

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

U.S. Securities and Exchange Commission

Washington D.C. 20549

Form 10-QSB

(Mark one)

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

For the quarterly period ended March 31, 2002

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

For the transition period from _____ to _____

Commission file number: 000-28679

MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(Name of Small Business Issuer in Its Charter)

Delaware	Applied For
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)

TNO Environmental Technology Valley
Laan van Westenenk 501
7334 DT Apeldoorn, The Netherlands
(Address of Principal Executive Offices)

011 31 55 534 7040
(Company's Telephone Number, Including Area Code)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

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

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

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended March 31, 2002

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

Form 10-QSB

For the quarterly period ended March 31, 2002

PART I - FINANCIAL INFORMATION

Item I - Financial Statements

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

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

MARCH 31, 2002

WILLIAMS & WEBSTER, P.S.

CERTIFIED PUBLIC ACCOUNTANTS

BANK OF AMERICA FINANCIAL CENTER

W 601 RIVERSIDE, SUITE 1940

SPOKANE, WA 99201

(509) 838-5111

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

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To the Board of Directors
Management of Environmental
Solutions & Technology Corp.
Apeldoorn, The Netherlands

ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying consolidated balance sheet of Management of Environmental Solutions & Technology Corp. (a development stage company) as of March 31, 2002 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the three months ended March 31, 2002, for the three months ended March 31, 2001, and for the period from December 10, 1997 (inception) to March 31, 2002. These financial statements are the responsibility of the Company's management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

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

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

/s/ Williams & Webster, P.S.

Williams & Webster, P.S.

Certified Public Accountants

Spokane, Washington

August 30, 2002

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

March 31,
2002 December 31,
(Unaudited) 2001

ASSETS

CURRENT ASSETS

Cash	\$ 13,383	\$ 203,652
Tax funds receivable	34,979	29,867
Receivables, related parties	172,952	-
Other receivables	437	5,126
Prepaid expenses	2,836	2,836

Total Current Assets	224,587	241,481
----------------------	---------	---------

PROPERTY AND EQUIPMENT (net of depreciation)	2,267	3,201
--	-------	-------

TOTAL ASSETS	\$ 226,854	\$ 244,682
--------------	------------	------------

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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 65,471	\$ 38,979
------------------	-----------	-----------

Accrued expenses	8,183	6,988
Deferred costs	6,934	-
Bank over draft	-	6,708
	-----	-----
Total Current Liabilities	80,588	52,675
	-----	-----

Preferred stock - Series A;

\$0.0001 par value, 5,000,000 shares

authorized, 535,985 issued and

outstanding, aggregate liquidation

preference of \$2,143,940	53	53
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Common stock; \$0.0001 par value,

30,000,000 shares authorized,

7,320,055 shares issued and outstanding	732	732
---	-----	-----

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

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

Deficit accumulated during the development stage	(5,800,682)	(5,747,917)
--	-------------	-------------

Accumulated other comprehensive loss	(276,048)	(283,072)
--------------------------------------	-----------	-----------

	-----	-----
	146,266	192,007
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 226,854	\$ 244,682
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See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATION AND COMPREHENSIVE LOSS

Period from
December 17,
1997

Three Months Ended (Inception)

March 31, to

----- March 31,

2002 2001 2002

(Unaudited) (Unaudited) (Unaudited)

REVENUES \$ - \$ - \$ -

OPERATING EXPENSES

General and administrative	74,730	3,341	4,420,195
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Research and development	-	60,889	608,357
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Depreciation	827	983	11,518
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Total Operating Expenses	75,557	65,213	5,040,070
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LOSS FROM OPERATIONS	(75,557)	(65,213)	(5,040,070)
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OTHER INCOME (EXPENSES)

Interest income	4,518	10,678	174,747
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Net gain (loss) from joint venture	18,479	-	(932,622)
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Interest expense	(205)	-	(2,737)
------------------	-------	---	---------

Total Other Income (Expenses)	22,792	10,678	(760,612)
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LOSS BEFORE INCOME TAXES	(52,765)	(54,535)	(5,800,682)
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INCOME TAXES	-	-	-
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NET LOSS	(52,765)	(54,535)	(5,800,682)
----------	----------	----------	-------------

OTHER COMPREHENSIVE INCOME (LOSS)

Foreign currency translation			
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gain (loss)	7,024	(78,096)	(276,048)
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COMPREHENSIVE LOSS	\$ (45,741)	\$ (132,631)	\$(6,076,730)
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LOSS PER COMMON SHARE,

BASIC AND DILUTED	\$ (0.01)	\$ (0.02)
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WEIGHTED AVERAGE NUMBER OF
COMMON SHARES OUTSTANDING,

BASIC AND DILUTED	7,324,055	7,320,055
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See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<TABLE>

<CAPTION>

Accumulated Accumulated

Total	Preferred Stock		Common Stock		Additional Paid-in Capital	Stock Options	Deficit During Development Stage	Other Comprehensive Income (Loss)	
	Number of Stockholders' Shares	Amount	Number of Shares	Amount					
Inception,									
Dec. 10, 1997	-	\$ -	-	\$ -	-	\$ -	-	\$ -	
Issuance of common stock for cash on Dec. 11, 1997 for \$1.00 per share	-	-	5,000	1	5,009	-	-	-	5,010
Issuance of common stock to acquire STB corp. on Dec. 26, 1997 at \$1.00 per share	-	-	175	-	175	-	-	-	175
Net loss for year ended Dec. 31, 1997	-	-	-	-	-	-	(46,869)	-	(46,869)
Balance, Dec. 31, 1997	-	-	5,175	1	5,184	-	(46,869)	-	(41,684)

Issuance of common

stock as follows:

For cash on March

10, 1998 at \$.017

per share	-	-	5,394,880	539	899,911	-	-	-	900,450
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To acquire

subsidiary on

April 9, 1998 at

\$0.01 per share	-	-	1,920,000	192	19,808	-	-	-	20,000
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Issuance of

preferred stock

for cash:

December 1998 at

\$3.73 per share	23,900	2	-	-	89,246	-	-	-	89,248
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Issuance of stock

options for

compensation on

Aug. 31, 1998 at

\$2.62 per option	-	-	-	-	-	865,938	-	-	865,938
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Net loss for year

ended Dec. 31, 1998 (1,278,364)	-	-	-	-	-	-	(1,263,080)	15,284	
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Balance,

Dec. 31, 1998	23,900	2	7,320,055	732	1,014,149	865,938	(1,325,233)		
15,284	570,872								

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

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

Balance carry-forward

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Dec. 31, 1998	23,900	2	7,320,055	732	1,014,149	865,938	(1,325,233)
15,284	570,872						

Issuance of

preferred stock

for cash:

Jan. 1999 at

\$3.92 per share	23,350	2	-	-	91,644	-	-	-	91,646
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Feb. 1999 at

\$3.96 per share	48,050	4	-	-	190,196	-	-	-	190,200
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Mar. 1999 at

\$3.90 per share	10,300	1	-	-	40,199	-	-	-	40,200
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April 1999 at

\$4.00 per share	11,300	1	-	-	45,199	-	-	-	45,200
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May 1999 at

\$3.85 per share	12,640	1	-	-	48,684	-	-	-	48,685
------------------	--------	---	---	---	--------	---	---	---	--------

June 1999 at

\$4.01 per share	82,900	8	-	-	332,237	-	-	-	332,245
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July 1999 at

\$4.00 per share	88,700	9	-	-	354,941	-	-	-	354,950
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Aug. 1999 at

\$4.02 per share	25,770	3	-	-	103,494	-	-	-	103,497
------------------	--------	---	---	---	---------	---	---	---	---------

Sept. 1999 at

\$3.43 per share	26,500	3	-	-	90,997	-	-	-	91,000
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Oct. 1999 at

\$4.22 per share	6,200	1	-	-	26,174	-	-	-	26,175
------------------	-------	---	---	---	--------	---	---	---	--------

Nov. 1999 at								
\$4.05 per share	40,725	4	-	-	165,086	-	-	165,090
Dec. 1999 at								
\$4.14 per share	27,150	3	-	-	112,517	-	-	112,520

Total preferred								
stock issued 1999	403,585	40	-	-	1,601,368	-	-	-
1,601,408								
Issuance of stock								
options for								
compensation on								
Aug. 31, 1999 at								
\$3.59 per share	-	-	-	-	717,900	-	-	717,900
Net loss for year								
ended Dec. 31, 1999	-	-	-	-	-	-	(1,810,142)	(100,988)
(1,911,130)								

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

</table>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

Total	Preferred Stock		Common Stock		Accumulated		Accumulated		
	Number of Stockholders' Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Stock Options	Deficit During Development Stage	Other Comprehensive Income (Loss)	
Balance carry-forward									
Dec. 31, 1999	427,485		42	7,320,055	732	2,615,517	1,583,838	(3,135,375)	
	(85,704)	979,050							
Issuance of preferred stock for cash:									
Jan. 2000 at \$4.08 per share									
	8,300		1	-	-	33,891	-	-	33,892
Feb. 2000 at									

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\$4.34 per share	23,750	2	-	-	103,054	-	-	-	103,056
Mar. 2000 at									
\$4.37 per share	4,500	1	-	-	19,645	-	-	-	19,646
April 2000 at									
\$4.16 per share	61,700	5	-	-	256,425	-	-	-	256,430
May 2000 at									
\$4.30 per share	5,250	1	-	-	22,598	-	-	-	22,599
June 2000 at									
\$4.19 per share	5,000	1	-	-	20,958	-	-	-	20,959

Total preferred									
stock issued: 2000	108,500	11	-	-	456,571	-	-	-	
456,582									
Issuance of stock									
options for									
compensation on									
Aug. 31, 2000 at									
\$3.84 per share	-	-	-	-	-	767,900	-	-	767,900
Expiration of									
stock options on									
July 31, 2000	-	-	-	-	77,088	(77,088)	-	-	-
Net loss,									
Dec. 31, 2000	-	-	-	-	-	-	(1,395,315)	(97,293)	
(1,492,608)									

Balance,

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

</table>

See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<TABLE>

<CAPTION>

		Accumulated	Accumulated
Preferred Stock	Common Stock	Deficit	Other

Total	Number of		Number of		Additional	Stock	Development	Comprehensive	
	Shares	Amount	Shares	Amount	Paid-in	Options	Stage	Income	
Equity					Capital			(Loss)	

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

Forgiveness of									
debt by officer	-	-	-	-	62,867	-	-	-	62,867
Issuance of common									
stock for cash at									
\$2.40 per share									
on Dec. 6, 2001,									
net of \$2,400									
financing cost	-	-	4,000	-	9,600	-	-	-	9,600
Issuance of stock									
options for									
compensation on									
Dec. 31, 2001 at									
\$3.63 per option	-	-	-	-	-	725,918	-	-	725,918
Net loss for year									

ended Dec. 31, 2001	-	-	-	-	-	-	(1,217,227)	(100,075)
(1,317,302)								

Balance,

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

Net loss for

period ended

March 31, 2002	-	-	-	-	-	(52,765)	7,024	(45,741)
----------------	---	---	---	---	---	----------	-------	----------

Balance,

March 31, 2002

(Unaudited)	535,985	\$	53	7,324,055	\$	732	\$	3,221,643	\$	3,000,568	\$	(5,800,682)	\$
(276,048)	\$	146,266											

</table>

See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

Period from			
December 17,			
1997			
Three Months Ended		(Inception)	
March 31,		to	
-----		March 31,	
2002	2001	2002	
(Unaudited)	(Unaudited)	(Unaudited)	
-----		-----	

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CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss \$ (52,765) \$ (54,535) \$ (5,800,682)

Adjustments to reconcile net loss to net cash

used in operating activities:

Depreciation 827 983 11,518

Options granted as compensation	-	-	3,077,656
(Increase) decrease in assets:			
Tax funds receivable	(5,112)	23,875	(34,979)
Other receivables	4,689	(1,988)	(437)
Prepaid expenses	-	19,274	(2,836)
Increase (decrease) in liabilities:			
Accrued liabilities	1,195	2,091	8,183
Accounts payable	26,492	7,233	60,286
Deferred cost	6,934	-	6,934

Net cash used in operating activities	(17,740)	(3,067)	(2,674,357)

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	-	-	(13,893)
Loans to shareholders	(172,952)	-	(1,106,255)
Payments on loans to shareholders	-	15,105	887,080

Net cash provided (used) by investing activities	(172,952)	15,105	(233,068)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Overdrafts payable	(6,708)	-	-
Proceeds from related party loans	-	-	145,391

Payments on related party loans	-	-	(10,390)
Proceeds from sales of common stock	-	-	915,060
Proceeds from sales of preferred stock	-	-	2,147,238
Cash acquired with subsidiary	-	-	20,000

Net cash provided by (used in) financing activities	(6,708)	-	3,217,299

Foreign currency translation gain (loss)	7,131	(78,096)	(301,491)
Net increase (decrease) in cash	(190,269)	(66,058)	8,383

Cash, beginning of period	203,652	666,746	5,000

Cash, end of period	\$ 13,383	\$ 600,688	\$ 13,383
=====			

</table>

See accompanying notes and accountants review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS & TECHNOLOGY CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

Period from
December 17,
1997

Three Months Ended	(Inception)	
March 31,	to	
-----	March 31,	
2002	2001	2002
(Unaudited)	(Unaudited)	(Unaudited)
-----	-----	-----

<S>	<C>	<C>	<C>
-----	-----	-----	-----

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Interest paid	\$	395	\$	-	\$	2,732
Income taxes paid	\$	-	\$	-	\$	-

NON-CASH INVESTING AND FINANCING

TRANSACTIONS:

Stock options granted for compensation	\$	-	\$	-	\$	3,077,656
Stock issued for acquisitions	\$	-	\$	-	\$	20,175
Notes payable, related party netted						
with notes receivable related party	\$	-	\$	46,233	\$	46,233
Forgiveness of debt by officer	\$	-	\$	62,867	\$	62,867

</TABLE>

See accompanying notes and accountants' review report.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

NOTE 1 - ORGANIZATION AND HISTORY

Management of Environmental Solutions & Technology Corp. was formed to develop a proprietary technology for drying and treating animal manure and sludge to be used as fertilizer. The "Company" ("MEST") was incorporated in Colorado on December 10, 1997, followed by reorganization as a Delaware corporation on December 18, 1997.

On December 26, 1997, the Company obtained all of the outstanding common stock of STB Corporation, a shell corporation domiciled in Colorado, by issuing 175

shares of the Company's common stock. Because STB Corporation had no assets or operations, the Company recorded the transaction at the initial deemed value of the stock conveyed (\$175), which was consistent with the deemed value of the Company's stock issued in its immediately precedent initial transaction. In the year subsequent to the acquisition, STB Corporation was administratively dissolved.

On April 9, 1998, the Company issued 1,920,000 shares of its common stock to its president in exchange for all of the issued and outstanding shares of MEST, B.V., a Netherlands corporation, owned by the Company's president. Although MEST, B.V. had no recorded assets at the time of the transaction, the Company recorded the acquisition at a nominal value of \$0.01 per share. The aggregate acquisition cost of \$20,000, originally assigned to intangible assets, was substantially written off by the end of 1998. Currently, MEST, B.V. is used to conduct the Company's business in the Netherlands. MEST, B.V. was acquired because it had certain data and technical information that the Company plans to use in its business.

The Netherlands Organization for Applied Scientific Research ("TNO"), staffed by 5,000 professionals, is one of Europe's leading contract research organizations. Using proprietary technology developed by TNO, the Company and TNO formed a corporation known as Manure and Sludge Technology, B.V. ("MSTec") for the purpose of developing a process for use on a commercial basis that would economically refine manure and sludge into pellets, which could be sold as organic fertilizer and other products. MSTec, a Netherlands corporation, is owned 50 percent by the Company and 50 percent by TNO.

The Company's year end is December 31.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

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MANAGEMENT OF ENVIRONMENTAL SOLUTIONS

& TECHNOLOGY CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Method

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Development Stage Activities

The Company has been in the development stage since its formation in December of 1997, and has not yet realized any revenues from its planned operations. It is engaged in the business of manufacturing, distributing, and selling fertilizer products.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements.

Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts for cash, accrued expenses and payables, and loans payable approximate their fair value. MEST's notes payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to MEST for a similar financial arrangement at March 31, 2002 and December 31, 2001.

Research and Development

Research and development expenses are charged to operations as incurred. The cost of intellectual property purchased from others that is immediately marketable or that has an alternative future use is capitalized as intangible assets. The Company periodically reviews its capitalized patent costs to assess recoverability based on the projected undiscounted cash flows from operations. Impairments are recognized in operating results when a permanent