment on the balance sheet. The Company is in arrears on payment of these leases but default has not been declared. The leased equipment is not part of the Company's TCS System prototype.

The following is a schedule by years of future minimum lease payments under capital leases of equipment together with the obligations under capital leases (present value of future minimum rentals) as at March 31, 2002:

| Years ended June 30 | Amount |
|---|---|
| 2002 | 3,879 |
| 2003 | 15,513 |
| 2004 | 15,513 |
| Total minimum lease payments | 34,905 |
| Less: Amount representing interest | 4,793 |
| Total obligations under capital lease | 30,112 |
| Less: Current portion of obligations under capital leases | 3,152 |

| | |
|---|---|
| | -------- |
| Long-term obligation portion of under capital leases, with interest rate of 10% | 26,960 |
| | ======== |

Note 7 CONVERTIBLE SUBORDINATED DEBENTURES
The Company issued Type B Convertible Subordinated Debentures between December 1997 and February 1998. These debentures bore interest at 10% and were convertible into common shares of the Company at $0.20 per share. The conversion privilege on the remaining $55,000 of these debentures expired and the amount is now included on the Balance Sheet in Long term deposits and notes.

Note 8 CONVERTIBLE NOTES
The Convertible Notes appearing on the balance sheet as of March 31, 2002 consisted of an investment arrangement with a group of institutional investors involving a multi-stage financing under which the Company had access to, at its option, up to $5,000,000. A first tranche of $750,000 was completed but no further draw downs were made. The terms of the convertible note were:

| | |
|---|---|
| Balance at March 31, 2002 and June 30, 2001 | $ 750,000 |
| Interest rate | 8%, payable quarterly, commencing June 30, 2001 |
| Issue date | February 26, 2001 |
| Maturity date | February 26, 2003 |
| Redemption rights | If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount pus interest. |
| Conversion ratio | Lower of (i) - 80% of the average of the three lowest closing bid prices for the thirty trading days prior to the issue date, which equals $.073, or (ii) - 80% of the average of the three lowest closing bid prices for the sixty trading days prior to the conversion date. |

11

| | |
|---|---|
| Common stock warrants | The Convertible Notes carried an option to purchase Common stock warrants at the rate of one Warrant for each $1.25 of purchase price. The exercise price on the first tranche of $ 750,000 is $ .077 per share. |

Certain Directors and Officers of the Company pledged approximately 12,000,000 of their personal shares of Common Stock of the Company as security for the Convertible Notes until such time as the Company files with the Securities and Exchange Commission a Registration Statement on Form SB-2, to register common stock and warrants issuable upon the conversion of the notes, no later than 150 days after the issue date of the Convertible Notes. This deadline was not met and, as such, the investors served a notice of default to the Company on July

19, 2001. The Registration Statement has still not been declared effective by the Securities and Exchange Commission as of this date, and until such occurs, the Convertible Notes cannot be converted to Common Stock nor may the Common Stock warrants be exercised.

On April 24, 2002 the Company entered into a Settlement Agreement with the Note holders, the terms of which are described in Note 19 Subsequent Event. In the event of a default under the Settlement Agreement, the term of the Convertible Notes would become effective once again. The conclusion of the Settlement Agreement has negated the default.

During the nine month period ended March 31, 2002, the Company authorized the investors to sell 1,800,000 of the shares held as security.

Note 9 CONVERTIBLE NOTE

A convertible note, under a private arrangement, consists of the following:

| | |
|---|---|
| Balance at March 31, 2002 and June 30, 2001 | $ 185,556 |
| Interest rate | 8% |
| Issue date | July 19th, 2000 |
| Maturity date | January 19th, 2002 |
| Redemption rights | If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest. |
| Conversion ratio | Not convertible prior to July 19th, 2001, at 20% discount to market between July 19th, 2001 and January 19th, 2002 or at 25% to market if held to maturity, to a maximum of not more than 2,500,000 shares. |

Note 10 RELATED PARTY TRANSACTIONS

Convertible loans include amounts primarily due to Directors, Officers and employees. Historically, such amounts due have been repaid through the issuance of stock. At March 31, 2002 and June 30, 2001, the balances owing to Directors and Officers was $1,121,432 and $1,120,828, respectively. These amounts are without interest or terms of repayment.

12

Various Notes Receivable from Officers, separately reported on the audited Balance Sheet of June 30, 2000, plus accrued interest thereon, were offset against amounts due to these Officers as of June 30, 2001.

Long-term deposits and notes included an amount of $118,500 at March 31, 2002, which is payable to Ocean Tire Recycling & Processing Co., Inc., a company owned by a Director of the Company.

Subsequent to June 30, 2000, the Company modified an agreement with Ocean Tire Recycling & Processing Co., Inc. to clarify various terms of the parties' prior agreements and to obtain a commitment by Ocean Tire Recycling & Processing Co., Inc. to pay, when necessary, lease payments on the prototype TCS System. As part of the agreement, the Company will repay Ocean Tire Recycling & Processing Co., Inc. in cash or through the issuance of stock. The lease payments, under the accounting provisions for an operating lease, have been recorded as a Research and Development expense and the debt obligation included in loans from related parties. During the year ended June 30, 2001, 6,500,000 common shares were issued under the agreement as a partial Settlement. During the nine month period ended March 31, 2002, an additional 4,553,102 common shares were issued under the agreement to a designated person assigned by Ocean Tire Recycling & Processing Co., Inc.

Note 11 EXCHANGE OF DEBT FOR COMMON STOCK
During the fiscal year ended June 30, 2001, the Company recorded an increase in common stock and additional paid-in capital of $1,905,838 representing issuances of stock in lieu of cash payments for debts owed. During the nine month period ended March 31, 2002, the Company recorded increases in common stock and paid-in capital of $772,596, reflecting the exchange of common stock for debts owed.

Note 12 COMMON STOCK
During the nine month period ended March 31, 2002 and the year ended June 30, 2001, the Company issued common stock in exchange for services performed totaling $367,273 and $1,388,792, respectively. Included in these amount are payments to Officers of the Company in exchange for salary and expenses in the amount of $56,337 and $1,115,784, respectively. The dollar amounts assigned to such transactions have been recorded at the fair value of the services received.

On January 31, 2001, the Company's stockholders approved an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock, par value $0.001, from 165,000,000 shares to 250,000,000 shares.

As at March 31, 2002, the Company had 197,363,834 Common shares issued and outstanding.

Note 13 STOCK PLAN
The Company established a Stock Plan in June of 2000 whereby key personnel of the Company, consultants and other persons who have made substantial contributions to the Company may be issued shares as compensation and incentives through Awards, Options or Grants under the terms set forth in the Stock Plan. The Stock Plan originally called for the issuance of a maximum of 7,000,000 shares of stock as Awards, the issuance of a maximum of 7,000,000 shares of stock to underlie Options and the issuance of a maximum of 7,000,000 shares of stock that may be issued as Grants. Awards and Options can only be given to individuals who have been either in the employ of the Company, an Officer, Director or consultant for the preceding six months Awards are not fully vested until the end of three years with one-twelfth of the aggregate award vesting at the end of each quarter. If the Awardee is terminated for cause or resigns, the unvested portion of the award is forfeited. Options can be exercised at any time and upon exercise, the underlying stock is fully vested with the purchaser. The Options are not transferable and are exercisable for two years after which time they expire. If the Optionee is terminated for cause or resigns, all unexercised options are forfeited. A Grant can only be given to persons who have made a



substantial contribution to the Company and the shares are not forfeitable. On January 31, 2001, the Company amended the Stock Plan providing for an additional 3,000,000 shares being allocated as Grants and an additional 2,000,000 shares allocated to be given as Options. On May 30, 2001, the Stock Plan was further amended reallocating the 7,000,000 shares to be given as Awards to allow 5,000,000 of the shares to be used for Options and 2,000,000 of the shares to be used as Grants. There were no stock issuances under the Stock Plan for the year ended June 30, 2000.

During the year ended June 30, 2001, the Company issued 9,300,000 shares as Grants under the Stock Plan at an average stock price of $.093 for an aggregate consideration of $867,374. During the six month period ended December 31, 2001, the Company issued 750,000 shares as Grants under the Stock Plan at an average stock price of $.016 for an aggregate consideration of $12,031. There were no stock issuances under the Stock Plan for the three months ended March 31, 2002.

During the year ended June 30, 2001, the Company had the following transactions as Options under the Stock Plan:

| | Number of shares | Avg. exercise price | Aggregate consideration |
|---|---|---|---|
| Granted and unexercised at beginning of year | Nil | -- | -- |
| Granted and exercised during the year | 9,698,228 | $ 0.131 | $ 1,273,334 |
| Granted and unexercised at end of year | Nil | -- | -- |

The exercise price at the time the Options were granted and exercised was approximately equal to the market price at that time.

There were no Options granted or exercised during the nine month period ended March 31, 2002.

Note 14 ACQUISITION BY MERGER OF RPM INCORPORATED

During November 1997, the Company entered into a merger agreement with RPM Incorporated ("RPM"). The Company acquired all of the assets and liabilities of RPM by acquiring all of the outstanding common stock of RPM in exchange for common stock in the Company on a unit for unit basis. RPM ceased to exist following the exchange.

The assets and liabilities acquired by the Company from RPM consisted of the proceeds from the sale of debentures of $535,000. The financing fees on the issuance of the debentures, totaling $61,755, were included as an expense in the statement of operations for the year ended June 30, 1998. A total of 535,000 shares were issued as a result of the merger valued at $16,050. A total of $16,050 was received for this stock.

The Company entered into an additional agreement with the former shareholders of RPM for consulting services for a period of 5 years expiring in June 2002. Pursuant to this consulting agreement, 3,000,000 shares of common stock were issued valued at $240,000. Other than the consulting agreement and the issuance of the debentures, RPM was inactive.

For accounting purposes, the Company recorded the merger as a purchase and not as a pooling of interests.

Note 15 GOVERNMENT ASSISTANCE

The Company is eligible for and has made claims for tax credits related to scientific research and experimental development expenditures made in Canada. These amounts, under Canadian Federal and Provincial tax law in conjunction with its annual tax return filings, need not be offset against taxes otherwise payable to become refundable to the Company at the end of its fiscal year. As such, during the year ended June 30, 2001, the Company received approximately

$353,725 which has been recorded as an increase in stockholders' equity paid-in capital. Also, during the nine month period ended March 31, 2002, the Company received approximately $569,111 which has also been recorded as an increase in stockholders' equity paid-in capital. During the nine month period ended March 31, 2002, the Company recorded additional tax credits in the amount of $170,445, bringing the reported receivable balance from these governments from $361,029 as of June 30, 2001 to $170,445 as of March 31, 2002.

Note 16 COMMITMENTS

The Company leases office and warehouse space at an annual minimum rent of $80,000 for the first year, $160,000 for the second year and $200,000 per year for the third through the fifth years. The lease expires in 2003. The Company is responsible for its proportionate share of any increase in real estate taxes and utilities. Also under the terms of the lease, the Company is required to obtain adequate public liability and property damage insurance. The minimum future rental payments under this lease are as follows:

| June 30, | Amount |
|---|---|
| 2002 | $ 47,087 |
| 2003 | 141,261 |
| | $188,348 |

Rental expense for the year ended June 30, 2001 amounted to $215,237. Rental expense for the nine month period ended March 31, 2002 amounted to $148,879.

The lease contains a second ranking moveable hypothec in the amount of $300,000 on the universality of the Company's moveable property.

At March 31, 2002, the Company was in arrears of rent, including interest and related charges, in the amount of $323,019.

Note 17 LITIGATION

An action was instituted by Plaintiffs, a Canadian resident and a Canadian corporation, in a Canadian court alleging a breach of contract and claims damages of approximately $508,600 representing expenses and an additional approximate amount of $1,874,000 in loss of profits. The current action follows two similar actions taken in United States courts, the first of which was withdrawn and the second of which was dismissed based on forum non convenience and other considerations. A detailed answer has been filed by the Company denying all liability, stating further that Plaintiffs failed to comply with their obligations. Counsel for the Company believes that the Company has meritorious defenses to all of the Plaintiff's claims. The action is still pending.

An action was brought by a Plaintiff against the Company, alleging that the Company had agreed to issue 1,000,000 shares of its Common stock to the Plaintiff in consideration for expenses allegedly paid by the Plaintiff in the amount of approximately $150,000. These expenses allegedly were incurred in relation to the rental of certain office space and performance of administrative services. The Plaintiff's complaint seeks to impose an equitable trust or lien on 1,000,000 of unissued shares of the Company, demands the issuance of 1,000,000 shares to the Plaintiff and seeks for breach of contract, monetary damages of $1,400,000. Counsel for the Company believes that the Company has valid defenses to all of the Plaintiff's claims and has denied all of the Plaintiff's allegations. The case is in the pretrial discovery stage.

An action was instituted by a Plaintiff, a Canadian corporation, in August 2001 in a Canadian court claiming approximately $63,000 is due and owing for the manufacture and delivery of tire disintegrators. The Company is preparing its defense and a cross claim against the Plaintiff as the product delivered was defective and the Company believes it is entitled to a reimbursement of sums paid. The action is still pending.

15

Note 18 ACCUMULATED OTHER COMPREHENSIVE INCOME
The deficit accumulated during the development stage included accumulated comprehensive other income totaling $103,396.

Note 19 SUBSEQUENT EVENTS
On April 24th, 2002, the Company entered into a Settlement Agreement with an Investor Group with respect to Convertible Notes for which a default had been declared. (See Note 8: Convertible Notes). The main terms of the Settlement Agreement are as follows:

| | |
|---|---|
| Amount due including interest calculated to June 30, 2002 and penalties to date, and deducting proceeds from the sale of collateral shares in the amount of $16,260 | $ 932,240 |
| Interest rate on the debt | 8% |
| Repayment terms | $1,000 on May 15, 2002<br>$1,000 on June 15, 2002<br>$38,843.33 each month for up to twenty-four months starting August 1, 2002 |
| Warrants for purchase of common shares | 500,000 three-year warrants exerciseable immediately at a price of $0.01 per share.<br><br>500,000 two-year warrants exerciseable one year from the date of the Settlement Agreement at a price of $0.05 per share.<br><br>500,000 one-year warrants exerciseable two years from the date of the Settlement Agreement at a price of $0.10 per share. |
| Right to sell collateral shares and Rule 144 shares | The Investors have the right to sell up to 600,000 collateral shares and / or Rule 144 shares per month, with proceeds to be first applied against interest and fees and thereafter against principal. |
| Right of prepayment | The Company has the right to pay amounts in excess of the prescribed monthly amount, without penalty. |

| | |
|---|---|
| Collateral shares | As of the date of signing of the Settlement Agreement, the Investors had 10,790,885 Collateral Shares in their possession. |

16

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant factors, which have affected the Company's financial position and operations during the nine-month period ended March 31, 2002. This discussion also includes events which occurred subsequent to the end of the last quarter and contains both historical and forward-looking statements. When used in this discussion, the words "expect(s)", "feel(s)","believe(s)", "will", "may", "anticipate(s)" "intend(s)" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected.

Results of Operations

We have deferred the re-starting of rubber crumb production operations at our Montreal facility following the Christmas 2001 period shutdown due to the lack of working capital. In addition research and development efforts have been hampered. The Company's financial instability, low share price and general nervousness in the stock market with respect to technology stocks has made the securing of the required capital a very difficult task.

With a view to minimizing the dilutive effect of securing the necessary working capital through issuances of capital stock, we attempted to secure the necessary funds from public and private sources in the form of loans, such as a bank credit line secured by a government-backed loan guarantee and supported operations by estimated research and development tax credits for our current fiscal year actually in progress. We have had several meetings with a major Canadian bank and have secured a commitment to establish a line of credit conditional upon our being able to obtain government-backed loan guarantees. Consultants engaged by us initiated contact with the appropriate Quebec Government agency and the first face-to-face meeting involving Management took place on April 9, 2002. While we have a good track record with this Quebec Government agency with respect to the two previous occasions when we availed ourselves to their Loan Guarantee Program, this by itself does not provide any assurance that the Loan Guarantee will be available this time and that the bank line of credit will be activated.

Customer concerns with respect to the effectiveness of our TCS Technology and its long-term performance, combined with the capital cost of buying such a system, has resulted in a lack of Purchase and Sales Agreements. In the absence of contractual performance guarantees or bonds, which we have heretofore been unable to supply, customers have consistently deferred the conclusion of Purchase and Sales Agreements. With our deteriorating liquidity position in the second and third quarters of fiscal 2002, our ability to deliver TCS Systems has been questioned.

17

To alleviate these market impediments, in collaboration with a major international insurance brokerage and risk management company, we are currently seeking the assistance of certain corporations owned by the Government of Canada whose mandates focus on the development of export markets. These corporations can provide performance guarantees, which we believe could be satisfactory to our customers and thus establish the conditions necessary for us to conclude our first sale. We have been notified that one of these federal government corporations would be willing to participate in a performance guarantee provided that another guarantor would also commit for a like amount. Management and our consultants are currently attempting to find such other guarantor. Once we have concluded our first Purchase and Sales Agreement backed by a performance guarantee, we believe that this approach could result in additional Purchase and Sales Agreements with other customers. However, there can be no assurance that we will be successful in obtaining a performance guarantee or that it will ever be made available to our potential customers. Furthermore, although we believe that the performance guarantee being sought will allay customer concerns, there can be no assurance that the strength of the guarantee will, in fact, be adequate for this end.

As a further measure to allay customer concerns and to provide additional incentive to those Government of Canada corporations to provide the requisite loan guarantees, we initiated discussions with a large, Canadian-based, international engineering construction company with a view to establishing a working relationship similar to the one we have already established with Simpro for the European market. Based on a first possible installation for Puerto Rico, we received a letter from this engineering construction company offering their services to set up a turnkey facility for our potential Puerto Rican customer. We believe that their offer of service is reasonable and can provide the basis for a longer-term relationship between our companies. This engineering construction company is a multi-disciplined firm, which has been in existence for over thirty years, has undertaken over 3000 projects in approximately forty countries and currently has operating centers in five countries above and beyond their Quebec-based headquarters.

In the event that we secure satisfactory performance guarantees and conclude a Purchase and Sales Agreement with the Puerto Rican interests referred to earlier, then following the commissioning of the System in Puerto Rico, we intend to proceed to implement a joint venture arrangement with respect to the production and marketing of products incorporating recycled rubber crumb, in accordance with the Memorandum of Understanding signed in the spring of 2001. We estimate the timing of such implementation at approximately one year from the date the signing of the Purchase and Sales Agreement. We cannot, however, provide any assurance that the implementation of a joint venture manufacturing operation with these Puerto Rican interests will, in fact, ever be realized.



Management and its consultants and market development partners have identified numerous potential customers with whom there is a potential to sign Purchase and Sales Agreements if a performance guarantee was in place. These include several opportunities in Central and South America as well as in the Caribbean and in Europe. We are of the opinion, however, that most, if not all of these opportunities depend on the performance guarantee. Furthermore, some of these possible customers may not have the required human and financial resources nor experience in the recycling industry to be able to effectively put together a development project involving the TCS technology. Thus, these additional possible sales should be viewed as speculative, and we cannot provide any guarantees that any of the prospective customers which whom we have had discussions or negotiations will actually conclude an unconditional Purchase and Sales Agreement with us.

As reported in our previous quarterly report, in an effort to generate cash flow and to demonstrate the viability of the TCS system and markets for rubber crumb, we converted our prototype TCS-1, located in Montreal, into a commercial recycling operation in the first half of Fiscal 2002. Concurrent with the conversion, we negotiated supply contracts to take the output of the converted prototype TCS-1. While the quality of the rubber crumb produced by the TCS prototype met the expectations of our customers, the system configuration did not permit the production of such quantities of the finer mesh sizes demanded by these customers. Additional finishing equipment to obtain large quantities of finer mesh rubber crumb was required. Much of this was also installed prior to the end of December but two additional pieces of equipment remained to be acquired and installed before the system configuration would fully respond to market demands. Our inability so far to secure the necessary working capital to acquire this equipment, has meant that we have been unable to complete the final equipment installations and to re-engage rubber crumb production operations. As a result, we have been unable to deliver the quantities of rubber crumb requested by our customers. In the event that a sufficiently large bank Line of Credit supported by a Loan Guarantee can be established, as referred to above, we intend to use part of the available funds to complete modifications to the TCS-1 and re-engage rubber crumb manufacturing operations.

During the second and third quarters of Fiscal 2002, our continuing weak financial position further eroded our ability to meet our financial obligations toward management and consultants. Historically, in such circumstances, we have issued stock to such persons in lieu of cash compensation. However, due to the low current market price of our common stock, such issuances in lieu of cash compensation would have required the issuance of very large numbers of shares.



In an effort to conserve the number of shares available for issuance vis-a-vis our total share authorization of 250 million, and as a measure to protect the interests of our shareholders, we deferred throughout both quarters the issuance of shares to management and consultants. An issuance was undertaken in April of 2002 with respect of such persons for approximately one-quarter of the number of shares which would ordinarily been issuable. Management hopes that our staff and consultants will continue to demonstrate their loyalty and commitment during this difficult period and that commercial success will afford us with sufficient cash flow to meet our obligations.

We have always been cognizant of the fact that any technological advantage has a limited lifespan and that it is necessary to employ all available resources to attempt to effect as rapid a penetration of the market as possible. Given our limited financial resources, this has required us to embark on a strategy of using partnerships and alliances to maximize our marketing effort and alleviate customer concerns. Beyond those alliances previously noted, which continue to be in effect, the Company has negotiated and continues to negotiate new alliances to cover regions such as Central and South America as well as the Caribbean.

As previously reported, in February of 2001, we concluded a private financing with an investor group managed by a New York-based company. Under the terms of the Agreement, we had the contractual right to require the Investor Group to invest up to US$5,000,000 in the Company. We drew down US$750,000 of this amount in the form of a Convertible Note. In addition to the conversion feature, warrants were also issuable as a function of the actual amount of the funds drawn down by the Company. Under the terms of the Agreement, we were required to file and have declared effective a Registration Statement on Form SB-2 within 150 days of the Closing Date of the Agreement. As of June 25, 2001, the Company was in technical default for failing to have an effective Registration Statement on record with the U.S. Securities and Exchange Commission (the "SEC"). We were unofficially advised of the default in mid-July 2001. We maintained regular communications with the New York management company representing the investor group and worked with them to arrive at a mutually acceptable Settlement Agreement. A Settlement Agreement was concluded in late April of 2002, following the period covered by this report, and is attached as an exhibit to this Report.

Regardless of the Settlement Agreement, we are continuing to redraft the SB-2 Registration Statement in such a fashion as to address all of the questions and comments communicated to us by the SEC as a result of the first filing of the SB-2 Registration Statement. While clearly the document will now require additional modifications, this filing is being pursued to answer SEC questions not only about the Year 2001 filing but also with respect to the SB-2 filing of 1998 which had been withdrawn prior to the Company's having answered all of the



SEC questions at that time. Management believes that the completion of the current SB-2 filing will be beneficial to its relations with the SEC and with our shareholders. Corporate Counsel for the Company has indicated that a revised SB-2 will be completed in the near future. It is possible that further modifications to the SB-2 may be required should the SEC have additional questions requiring responses. We cannot predict with any reasonable degree of certainty at this point, whether the SB-2 Registration Statement, currently in revision, will ever become effective.

Because of the lengthy delay preceding the commencement of commercial operations, particularly with respect to the sale and manufacturing of TCS Systems, we have had to, and in the foreseeable near future, will be forced to continue to cover a substantial part of our overhead costs from sources other than revenues from operations. Typically, in the early stages of rubber crumb production our monthly overhead costs were approximately $100,000 per month, prior to any revenues generated from the sales of rubber crumb and from tire recycling subsidies. We anticipated these costs to be offset by early stage revenues from the sale of rubber crumb and tire recycling subsidies of between $60,000 and $75,000 per month. Since the shutdown during the holiday season, our monthly overhead costs have been reduced to approximately $35,000. However, rubber crumb is not being produced and thus there are no revenues to reduce the monthly overhead cost. We are unable to predict when rubber crumb operations and tire recycling subsidies will resume, or when the revenues therefrom will be adequate to cover monthly overhead costs.

Liquidity and Capital Resources

The activities of the Company, since its formation in 1987, and the inception of its current business in 1993 have been financed by sources other than operations. Such financing was principally provided by the sale of securities in private transactions and by additional capital investments by directors, officers and employees. During the nine month period ended March 31, 2002, directors, officers, employees and consultants made direct cash investments into the Company for an amount of $529,566, of which the amount of $108,224 was invested during the third quarter of Fiscal 2002. During the Fiscal year ended June 30, 2001, direct cash investments made by the directors, officers, shareholders and consultants amounted to $950,713.

As of March 31, 2002, the Company had total assets of $2,727,001 as compared to $3,208,452 at March 31, 2001 reflecting a decrease of $481,451, and a decrease of $345,244 versus total assets as of the last fiscal year end, June 30, 2001, which amounted to $3,072,245. Management attributes the decrease from March 31, 2001 to March 31, 2002 primarily to the following factors: (i) a decrease of $230,123 in Tax Credits Receivable from the balance as of March 31, 2001 in the



amount of $400,568 to the March 31, 2002 balance of $170,445, and (ii) a decrease of $28,341 in Inventory (Inventory is surplus equipment held for resale) from the balance as of March 31, 2001 in the amount of $100,654 to the March 31, 2002 balance of $72,313, and (iii) a decrease of $22,445 in Sales Tax Receivable from the balance as of March 31, 2001 in the amount of $22,445 to the March 31, 2002 balance of zero, and (iv) a decrease of $82,102 in Property and Equipment from the balance as of March 31, 2001 in the amount of $2,177,759 to the March 31, 2002 balance of $2,095,657, and (v) a decrease of $195,750 in Prepaid expenses and deposits from the balance as of March 31, 2001 in the amount of $477,462 to the March 31, 2002 balance of $281,212, and (vi) an increase of $89,500 in an Investment from the zero balance as of March 31, 2001 to the March 31, 2002 balance of $89,500. Management attributes the decrease from June 30, 2001 to March 31, 2002 primarily to the following factors: (i) a decrease of $190,584 in Tax Credits Receivable from the balance as of June 30, 2001 in the amount of $361,029 to the March 31, 2002 balance of $170,445 and, (ii) a decrease of $154,541 in Prepaid Expenses and Deposits from the balance as of June 30, 2001 in the amount of $436,253 to the March 31, 2002 balance of $281,712, and (iii) a decrease of $47,350 in Sales Tax Receivable from the balance as of June 30, 2001 in the amount of $47,350 to the March 31, 2002 balance of zero, and (iv) an increase of $89,500 in an Investment from the zero balance as of June 30, 2001 to the December 31, 2001 balance of $89,500.

As of March 31, 2002, the Company had total liabilities of $3,884,062 as compared to $3,388,635 at March 31, 2001, reflecting an increase of $495,427, and reflecting a decrease of $221,674 versus total liabilities as of the last fiscal year end, June 30, 2001, which total amounted to $4,105,736. The increase in total liabilities from March 31, 2001 to March 31, 2002 is attributable to an increase of $343,503 in Loans from related parties and to an increase of $454,382 in Accounts payable and accrued liabilities offset by a decrease in Government loans in the amount of $348,417. The decrease in total liabilities from June 30, 2001 to March 31, 2002 is primarily attributable to a decrease of $269,373 in Government loans through the use of Government tax credits received during the nine month period ended March 31, 2002.

Reflecting the foregoing, the financial statements indicate that as at March 31, 2002, the Company had a working capital deficit (current assets minus current liabilities) of $943,876 compared to a working capital deficit of $243,432 as at March 31, 2001, reflecting an increase of $700,444. The working capital deficit of $943,876 as at March 31, 2002 compares to a working capital deficit of $1,014,882 as at June 30, 2001, reflecting a decrease of $71,006.

The financial statements which are included in this report reflect total operations and other expenses of $1,280,433 for the nine month period ended March 31, 2002 versus $2,543,919 for the comparative nine month period ended



March 31, 2001, reflecting a decrease of $1,263,486. The primary reasons for this decrease relate to decreased personnel expenses and to a decrease in the amount recorded for Research and Development.

PART II: OTHER INFORMATION

Item 1:
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We are presently a party in the following legal proceedings:

IM2 Merchandising and Manufacturing, Inc and David B. Sinclair v. The Tirex Corporation, Tirex Corporation Canada, Inc., et al.

The Plaintiffs, a Canadian resident and a Canadian corporation sued in the Delaware, U.S. Federal District Court claiming fraud, breach of contract, unjust enrichment and other allegations, that the alleged Defendants, which include Tirex Corporation Canada and The Tirex Corporation, jointly conspired to profit from their failure to comply with terms of a manufacturing agreement. The monetary demand of this complaint was unspecified. We were prepared to move to dismiss Plaintiffs' Complaint, but after consultations with the Plaintiffs' Attorneys, the Plaintiffs' withdrew this complaint voluntarily. Plaintiffs later filed a second action in the Chancery Court of Delaware alleging certain of the same allegations; fraud, breach of contract, unjust enrichment, breach of fiduciary duty and misrepresentation, but eliminated other counts including the securities fraud allegations. The Defendants in the State Court action are the same named in the Federal Court action, and again the monetary damages were unspecified. We moved to dismiss the State Court Chancery case alleging defective service of process and asserting that the Court had no jurisdiction over the Defendants in Delaware and for removal of the case to Canada based on forum non convenience and other considerations. Our motion was granted and the case dismissed.

Subsequently, on or about April 25, 2001, the Plaintiffs instituted a lawsuit in Superior Court, judicial district of Montreal alleging breach of contract and claims damages of Cdn$794,690 (approximately US$508,600) representing expenses and an additional Cdn$5,411,158 (approximately US$1,874,000) in loss of profits. We have filed a detailed answer denying all liability, stating further that Plaintiffs failed to comply with their obligations. We believe we have meritorious defenses to all of the Plaintiffs' claims. The action is still pending.

Surgent v. The Tirex Corporation

An action was brought by the Plaintiff against us, alleging that we had agreed to issue 1,000,000 shares of our Common Stock to the Plaintiff in



consideration for expenses allegedly paid by the Plaintiff on our behalf in the amount of approximately $150,000. These expenses allegedly were incurred in relation to the rental of certain office space and performance of administrative services. The Plaintiff's complaint sought to impose an equitable trust or lien on 1,000,000 of our unissued common shares, demanded the issuance of the 1,000,000 shares and alleged breach of contract and claimed damages of $1,400,000.

We moved to dismiss the case on various procedural grounds and in September 2000 the Court granted our motion based upon the lack of venue in Union County, New Jersey. A new action was instituted by Plaintiff in the Superior Court of New Jersey, Bergen County in April 2001 alleging similar claims as set forth in the previous action. We denied all of plaintiff's allegations. We believe we have valid defenses to all of Plaintiff's claims and the case is still in the pretrial discovery stage.

Lefebvre Freres Limited v. The Tirex Corporation

Lefebvre Freres Limited instituted an action against us on August 13, 2001 in the Superior Court, judicial district of Montreal claiming Cdn$98,513 (approximately US$63,000) is due and owing for the manufacture and delivery of car tire disintegrators. We are preparing a defense and cross claim against Plaintiff as the product delivered was defective and we believe we are entitled to a reimbursement of sums paid. The action is still pending.

Tri-Steel Industries Inc. v. The Tirex Corporation

Our landlord Tri-Steel Industries Inc. instituted an action against us, and our subsidiaries Tirex Canada and Tirex Canada R & D Inc., on or about June

22, 2001 for arrears of rent in the amount of Canadian$230,050 (approximately US$144,932 using a 634 exchange rate). At March 31, 2002 the Company was in arrears in the payment of rent in the amount of US$323,019. Management has continued to have substantial and harmonious dialogue with the landlord, and the latter continues to demonstrate patience and understanding of the Company's liquidity difficulties, through his continuing to defer the exercise of the rights and remedies available.

No director, officer, or affiliate of the Company, or any associate of any of them, is a party to or has a material interest in any proceeding adverse to us.

24

## Item 2: - Changes in Securities and Use of Proceeds

Share Issuance Continuity Schedule

| | | |
|---|---|---|
| Shares issued as of June 30, 2001 | | 176,366,408 |
| Shares issued First Quarter of Fiscal 2002, as reported | 20,997,426 | |
| Shares issued Second Quarter of Fiscal 2002, as reported | 0 | |
| Shares issued Third Quarter of Fiscal 2002, as reported | 0 | |
| Shares issued subsequent to Third Quarter | 19,444,238 | |
| Total Shares outstanding as of May 10, 2002 | | 216,808,072 |

Share Issuance in April 2002 by nature of expense

| Nature of Expense | Restricted | Unrestricted | Total |
|---|---|---|---|
| In lieu of salaries, bonuses and expenses | 54,000 | 6,750,000 | 6,804,000 |
| Consulting Agreements | 1,000,000 | 3,390,238 | 4,390,238 |
| Professional Fees | | 4,250,000 | 4,250,000 |
| Loans | 1,750,000 | | 1,750 000 |
| Expenses | | 2,250,000 | 2,250,000 |
| TOTAL | 2,804,000 | 16,640,238 | 19,444,238 |

With respect to sales and other issuances of restricted securities, which Registrant claims to have been exempt from the registration requirements of Section 5 of the Securities Act by reason of Section 4(2) thereof:

(i) Registrant did not engage in general advertising or general solicitation and paid no commission or similar remuneration, directly or indirectly, with respect to such transactions.

(ii) Except as noted following, the persons who acquired restricted securities were executive officers and directors, employees or consultants of the Registrant. Restricted shares numbering 1,750,000 in total were issued to six different persons who made loans to the Company. An additional 1,000,000 restricted shares were issued to a consultant under the terms of his consulting contract and a total of 54,000 restricted shares were issued to fourteen employees (no directors or officers) as bonuses applicable to their efforts in Calendar 2001. With the exception of the fourteen employees who received a total



of 54,000 restricted shares at no cost, all of the other persons to whom restricted shares were issued are sophisticated investors; such persons had continuing access to all relevant information concerning the Registrant and/or have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of such investment and are able to bear the economic risk thereof.

(iii) The persons who acquired restricted securities for cash or under consulting agreements advised Registrant that the Shares were purchased for investment and without a view to their resale or distribution unless subsequently registered and acknowledged that they were aware of the restrictions on resale of the Shares absent subsequent registration and that an appropriate legend would be placed on the certificates evidencing the Shares reciting the absence of their registration under the Securities Act and referring to the restrictions on their transferability and resale. The fourteen employees who received a total of 54,000 restricted shares were advised as to the implications of restricted stock, including trading restrictions, the legal requirements for them to acquire trading rights and of the implications of the Restrictive Legend affixed to their certificates.

Item 3 - Defaults Upon Senior Securities

During 1998, the Company issued an aggregate of $535,000 of two (2) year convertible, subordinated debentures bearing interest at the rate of 10%. Interest thereon was due and payable semi-annually commencing six months from the date of issuance. All debentures have either been converted or repaid, except for debentures in the principal amount of US$55,000, which remain outstanding and on which principal and interest, which has accrued since the issuance of the debentures, are now due. On debentures converted subsequent to December 1999, interest was capitalized and converted to equity. The conversion option on the outstanding debentures has lapsed.

As indicated above, In February of 2001, we concluded a private financing with an investor group managed by a New York-based company. Under the terms of the Agreement, we had the contractual right to require the Investor to purchase up to US$5,000,000 of put notes. To date, we have drawn down US$750,000 of this amount. The initial $750,000 was provided in the form of Convertible Notes. In addition to the conversion feature, warrants were also issuable as a function of the actual amount of the funds drawn down by the Company. Under the terms of the Agreement, we were required to file and have declared effective a Registration Statement on Form SB-2 within 150 days of the Closing Date of the Agreement. As of June 25, 2001, the Company was in technical default for failing to have an effective Registration Statement on record with the U.S. Securities and Exchange Commission (the "SEC"). We were unofficially advised of the default in mid-July 2001. We maintained regular communications with the New York management company of the investor group and worked with them to arrive at a mutually acceptable resolution. A Settlement Agreement was reached in April 2002, subsequent to the period covered by this report. The Settlement Agreement is attached as an Exhibit to this report.

Despite having concluded a Settlement Agreement with the Investor Group, we are continuing to redraft the SB-2 Registration Statement, with appropriate changes to reflect the new circumstances occasioned by the Settlement Agreement, in such a fashion as to address all of the questions and comments communicated to the Company by the SEC as a result of the first filing of the SB-2 Registration Statement, as well as questions and comments which had remained unanswered from the 1998 SB-2 filing which was withdrawn. Corporate Counsel for the Company is continuing to work on the revised SB-2 and has informed Management that they expect to complete this task as soon as possible. It is possible that further modifications to the SB-2 may be required as a result of additional questions and comments which could come from the SEC. Management cannot, at this point, predict with any reasonable degree of certainty whether the SB-2 Registration Statement, currently in revision, will ever become effective.

Item 4 - Submission of Matters to a Vote of Security Holders

No matters have been submitted to the Company's shareholders for vote during Fiscal 2002 to date.

Item 6 - Exhibits and Reports on Form 8-K

Exhibits

Exhibit 1. Settlement Agreement

Form 8-K

No reports on Form 8-K were filed during the quarterly period ended March 31, 2002.

27

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TIREX CORPORATION

Date: May 15, 2002 By /s/ JOHN L. THRESHIE, JR.

John L. Threshie, Jr. President

Date: May 15, 2002 By /s/ MICHAEL ASH

Michael Ash, Treasurer and
Chief Accounting and Financial Officer

28