FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

ENVIROKARE TECH INC

CIK:**1065677**| IRS No.: **880412549** | State of Incorp.:**NV** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-26095** | Film No.: **1697578**
SIC: **3537** Industrial trucks, tractors, trailors & stackers

Mailing Address
2470 CHANDLER AVENUE
SUITE 5
LAS VEGAS NV 89120

Business Address
2470 CHANDLER AVENUE
SUITE 5
LAS VEGAS NV 89120
7022621999

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2001

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

For the transition period from _____ to _____

Commission file number 000-26095

ENVIROKARE TECH, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	88-0412549
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2470 Chandler Avenue, Suite 5, Las Vegas, Nevada 89120
(Address of principal executive offices)

(702) 262-1999
(Issuer's telephone number)

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

Check whether the issuer 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 [ ]
NOT APPLICABLE

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: The total number of shares of Common Stock, par value $.001 per share, outstanding as of July 17, 2001, was 14,889,478.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ENVIROKARE TECH, INC.
Financial Statements
June 30, 2001

WILLIAMS & WEBSTER PS

Certified Public Accountants
Bank of America Financial Center
W 601 Riverside, Suite 1940
Spokane, WA 99201
(509) 838-5111

Board of Directors
Envirokare Tech, Inc.
2470 Chandler, Suite 5
Las Vegas, Nevada 89120

ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying consolidated balance sheets of Envirokare Tech, Inc. (a development stage company) as of June 30, 2001 and the related consolidated statements of operations and comprehensive loss, cash flows, and stockholders' equity for the three months and six months ended June 30, 2001, and 2000, and for the period from June 15, 1998 (inception) through June 30, 2001. 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 reviews, 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, 2000 were audited by us and we expressed an unqualified opinion on them in our report dated March 30, 2001, but 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 and has no revenues. The Company's continued viability 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.

Williams & Webster, P.S.
Certified Public Accountants
Spokane, Washington
July 20, 2001

ENVIROKARE TECH, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	June 30, 2001 (unaudited)	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash	$ 107,531	$ 11,362
Due from related party	6,648	6,438
TOTAL CURRENT ASSETS	114,179	17,800
PROPERTY AND EQUIPMENT		
Furniture and fixtures	1,893	1,893
Office equipment	7,999	6,661
Molds	70,000	70,000
Less accumulated depreciation	(3,858)	(3,017)
TOTAL PROPERTY AND EQUIPMENT	76,034	75,537
OTHER ASSETS		
Deposits and retainers	32,473	81,560
License	525,000	--
Patent acquisition and patent costs	1,966,726	1,966,726
TOTAL OTHER ASSETS	2,524,199	2,048,286
TOTAL ASSETS	2,714,412	$ 2,141,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	30,613	$ --
Deposits	3,000	--
Notes payable	61,965	61,965
Accrued interest	16,062	12,989
Due to related party	260,000	--
Deposits for stock	100,000	--
License payable	250,000	--
TOTAL CURRENT LIABILITIES	721,640	74,954
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY		
Preferred stock, 10,000,000 shares authorized,		

$.001 par value; 500,000 shares issued and outstanding	500	500
Common stock, 200,000,000 shares authorized, $.001 par value; 14,889,478 and 13,889,478 shares issued and outstanding, respectively	14,889	13,889
Additional paid-in capital	3,337,257	3,066,257
Stock options	621,000	529,000
Accumulated deficit during development stage	(1,976,826)	(1,538,929)
Other comprehensive loss	(4,048)	(4,048)
TOTAL STOCKHOLDERS' EQUITY	1,992,772	2,066,669
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,714,412	$ 2,141,623

</TABLE>

See accompanying notes and accountant's review report.

ENVIROKARE TECH, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

<TABLE>
<CAPTION>

	For the Three Months Ended June 30, 2001 (unaudited)	For the Three Months Ended June 30, 2000 (unaudited)	For the Six Months Ended June 30, 2001 (unaudited)	For the Six Months Ended June 30, 2000 (unaudited)	Period from June 15, 1998 (Inception) to June 30, 2001 (unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES	$ --	$ --	$ --	$ --	$ --
EXPENSES					
Consulting fees - related parties	134,000	8,817	161,500	23,987	565,203
Other consulting fees	67,000	16,615	137,000	49,115	627,165
Rent	2,704	2,292	13,104	4,584	36,199
General and administrative	9,382	41,518	37,903	66,404	264,006
Depreciation	437	394	841	798	3,858
Professional fees	6,337	44,013	70,351	54,699	233,995
Research and development	--	7,009	--	7,009	98,669
Wages, salaries, and payroll taxes	13,922	39,569	13,922	39,569	131,424
TOTAL EXPENSES	233,783	160,227	434,622	246,165	1,960,520
LOSS FROM OPERATIONS	(233,783)	(160,227)	(434,622)	(246,165)	(1,960,520)
OTHER EXPENSES					
Interest expense	1,604	1,544	3,275	3,095	16,306
TOTAL OTHER EXPENSES	1,604	1,544	3,275	3,095	16,306
LOSS BEFORE PROVISION FOR INCOME TAXES	(235,387)	(161,771)	(437,897)	(249,260)	(1,976,826)
PROVISION FOR INCOME TAXES	--	--	--	--	--
NET LOSS	(235,387)	(161,771)	(437,897)	(249,260)	(1,976,826)
OTHER COMPREHENSIVE LOSS					
Foreign currency translation loss	--	(940)	--	(2,098)	(4,048)
COMPREHENSIVE LOSS	$ (235,387)	$ (162,711)	$ (437,897)	$ (251,358)	$ (1,980,874)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.17)
WEIGHTED AVERAGE NUMBER OF BASIC AND DILUTED COMMON STOCK SHARES OUTSTANDING	13,911,456	11,089,478	13,900,528	10,917,809	11,401,665

</TABLE>

See accompanying notes and accountant's review report.

ENVIROKARE TECH, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital
<S>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock in June, 1998 for cash at $.001 per share	--	$ --	10,000,000	$ 10,000	$ --
Net loss for period ended December 31, 1998	--	--	--	--	--
Balance, December 31, 1998	--	--	10,000,000	10,000	--
Issuance of common stock at an average of $0.45 per share for cash	--	--	746,140	746	334,053
Issuance of preferred stock at $0.50 per share for cash	500,000	500	--	--	249,500
Issuance of stock options for services	--	--	--	--	--
Contribution of capital by shareholders in the form of foregone payment of accounts payable	--	--	--	--	1,847
Net loss for year ended December 31, 1999	--	--	--	--	--
Foreign currency translation loss	--	--	--	--	--
Balance, December 31, 1999	500,000	500	10,746,140	10,746	585,400
Cash received for subscriptions receivable	--	--	--	--	--
Issuance of common stock at an average of $0.45 per share for cash	--	--	543,338	543	356,957
Expiration of stock options	--	--	--	--	120,000
Issuance of stock options for services	--	--	--	--	--
Stock options exercised at $0.58 per share	--	--	100,000	100	81,400
Stock issued for acquisition of Electroship Acquisition Corporation, a wholly owned subsidiary, at $0.77 per share	--	--	2,500,000	2,500	1,922,500
Net loss for the year ended December 31, 2000	--	--	--	--	--
Foreign currency translation loss	--	--	--	--	--
Balance, December 31, 2000	500,000	500	13,889,478	13,889	3,066,257
Expiration of stock options for the six months ended June 30, 2001	-- --	-- --	-- --	-- --	132,000
Issuance of stock options for services for the six months ended June 30, 2001					
Issuance of common stock at $0.14 per share for cash with attached warrants at $0.06 per share			1,000,000	1,000	139,000
Net loss for the six months ended June 30, 2001 (unaudited)	--	--	--	--	--
Balance, June 30, 2001	500,000	$ 500	14,889,478	$ 14,889	$3,337,257

<CAPTION>

<S>	Warrants and Stock Options <C>	Subscriptions Receivable <C>	Accumulated Deficit During Development Stage <C>	Other Comprehensive Loss <C>	Total Stockholders' Equity <C>
Issuance of common stock in June, 1998 for cash at $.001 per share	$ --	$ --	$ --	$ --	$ 10,000
Net loss for period ended December 31, 1998	--	--	(34,427)	--	(34,427)
Balance, December 31, 1998	--	--	(34,427)	--	(24,427)
Issuance of common stock at an average of $0.45 per share for cash	--	(105,000)	--	--	229,799
Issuance of preferred stock at $0.50 per share for cash	--	--	--	--	250,000
Issuance of stock options for services	552,000	--	--	--	552,000
Contribution of capital by shareholders in the form of foregone payment of accounts payable	--	--	--	--	1,847
Net loss for year ended December 31, 1999	--	--	(893,173)	--	(893,173)
Foreign currency translation loss	--	--	--	(1,202)	(1,202)
Balance, December 31, 1999	552,000	(105,000)	(927,600)	(1,202)	114,844
Cash received for subscriptions receivable	--	105,000	--	--	105,000
Issuance of common stock at an average of $0.45 per share for cash	--	--	--	--	357,500
Expiration of stock options	(120,000)	--	--	--	--
Issuance of stock options for services	121,000	--	--	--	121,000
Stock options exercised at $0.58 per share	(24,000)	--	--	--	57,500
Stock issued for acquisition of Electroship Acquisition Corporation, a wholly owned subsidiary, at $0.77 per share	--	--	--	--	1,925,000
Net loss for the year ended December 31, 2000	--	--	(611,329)	--	(611,329)
Foreign currency translation loss	--	--	--	(2,846)	(2,846)
Balance, December 31, 2000	529,000	--	(1,538,929)	(4,048)	2,066,669
Expiration of stock options for the six months ended June 30, 2001	(132,000)	--	--	--	--
Issuance of stock options for services for the six months ended June 30, 2001	164,000				164,000
Issuance of common stock at $0.14 per share for cash with attached warrants at $0.06 per share	60,000				200,000
Net loss for the six months ended June 30, 2001 (unaudited)	--	--	(437,897)	--	(437,897)
Balance, June 30, 2001	$ 621,000	$ 0	$(1,976,826)	(4,048)	$ 1,992,772

</TABLE>

See accompanying notes and accountant's review report.

ENVIROKARE TECH, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	For the Six Months Ended June 30, 2001 (unaudited) <C>	For the Six Months Ended June 30, 2000 (unaudited) <C>	Period from June 15, 1998 (Inception) to June 30, 2001 (unaudited) <C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(437,897)	$(249,260)	$(1,976,826)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	841	798	3,858
Stock options issued for consulting fees	164,000	--	837,000
Consulting fees due to related party applied to receivable	--	--	9,000
Increase (decrease) in prepaid expenses and deposits	49,087	(24,106)	(32,473)
Increase (decrease) in accounts payable and deposits	33,613	(100,330)	33,613
Increase in accrued interest receivable	(210)	3,096	(648)
Increase in accrued interest payable	3,073	--	16,062
Net cash used by operating activities	(187,493)	(369,802)	(1,110,414)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loan to related party	--	--	(15,000)
Purchase of molds	--	(70,000)	(70,000)
Payments of license agreement	(275,000)	--	(275,000)
Patent costs	--	(3,659)	(8,396)
Purchase of equipment	(1,338)	(300)	(8,045)
Net cash used in investing activities	(276,338)	(73,959)	(376,441)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of preferred stock	--	--	250,000
Proceeds from sale of common stock	200,000	362,500	959,799
Proceeds from deposit for stock	100,000	--	100,000
Proceeds from issuance of notes payable to related party	260,000	--	288,635
Net cash provided by financing activities	560,000	362,500	1,598,434
Increase (decrease) in cash	96,169	(81,261)	111,579
Adjustment for foreign currency translation	--	(2,098)	(4,048)
Cash, beginning of period	11,362	148,046	--
Cash, end of period	$ 107,531	$ 64,687	$ 107,531
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ --	$ --	$ --
Income taxes paid	$ --	$ --	$ --
NON-CASH TRANSACTIONS:			
Common stock issued for acquisition of subsidiary	$ --	$ --	$ 1,925,000
Note issued for purchase of property, equipment and operating expenses	$ --	$ --	$ 3,635
Note issued for pending patent to related party	$ --	$ --	$ 33,330
Stock options issued for consulting fees	$ 164,000	$ --	$ 837,000
Stockholder's contribution for equipment	$ --	$ --	$ 1,847
Payable for license agreement	$ 250,000	$ --	$ 250,000

</TABLE>

See accompanying notes and accountant's review report.

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Envirokare Tech, Inc., (hereinafter "the Company"), was incorporated in June 1998 under the laws of the State of Nevada. In December 1998, the Company acquired the property, assets and undertakings of a business engaged in manufacturing and developing a rubber mold technology and patent rights potentially applicable to future development of a pallet made of recycled materials. The Company is currently developing marketing and manufacturing plans for the products under development. The Company maintains offices in Las Vegas, Nevada and Boca Raton, Florida. The Company has elected a fiscal year-end of December 31.

The Company includes the assets and investment in Electroship Acquisition Corporation and Envirokare Composite Corp., wholly-owned non-operating subsidiaries, in these financial statements. See Notes 3 and 6.

The Company is in the development stage and, as of June 30, 2001, had realized no revenues from its planned operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Envirokare Tech, Inc. is presented to assist in understanding the Company's 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.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred an accumulated deficit of $1,976,826, which includes a net loss of $437,897 for the six months ended June 30, 2001, and has a working capital deficit and no revenues. The Company, being a development stage enterprise, is currently putting technology in place which will, if successful, mitigate these factors which raise substantial doubt about the Company's ability to continue as a going concern. Management plans to fund operations from sales of its debt and equity in the near-term and from product sales on an ongoing basis.

The Company has historically raised equity capital through the sale of its common and preferred stock. Management has proceeded as planned in the ongoing development of a recycled plastic composite pallet. The Company has worked with contract laboratories to conduct in-depth analysis of compounds. Extrusion methods and equipment modifications have been studied and refined, as have initial prototypes. During the year ended December 31, 1999, the Company contracted with Thermoplastic Composite Designs Inc. and Thermoplastic Flowforming

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going Concern (continued)

Technologies Corp. for professional and technical services in order to improve the Company's prospective product offerings and manufacturing processes. The finished product is expected to be available for distribution to potential customers for in-use evaluation during the third quarter of year 2001.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in its present form.

Accounting Method

The Company's financial statements are prepared using the accrual method of accounting.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and personal days off depending on job classification, length of service, and other factors. The Company's policy is to recognize the cost of compensated absences when actually paid to employees. If this accrual amount could be currently estimated, it would not be recognized, as the amount would be deemed immaterial at this time.

Development Stage Activities

The Company has been in the development stage since its formation in June 1998. It is primarily engaged in the refinement of a manufacturing process which is based on research findings for the development of pallets made of recycled materials.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which is effective for the Company as of January 1, 2001. This standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Instruments (continued)

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivative contracts to hedge existing risks or for speculative purposes.

At June 30, 2001, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

Fair Value of Financial Instruments

The carrying amounts for cash, accounts payable, notes payable and accrued liabilities approximate their fair value.

Impaired Asset Policy

In March 1995, the Financial Accounting Standards Board issued a statement titled "Accounting for Impairment of Long-lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The Company does not believe any adjustments are needed to the carrying value of its assets at June

30, 2001.

Interim Financial Statements

The interim financial statements as of and for the six months ended June 30, 2001 included herein have been prepared for the company without audit. They reflect all adjustments which are, in the opinion of management, necessary to present fairly the results of operations for these periods. All such adjustments are normal recurring adjustments. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year.

Loss Per Share

Loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Basic and diluted shares outstanding are the same, as the inclusion of common stock equivalents would be anti-dilutive. As of June 30, 2001, the Company had convertible preferred stock and stock options equivalent to 12,650,000 common shares, which are considered to be anti-dilutive.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

The Company's financial statements include the accounts of the Company and its wholly-owned non-operating subsidiaries. All material intercompany transactions and accounts have been eliminated in the financial statements.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to SFAS No. 109 "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

At June 30, 2001, the Company had net deferred tax assets of approximately $672,000 principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at June 30, 2001.

At June 30, 2001, the Company has net operating loss carryforwards of approximately $1,975,000, which expire in the years 2018 through 2020.

Reclassification

The reclassification of expenses in the financial statements has resulted in certain changes in presentation which have no effect on the reported net losses or shareholders' equity for June 30, 2001 and December 2000, or the periods then ended.

Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), and No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS 130 establishes standards for reporting and displaying comprehensive income, its components and accumulated balances. SFAS 131 establishes standards for the way that companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements. Both SFAS 130 and SFAS 131 are effective for periods beginning after December 15, 1997. The Company adopted these new accounting standards, and the adoption of SFAS 131 had no effect on the Company's financial statements and disclosures. The adoption of SFAS 130, related to comprehensive income is disclosed in the accompanying financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Pronouncements (continued)

In September 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities and also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS No. 140 is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000, and is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company believes that the adoption of this standard will not have a material effect on the Company's results of operations or financial position.

Research and Development Costs

Costs of research and development are expensed as incurred.

Translation of Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year, except gains or losses relating to long-term debt which are deferred and amortized over the remaining term of the debt. Non-monetary assets and liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

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.

NOTE 3 - INTANGIBLE ASSETS

In December 1998, the Company acquired technology rights from Mr. Real Morel and his affiliated companies of International Pallet Control Systems Inc. and The Pallet Company. The Company is currently investigating the patent process on this technology. During the years ended December 31, 2000 and 1999, attorney fees of $7,787 and $609, respectively, were added to patent costs. The amortization of patent costs will begin when the final patents are granted. If the Company does not obtain the patent, the costs of acquiring the patent rights from its originator will be charged to operations.

NOTE 3 - INTANGIBLE ASSETS (continued)

On December 1, 2000 the Company through its wholly-owned subsidiary, Electroship Acquisition Corporation, acquired technology rights, in exchange for shares of the Company's common stock. See Note 6. The acquired technology rights relate to an application stage patent for an invention that is expected to facilitate shipping commerce and/or for processing information regarding shipping services in a network environment. This acquisition was valued using the trading price of the Company's common stock at the date of acquisition.

On March 30, 2001, the Company completed a license agreement with Thermoplastic Composite Designs, Inc. (TCD) and received a license to manufacture the Company's E Pallet(TM) and other products to be developed. The license fee is a one-time fee of $525,000 to be paid by September 1, 2001. (See Note 5). As part of the agreement, the Company was granted an option, exercisable for thirty (30) months, to acquire TCD in exchange for Company's stock or cash in lieu of stock for up to 50% of the agreed upon purchase price. This merger, if the option is exercised, will require the Company to issue 3,000,000 shares of common stock in exchange for all of the outstanding stock of TCD. If the market value of this stock, when issued, is less than $15,000,000, the Company will elect to provide additional shares of common stock or cash to the TCD stockholders. Any payment of cash under this option shall not exceed $7,500,000. The Company has the sole option to determine the amounts of additional stock or cash that would be paid under the option. The Company has created a wholly-owned subsidiary, Envirokare Composite Corp. to effect this specific transaction.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight line method over the estimated useful lives of the assets. The useful lives of property, plant and equipment for purposes of computing depreciation are five and seven years. The following is a summary of property, equipment and accumulated depreciation.

	June 30, 2001	December 31, 2000
Furniture and Fixtures	$ 1,893	$ 1,893
Less: Accumulated Depreciation	721	569
Net Furniture & Fixtures	$ 1,172	$ 1,297
Office Equipment	$ 7,999	$ 6,661
Less: Accumulated Depreciation	3,137	2,421
Net Office Equipment	$ 4,862	$ 4,240
Molds	$ 70,000	$ 70,000

NOTE 4 - PROPERTY AND EQUIPMENT (continued)

The Company, in the development of its pallet products, has acquired molds, which will be depreciated over their expected useful lives, which currently has not been determined. The molds are currently carried at cost and the Company is continuing its research and development using these molds. When completed and placed in service the molds will be depreciated over their expected useful lives. See Note 10.

NOTE 5 - SHORT-TERM DEBT

Short-term notes payable at June 30, 2001 and December 31, 2000 consist of unsecured notes bearing 10% interest. These notes, which originated between August 18, 1998 and December 16, 1998, are payable to Mr. Real Morel and are due on demand. The principal amount on the notes is $61,965. Interest expense recorded on the notes payable at June 30, 2001 and December 31, 2000 was $16,062 and $12,989, respectively.

The Company is a named defendant in an action filed by Mr. Real Morel in the Supreme Court of British Columbia, Canada, under which the Company was served in May 2000. In this action, Mr. Morel alleges non-payment by the Company of amounts due pursuant to the aforementioned demand promissory notes. After consultation with British Columbia legal counsel and a review of the circumstances surrounding the issuance of the notes, the Company has resolved to dispute this liability. Management of the Company believes that the outcome will not have a material adverse effect on the financial position of the Company.

On March 30, 2001, the Company entered into a license agreement for intellectual property with TCD for $525,000. This amount is to be paid in full by September

1, 2001. See Note 3.

During March and April 2001, the Company received deposits of $156,000 and $44,000 cash, respectively for qualified stock purchase agreements. Common stock shares were issued on June 29, 2001 for these deposits.

See Note 9 for discussion concerning a loan payable to a shareholder.

NOTE 6 - COMMON STOCK

Upon incorporation on September 15, 1998, 10,000,000 shares of common stock were issued at $.001 per share, under Regulation D, Rule 504. At December 31, 1998, this common stock was held by 30 shareholders, none of whom held in excess of ten percent of the total.

NOTE 6 - COMMON STOCK (continued)

On February 22, 1999, the Board of Directors authorized a 1-for-2 reverse stock split of the Company's $0.001 par value common stock.

During the year ended December 31, 1999, 746,140 shares of common stock were issued for cash. At December 31, 1999, the balance of stock subscriptions was $105,000. Stock subscriptions were paid and stock issued February 16, 2000 for these common stock shares.

During the month of February 2000, 343,338 shares of common stock were issued at $0.75 per share. The Company's common stock was split 2-for-1 in March 2000. The split was effected as a 100% stock dividend payable March 6, 2000 to holders of record at March 1, 2000. All references in the accompanying financial statements to the number of common shares and per share amounts for the years ended December 31, 2000 and 1999 have been restated to reflect the stock split.

During September 2000, 200,000 shares of common stock were issued at $0.50 per share. These shares were issued in reliance upon the exemption from the registration requirements of the Securities Act of 1933 specified by the provisions of Regulation S.

During December 2000, 100,000 stock options were exercised at $0.575 per common stock share. These stock options were granted under the 1999 Stock Plan.

On December 1, 2000, Electroship Acquisition Corporation, a wholly-owned subsidiary of the Company, acquired Electroship (N.Y.) Inc. in exchange for 2,500,000 common stock shares. These shares were valued at $0.77 per share, which was fair market value on the date of the acquisition agreement. See Note 3. Electroship Acquisition Corporation acquired the intellectual property previously held by Electroship (N.Y.) Inc. which was previously a partnership created to hold the intellectual property rights. Neither Electroship (N.Y.) Inc., nor its predecessor partnership were considered operating entities. Neither entity had material transactions during 2000. As such, no proforma financial information is contained in these disclosures.

During June 2001, 1,000,000 shares of common stock with one warrant attached to each common share were issued at $0.20 per share. Each warrant is exercisable at $0.50 per share until June 30, 2003. These shares were issued in reliance upon the exemption from the registration requirements of the Securities Act of 1933 under regulation D as specified by the provisions of Regulation S and Rule 506.

NOTE 7 - PREFERRED STOCK

During the year ended December 31, 1999, 500,000 shares of preferred stock were issued for $250,000 cash. The preferred stock has no dividend rights, but is convertible to common stock at the rate of ten shares of common for each preferred share. This conversion feature was modified to twenty shares to one by the stock split effective March 1, 2000.

NOTE 8 - STOCK OPTIONS

In September 1999, the Board of Directors (the "Board") of the Company adopted the Envirokare Tech, Inc. 1999 Stock Plan (the "Plan"), subject to approval of the Company's shareholders. The shareholders approved the plan at the Annual Meeting of the Company's shareholders in May 2000. As adopted, the Plan provided for authorization of 2,000,000 shares of common stock for issuance pursuant to awards under the Plan. In September 1999, the Board had approved the granting of non-qualified options under the Plan to purchase an aggregate 1,150,000 shares of common stock. In June 2000, the Board voted to adjust the number of shares of common stock authorized for issuance under the Plan from 2,000,000 to 4,000,000, pursuant to the anti-dilution provisions of the Plan, to reflect the 2-for-1 split of the Company's common stock effected in March 2000. The Board also voted to make corresponding adjustments to the number of shares subject to previous option grants and to the exercise prices for such options.

The Company filed a Form S-8 under the Securities Act of 1933 (the "Securities Act") with the Securities and Exchange Commission in March 2000 to register 1,150,000 shares (2,300,000 as adjusted for the stock split) of common stock authorized for issuance under the Plan. In September 2000, the Company filed Post-Effective Amendment No. 1 to the Form S-8, to register the remaining 1,700,000 shares under the Securities Act.

The purposes of the 1999 Stock Plan are to attract, retain and motivate employees, directors and consultants of the Company. In accordance with Statement on Financial Accounting Standard No. 123, the fair value of the options granted was estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to value the stock options: risk-free interest rate at 5%, expected life at 10 years, and expected volatility at 30%. For the year ended December 31, 1999, the Company recorded $552,000 ($.24 per option) in consulting fees for the value of the options based upon these Black-Scholes assumptions. These stock options will expire September 29, 2009. (See Note 9). The plan also requires early exercising of the options for various reasons, including employment termination, separation from services, or cancellation of consulting contracts.

All of the option grants made by the Company during 1999 and 2000 provide that the options are exercisable immediately. The Plan restricts sales for shares received upon exercise of non-qualified options, limiting each optionee to sales in any year of option shares equal to 25% of the total number of shares received under the optionee's grant. As of December 31, 2000, there remained 1,700,000 shares of common stock available for issuance under the Plan. See Note 9.

NOTE 8 - STOCK OPTIONS (continued)

On March 6, 2001, stock options totaling 300,000 expired. These stock options were valued at $0.24 per option for a total of $72,000. On June 28, 2001, stock options totaling 250,000 expired. These stock options were valued at $0.24 per option for a total of $60,000. On January 16, 2001, stock options totaling 100,000 were issued. These options were valued at $0.29 per option for a total of $29,000. On March 14, 2001, stock options totaling 700,000 were issued. These options were valued at $0.15 per option for a total of $105,000. On June 28, 2001, stock options totaling 200,000 were issued. These stock options were valued at $0.15 per option for a total of $30,000.

	Fixed Plan	
	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1998	--	--
Granted	2,300,000	0.575
Outstanding at December 31, 1999	2,300,000	0.575
Expired	(500,000)	0.575

Granted	500,000	0.500
Exercised	(100,000)	0.575
Outstanding at December 31, 2000	2,200,000	0.558
Expired	(550,000)	0.575
Granted	100,000	0.60
Granted	900,000	0.30
Outstanding at June 30, 2001	2,650,000	0.468
Options Exercisable at June 30, 2001	2,650,000	$ 0.468
Weighted average fair value of options granted during the fiscal year ended June 30, 2001	$0.16	

NOTE 9 - RELATED PARTIES

Jeannie M. Runnalls, who was appointed president, secretary, and director of the Company on January 24, 2000, received $32,988 for consulting fees during the year ended December 31, 2000. Ms. Runnalls received $22,715 in cash for consulting fees during the year ended December 31, 1999.

On August 8, 2000, the Company authorized a shareholder's loan to Ms. Runnalls in the amount of $15,000. Terms of the unsecured, demand loan require interest payments of 7% per annum simple interest. The shareholder loan balance, including accrued interest, at June 30, 2001 was $6,648.

Stock options of 2,300,000 were issued for common stock shares during the year ended December 31, 1999. Of these stock options, 1,000,000 were issued to related parties. During the year ended December 31, 2000, the Company granted 200,000 stock options for common stock shares to the then president of the Company. (See Note 8.) On December 11, 2000, the president of the Company resigned and is currently a member of the board of directors of the Company.

During 2001, a shareholder loaned the Company $260,000. This amount bears no interest or specified terms of repayment. It is the Company's intent to pay this shareholder loan by the year ending December 31, 2001.

On January 16, 2001, the Company granted 100,000 stock options for common stock shares to Trevor Bedford, who is currently a member of the board of directors of the Company.

On March 14, 2001, the Company granted 100,000 stock options for common stock shares to Charles Stein, then president of the Company. (See Note 8.) Effective May 1, 2001, Mr. Stein resigned as president of the Company and is currently a member of the board of directors of the Company.

On March 14, 2001, the Company granted 300,000 stock options for common stock shares each to Gerald Breslauer, the vice president of administration of the Company, and Mark Kallan, the executive vice president of the Company.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Consulting Agreements
The Company entered into employment contracts with Charles H. Stein, Mark Kallan, and Gerald Breslauer dated December 18, 2000. These contracts call for

compensation totaling $144,000 annually commencing on December 31, 2000 and ending on December 31, 2005. These employment contracts also carry stock options which have been included in the stock options calculation. The employment contract with Charles H. Stein was canceled effective May 1, 2001. This contract carried an employment cancellation fee of $20,000 to be paid to Charles H. Stein at $2,000 per month for ten months commencing on June 1, 2001. The employment contracts for Mark Kallan and Gerald Breslauer were amended by contracts, dated March 14, 2001 that call for compensation totaling $84,000 annually ending December 31, 2005.

Lease Agreements

The Company entered into a lease for office space in Las Vegas, Nevada for the period of thirty-six months beginning October 1, 1998. Monthly payments are currently $800 per month, including $40 for utilities. In compliance with the terms of the lease, the Company has purchased comprehensive public liability insurance. Future annual minimum lease payments for the term of the lease as of June 30, 2001 are as follows for the years ending December 31:

2001	$2280

The Company entered into a lease for office space in Boca Raton, Florida on February 7, 2001 for sixty months. Monthly payments of the lease are currently $2,794.50 per month with additional charges for common area. A security deposit and last months rent was paid in the amount of $8,412. A portion of this office space is being subleased with the sub-lessee reimbursing the Company $3,000 of the security deposit and last months rent. There is no written sublease agreement at this time. Future annual minimum lease payments for the term of the lease as of June 30, 2001 are as follows for the years ending December 31:

2001	$16,767
2002	$34,764
2003	$36,156
2004	$37,605
2005	$39,109

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Development Contract

In November 1999, the Company entered into a product/technology development contract with Thermoplastic Composite Designs, Inc. (TCD), whereby TCD would provide professional and technical services to the Company. Terms of the contract required TCD to, among other matters, modify the Company's pallet design, provide pallet material specifications, supply the pallet molds, and develop pallet prototypes and demonstration units. The total payable by the Company under this contract was $133,800. During the year ended December 31, 1999, the amount paid was $50,800 leaving a balance owing of $83,000. During the period ended June 30, 2000, this balance was paid. The Company capitalized $70,000 of these research and development costs as prepaid expenses at December 31, 1999 to reflect the value of the molds derived from this contract. As of June 30, 2000, this prepaid expense of $70,000 was reclassified as molds, a depreciable component of the Company's property and equipment.

Litigation

For information on the Company's litigation, see Note 5.

Item 2. Plan of Operation

This Form 10-QSB contains some statements that the Company believes are "forward-looking statements." Forward-looking statements include statements about the future of the pallet industry, statements about future business plans and strategies, and most other statements that are not historical in nature. Because forward-looking statements involve risks and uncertainties, there are factors, including those discussed below, that could cause actual results to be materially different from any future results, performance or achievements expressed or implied. The Company has attempted to identify the major factors that could cause differences between actual and planned or expected results, but there can be no assurance that the Company has identified all of those factors. Accordingly, readers should not place undue reliance on forward-looking statements. Also, the Company has no obligation to publicly update forward-looking statements it makes in this Form 10-QSB.

Overview

The Company is currently in the development stage and has not yet generated any operating revenues. Since its inception in June 1998, the Company has developed a single piece molded pallet, E Pallet(TM) (sometimes referred to herein as the "Pallet"), manufactured primarily from thermoplastics, including recycled plastics. The Company's management expects that the Company will commence commercial production and sale of the Pallet sometime in 2002. The Company is completing development of the Pallet and several other industrial and commercial products, through a licensing agreement with Thermoplastic Composite Designs, Inc. ("TCD"), a research and development organization, which has developed or secured certain patented products and processes. See " -- License Agreement with TCD," below, for discussion of the Company's licensing, manufacturing and other agreements with TCD.

The Company had originally planned to have licensees begin producing the Pallet in 2000, but decided to conduct additional tests, which delayed the previously planned production start date. The discovery of significantly improved substrate technology caused the Company to rethink their initial production start dates, as well as production and marketing strategy. Consequently, additional product development and testing was required that would be specific to the improved substrate composition, prior to initiating the launch of production operations.

Although the Company's decision to further develop and test the Pallet has set back production dates, the Company believes that this additional research and development has substantially minimized or eliminated any concerns as to the Pallet's

design and ability to perform. The Company's testing program has included in-depth analysis of substrate compounds, extrusion methods and equipment modifications. Initial prototypes of the Pallet have been developed and refined. The Company expects to have potential customers evaluate the Pallet through in-use testing beginning in the third quarter of 2001. Company management anticipates that the Company will commence commercial production of the Pallet, once appropriate production facilities are procured and commissioned for production, currently anticipated for sometime in 2002.

Liquidity and Capital Resources

The Company is not yet generating revenues. For the six months ended June 30, 2001, the Company had a net loss of $437,897. The Company's net loss accumulated for the period from June 15, 1998 (inception) to June 30, 2001 was $1,976,826. The Company anticipates that it will begin to generate revenue during 2002, upon the planned start of production of the E Pallet(TM) by the Company. At June 30, 2001 the Company had current assets of $114,179, consisting of $107,531 in cash and $6,648 in a related party loan receivable. During the six months ended June 30, 2001, the Company's cash resources increased by $96,169 as a result of cash raised by issuance of the Company's common stock for aggregate proceeds to the Company of $200,000 and by a loan from a related party in the amount of $260,000, offset by general and administrative costs. At June 30, 2001 the Company had current liabilities of $721,460. At June 30, 2001 current liabilities exceeded current assets by $607,461. Other than as discussed above, the Company is not aware of any trends, demands, commitments or uncertainties, other than those affecting business and the economy in general, that could result in the Company's liquidity decreasing or increasing in a material way within the next 12 months.

To date, the Company has raised capital through private placements of common stock and convertible preferred stock. The Company has budgeted pre-production and other production-related expenditures for the twelve months through June 30, 2002 of $720,000, excluding license fees which may become due and payable, and plans to raise additional funds in the next several months to cover its proposed expenditures. These funds may be raised through additional equity financings, as well as borrowings and other resources.

Since late 2000, the Company has been attempting to raise equity capital through a private placement but encountered difficulties due in part to the current volatile condition of the equity markets. The Company believes that it has recently overcome such difficulties, as it has completed a private placement consisting of units of the Company's common stock and warrants to purchase common stock. See "Part II -- Other Information. Item 2. Changes in Securities." Additionally, the Company is currently undertaking a new private placement of units consisting of a promissory note that bears interest at a rate of 15% per annum and a warrant to purchase three (3) shares of the Company's common stock, at an exercise price of $0.195 per share, exercisable for two

(2) years from the date of subscription. To date, the Company has raised One Hundred Thousand Dollars ($100,000) in this offering.

The Company is currently holding discussions with potential investors. With the capital it has raised to date, and the additional funds it plans to raise in the next several months, the Company believes that it can continue with its production and marketing plans, which in the short term include the start-up of Pallet manufacturing operations, and in the longer term include adding additional production lines and expanding the product line mix. Management of the Company believes that its financing plans described above will enable it to meet its obligations including cash requirements for at least the next twelve months to June 30, 2002.

To achieve and maintain competitiveness of its products and to conduct further testing and development that will allow the Company to enter into the production stage of operations, the Company may be required to raise substantial funds in addition to funds already raised through the issuance of the Company's shares. There can be no assurance that additional funding will be available under favorable terms, if at all. If adequate funds are not available, the Company may be required to curtail operations significantly. For example, the Company's plans include the possibility of setting up its own production operations, in addition to having licensees produce various Company products under development. If the Company cannot raise enough funds, it may not be able to carry out a plan to set up its own manufacturing operations. The Company might also have to obtain funds through entering into arrangements with collaborative partners or others. That could require the Company to relinquish rights to certain products, which could impair future sources of revenues for the Company.

Products; Product Development

The Company's first product will be the E Pallet(TM), made through a unique manufacturing process, which allows for 80% of the material to be recycled thermoplastics. This process is called Thermoplastic Flow Forming ("TPF Process" or "Process"). See " -- TPF Process," below.

Key advantages of the Company's Pallet will include increased strength and durability, lighter weight, environmental benefits (i.e., no lumber required, 100% recyclable, no fungicides/bacterial spraying required, no land fill dumping and less energy to manufacture) increased safety, because there is no splintering of wood or hazardous nails/bolts, increased ease of use (because of 4 way entry access into the Pallet), longer life cycle, and lower costs per pallet-round-trip. The Pallet has also been designed to resist damage caused from use and to handle large loads when evenly loaded. The single piece construction of the Pallet is expected to mitigate numerous product and personal liability issues that occur in typical pallet programs. As there are no fasteners or components to

break apart from the Pallet, the Company anticipates that its customers will experience reduced pallet breakage.

The Company has been actively involved in extensive testing and development of the Pallet. The Company's development focus is to ensure that the Pallet meets or exceeds current market standards and that the Pallet will be superior in performance and will be cost effective to produce and sell. In particular, the Company's development efforts focus on the safety, structural integrity, reliability, and cost effectiveness of the Pallet, involving in-depth analysis of compound variables and strengths, extrusion methods and equipment modifications.

The Company contracted with substrate component testing engineers in the Akron, Ohio area during 1999 who performed the primary series of substrate component testing. Subsequent to the preliminary tests conducted on substrate components, the Company and TCD entered into a product/technology development contract in connection with TCD's assisting the Company in modifying earlier versions of the Pallet design. The contract required TCD to deliver a pallet that would meet design specifications including: a 48-inch by 40-inch dimension; a maximum weight requirement; and a target substrate composition. The contract also provided that TCD would supply the appropriate engineered mold for the Company's first production facility.

Additional Pallet testing and evaluation was conducted at Virginia Polytechnic Institute and State University, in Blacksburg, Virginia, through the William H. Sardo Jr. Pallet and Container Research Laboratories. Pallet testing commenced during May 2000. Initial test results at this facility provided the basis from which the Company and its product design contractor were able to make design adjustments resulting in a significantly improved Pallet. Further Pallet testing and evaluation through January 2001 resulted in other minor adjustments to the Pallet design to bring the Pallet up to the Company's specified standards.

The Company believes that after extensive studies and refinement, it has minimized or eliminated any concerns as to the Pallet's design and ability to perform. The Company plans to conduct further testing during the third and fourth quarters of 2001, which it believes will provide information as to the longevity of the Pallet compared to other materials and provide marketing strategies for the Company. Analysis to date indicates that the Company's standard 48-inch by 40-inch Pallet will surpass current hardwood and plastic pallet performance and will be a strong competitor in the pallet industry worldwide.

The Company's Pallet design presents what the Company believes is a preferable alternative to pallets made from wood and from non-wood materials. Pallets had traditionally been made of wood but, due to escalating commodity lumber prices and associated higher costs of wood pallets, pallet manufacturers have in recent years been

developing ways to manufacture pallets from non-wood materials, in particular, metal, wood derivatives and plastic. However, each of these materials has its disadvantages. Metal pallets, while they are strong, hard to damage, and repairable, are expensive and not practical for general use. Pallets made from pressed wood fiber and corrugated fiber board are light and recyclable. However, most pallets manufactured from this type of substrate are not able to carry standard load weights, are susceptible to damage, and cannot be repaired. The most prevalent non-wood pallet material, plastic, is more cost-effective than wood but is nonetheless expensive. Also, plastic pallets can be damaged by forklift tines, or by being dropped, twisted or overloaded. They can also splinter, causing injuries to workers. The Company believes that the recent rapid increase in market share for plastic pallets indicates that pallet buyers understand the benefits of utilizing substitutes for wood pallets. This presents a market opportunity for the Company, as the Company considers the Pallet to be a durable product and a cost-effective plastic pallet alternative.

The Company believes that its specialization in thermoplastic composites will provide a competitive advantage in the future. Until recently, thermoplastic composites were not considered commercially viable substitutes for thermoset composites, wood, aluminum, steel, and other metal alloys. However the recent introduction of long-strand reinforcing fiber(s) has dramatically increased the mechanical and physical properties of thermoplastic composites. During past years, these composite materials were utilized almost exclusively be the military and aerospace industries, due to the inordinate cost of hand application, normally confined to smaller parts.

TPF Process. The TPF Process is a proprietary process that enables the manufacturer to create large structural parts using thermoplastic resins. The Process uses recycled or virgin resins and is designed to reuse its own waste, thereby minimizing the creation of waste by-products.

The TPF Process can potentially be used to create products for a broad range of industries including: Material Handling, Transportation, Marine, Medical, Waste Management and Aerospace. The composite materials products created using the Process have the ability to mimic many attributes found in wood, aluminum, steel, and other metal alloys matching many of their physical and mechanical properties while providing significant weight and cost reductions. Another advantage of the Process is that it does not emit any Volatile Organic Contaminants (VOCs), which are present in many thermoset composites.

Management believes that the TPF Process will give Envirokare the ability to produce large structural parts at prices projected to be well below current levels. This price advantage is the result of projected savings for the following reasons:

o Economies of scale as a result of the mechanical reproduction of large structural parts, rather than necessitating manufacture of smaller components followed by component assembly.

o Reduced labor costs because of fewer component assemblies required.

o Reduced cost of materials, due to the ability to reuse waste generated from manufacturing.

Acquisition of Electroship (N.Y.) Inc.

On December 21, 2000, the Company, Electroship Acquisition Corp., a New York corporation and a wholly-owned subsidiary of Envirokare ("EAC"), and Electroship (N.Y.) Inc., a New York corporation ("Electroship") consummated the merger of Electroship with and into EAC with EAC continuing as the surviving corporation (the "Merger"). The consideration received by Electroship Partners, the former shareholder of Electroship, in the Merger consisted of 2,500,000 shares of the common stock, par value $.001 per share, of Envirokare. Electroship Partners has since dissolved and distributed its assets, including such shares, among its former partners. Electroship was engaged in the business of developing wireless tracking technology for the shipping industry.

The primary asset that the Company acquired in this merger was a patent that had been provisionally filed by Electroship with the United States Patent and Trade Office ("USPTO"). The Company anticipates that patents that may be issued as a result of the provisional filing will provide the Company with, among other potential wireless product developments, the ability to develop materials handling products that will have wireless tracking capability. Design work commenced on initial wireless Pallet prototypes during the first quarter of 2001.

License Agreement with TCD

The Company announced, on December 1, 2000, that it had completed a letter of intent with TCD to enter into an arrangement to manufacture products utilizing TCD's TPF process. The Company, through Envirokare Composite Corp. ("ECC"), its wholly-owned subsidiary, and TCD completed a license agreement on March 30, 2001 pursuant to which Envirokare's proprietary pallet and other products to be developed will be manufactured using TCD's proprietary TPF process. The license agreement provides that Envirokare will make a payment in the amount of Four Hundred and Fifty Thousand dollars ($450,000) to TCD. This payment is in addition to a deposit held on Envirokare's account by TCD in the amount of Seventy-five Thousand dollars ($75,000). This deposit was applied to the license fee payable to TCD during June 2001. The balance due to TCD

under the license agreement, as of June 30, 2001, was Two Hundred Fifty Thousand dollars ($250,000).

Envirokare and ECC also entered into a merger agreement with TCD, which provides that TCD will merge with ECC if Envirokare's shares trade at a specified level during the thirty (30) month period following the agreement date. In the event that Envirokare's shares have not traded at such specified level by the end of the thirty (30) month period, then ECC and Envirokare have the option to effect the merger of TCD with ECC by paying to TCD's shareholders additional consideration, either in cash or additional shares of Envirokare.

Anticipated Revenue Sources; Marketing and Distribution

The Company plans to generate revenues from developing and operating its own manufacturing facilities in conjunction with TCD's production facility development assistance. As opportunities present themselves, the Company will also consider entering into national and international licensing agreements for manufacture and production of the Pallet and other contemplated products by third parties, which would provide license fees and royalty revenues based on units of production.

The Company had originally planned to have licensees begin producing the Pallet during 2000 but decided to conduct additional product tests, which delayed a previously planned production start date. Significantly improved substrate technology developments caused the Company to rethink their business plan which included the method of marketing the Pallet and initial production start-up dates. The Company now expects to begin production of the Pallet sometime in 2002.

In December 1999, the Company announced that it had received a letter of intent from Cultech International Corporation to manufacture and market the Pallet in Asia. Cultech intends to obtain exclusive manufacturing and marketing rights to the Pallet for all of Asia. The parties agreed in principle that, once engineering studies were satisfactorily completed, the parties would enter into an agreement whereby Cultech would make payments to the Company including licensing fees and royalty payments based on units of Pallet production, although the letter of intent does not obligate the Company to enter into such an agreement. To date, the Company has taken no further action with respect to the letter of intent.

Also in March 2000, the Company announced that it had received a production and marketing letter of intent from International Pallets of California. The letter of intent provides for the parties to negotiate an agreement whereby International Pallets would build a production facility that would allow International Pallets to produce, market and

sell the Pallet in California and Nevada, although the letter does not obligate the Company to enter into such an agreement. In the event a formal agreement were negotiated between the parties, the agreement would include provisions providing for International Pallets to pay a license fee and royalty payments to the Company. To date, the Company has taken no further action with respect to the letter of intent.

Employees

The Company currently has two employees. Management of the Company anticipates using consultants for business, accounting and engineering services on an as-needed basis.

Amendments to Employment Contracts

Effective as of December 22, 2000, the Company had entered into employment contracts with Charles H. Stein, currently Vice Chairman of the Board; Mark L. Kallan, Executive Vice President; and Gerald Breslauer, Vice President of Administration, Secretary and Treasurer. The contracts were preliminary and subject to renegotiation. See "Item 10. Executive Compensation -- Employment Contracts and Termination of Employment and Change-in-Control Arrangements" in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

Each of the contracts was amended pursuant to an amendatory letter agreement (the "Amendment"), dated March 14, 2001, between the Company and each of Messrs. Stein, Kallan and Breslauer. The Amendment provided, among other things, that the number of shares to be granted under option would be 500,000 as to Mr. Stein, and 300,000 as to each of Mr. Kallan and Mr. Breslauer. The Amendment further provided, as to Mr. Stein, that if he were not instrumental in helping the Company secure $200,000 through the private placement of its common shares by April 23, 2001, (i) he would agree to the reduction of the number of shares to be granted to him under such option to 100,000 and (ii) the Company could cancel Mr. Stein's employment contract with the Company at any time after April 23, 2001, upon payment to Mr. Stein of $20,000. The Amendment also provided for monthly remuneration for Messrs. Stein, Kallan and Breslauer of $6,000, $3,000 and $4,000, respectively, subject to increases for Mr. Kallan and Breslauer based on the amount of time each allocates to the business of the Company.

Pursuant to a letter agreement (the "Stein Letter Agreement") dated May 8, 2001, between the Company and Mr. Stein, the Company confirmed that it would reduce the number of shares to be granted to Mr. Stein under such option to 100,000, and would cancel Mr. Stein's employment contract effective May 1, 2001, in consequence of Mr. Stein's failure to secure financing for the Company in the amount of at least $200,000, all as provided in the Amendment. The Stein Letter Agreement provides that, instead of

receiving a one-time payment of $20,000 upon cancellation of Mr. Stein's employment contract as provided in the Amendment, Mr. Stein shall instead receive $2,000 per month for ten months, commencing June 1, 2001. Further, the Stein Letter Agreement provides that, if Mr. Stein is able to arrange financing for the Company in the future, the Company will grant Mr. Stein an option to purchase a number of shares, up to 400,000, based on the contemplated financing target of $200,000 (i.e., if Mr. Stein raises $100,000, then the Company will grant 200,000 shares under option). Mr. Stein also acknowledged in the Stein Letter Agreement that, as of May 1, 2001, he relinquished his titles of Chairman of the Board and Chief Executive Officer of the Company, and became Vice Chairman of the Board.

PART II -OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, for a discussion of an action filed by Mr. Real Morel against the Company in the Supreme Court of British Columbia, Canada.

Item 2. Changes in Securities

During the first six months of 2001, the Company undertook a private placement offering of units (the "Units") to Accredited Investors (as such term is defined in Rule 501 of Regulation D under the Securities Act of 1933). Each Unit consisted of one (1) share of the Company's common stock and one (1) warrant, exercisable for one year from the agreement date, to purchase one (1) additional share of the Company's common stock at a price of $0.75. The Company sold each Unit for $.20 per Unit. The Company realized proceeds of $200,000 from the sale of Units under this offering. The Company completed this transaction in June 2001, with the proceeds from the offering to be used to pay for operating costs and provide working capital. Because of a possible technical defect in the offering, the Company offered the participants the right to rescind their subscriptions in the offering and to participate in a subsequent offering in which the possibility of a defect was eliminated. The subsequent offering was made upon the same terms as the original offering with the exceptions that the exercise price was changed to $0.50 per share from $0.75 per share and the purchase warrant was extended to two (2) years as consideration for any possible inconvenience experienced by the subscribers. All participants in the initial offering accepted the Company's rescission offer with respect to the Units subscribed for in the initial offering.

Additionally, the Company is currently undertaking a new private placement of units consisting of a promissory note that bears interest at a rate of 15% per annum and a warrant to purchase three (3) shares of the Company's common stock, at an exercise price of $0.195 per share, exercisable for two (2) years from the date of subscription. To date, the Company has raised One Hundred Thousand Dollars ($100,000) in this offering.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Company's Articles of Incorporation, as amended October 12, 1999 (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999, filed with the Commission on April 7, 2000).

3.2 Company's By-laws as amended and restated December 11, 2000 (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, filed with the Commission on April 16, 2001).

10.1 Agreement and Plan of Merger, dated as of December 1, 2000 by and among the Company, Electroship Acquisition Corp., Electroship (N.Y.) Inc., Electroship Partners, John Gremmo, John A. Notarianni, Leo J. Mangan, Raymond Anthony Joao and Richard Reichler (incorporated herein by reference to Exhibit (c) 1. to the Company's Report on Form 8-K, filed with the Commission on January 3, 2001).

10.2 Assignment of Patent Application from Electroship Partners to Electroship (N.Y.) Inc. and Defined Field of Use License Agreement between Electroship Partners and Electroship (N.Y.) Inc. dated as of September 20, 2000 (incorporated herein by reference to Exhibit (c) 2. to the Company's Report on Form 8-K, filed with the Commission on January 3, 2001).

10.3 License Agreement between Envirokare Composite Corp. and Thermoplastic Composite Designs, Inc. dated March 30, 2001 (incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, filed with the Commission on April 16, 2001).

10.4 Merger Agreement by and among the Company, Envirokare Composite Corp., Thermoplastic Composite Designs, Inc., Dale Polk, Sr. and Dale Polk, Jr., dated March 30, 2001 (incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, filed with the Commission on April 16, 2001).

10.5 Employment Agreement between the Company and Charles H. Stein, dated December 18, 2000 (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2001, filed with the Commission on June 15, 2001).

10.6 Employment Agreement between the Company and Mark L. Kallan, dated December 18, 2000 (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2001, filed with the Commission on June 15, 2001).

10.7 Employment Agreement between the Company and Gerald Breslauer, dated December 18, 2000 (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2001, filed with the Commission on June 15, 2001).

10.8 Amendment to Employment Agreements between the Company and each of Charles H. Stein, Mark L. Kallan and Gerald Breslauer, dated March 14, 2001 (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2001, filed with the Commission on June 15, 2001).

10.9 Letter Agreement between the Company and Charles H. Stein, dated May 8, 2001 (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2001, filed with the Commission on June 15, 2001).

(b) Reports on Form 8-K

None

SIGNATURE

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 31, 2001.

ENVIROKARE TECH, INC.
Registrant

By: /s/ STEVE PAPPAS

Name: Steve Pappas
Title: President
(Principal Executive Officer and
Principal Financial and Accounting
Officer)