

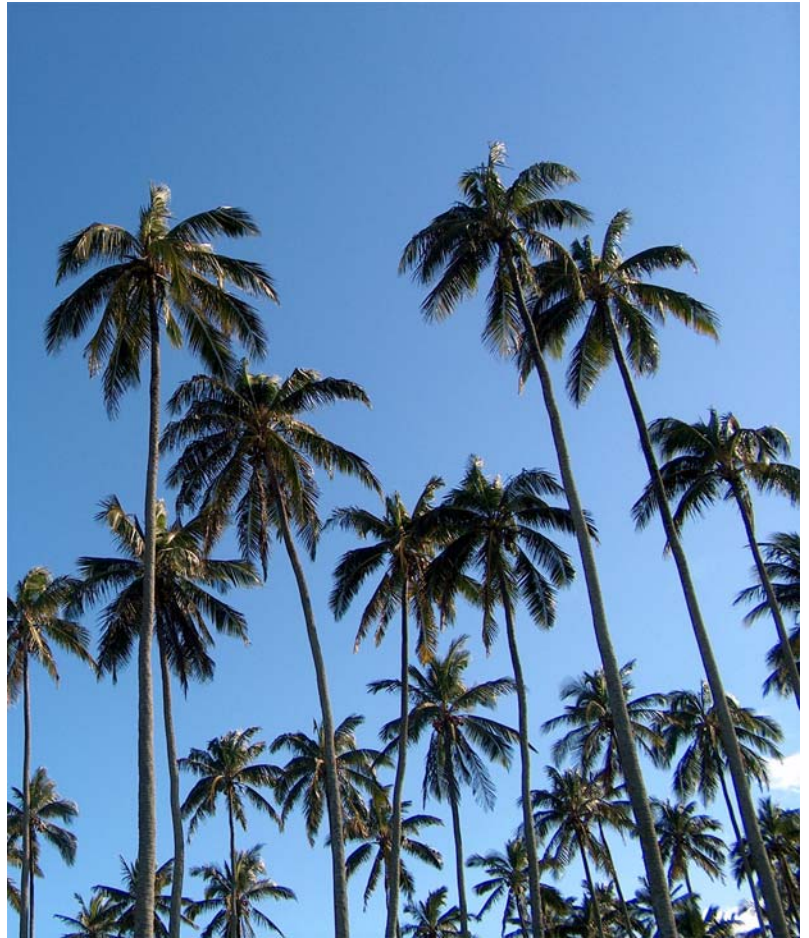


U.S. MICROBICS

Annual Report FY-2003

ending September 30, 2003





“We still do not know one thousandth of one percent of what nature has revealed to us.”

– Albert Einstein





Robert C. Brehm



Mery C. Robinson

Dear Shareholders, Investors & Customers:

We are very pleased with your interest in U.S. Microbics, Inc. and its technology-rich subsidiaries. Our world-class management team has been implementing a strategic plan that can solve many of today's most pressing environmental contamination problems, increase food production, and potentially improve the lives of millions of people worldwide.

The recent successes of Sub-Surface Waste Management – coupled with new breakthroughs in customer acceptance of our soil and groundwater cleanup products, services, and application knowledge – could catapult U.S. Microbics, Inc. to significant revenue in the next five years as we increase our client base, acquire synergistic companies, and significantly expand our pay-for-performance services.

Over the past five years, we have demonstrated soil and groundwater cleanup of contaminated sites, and achieved better, faster, cheaper, and safer cleanups with our unique combination of proprietary biotechnology and professional engineering services. We have successfully provided services and solutions on “pay-for-performance,” which represents a significant paradigm shift from the conventional “pay-for-effort” contractual basis.

Water contamination is a major problem worldwide, accounting for increased cancer rates and additional health hazards still under study. Our cleanup technology has a proven global market with applications ranging from hazardous waste cleanup of industrial sites, to property reclamation to drinking water purification in Third World countries.

Our strategy is simple. We keep the secret formulae with our technology experts in XyclonyX and produce the microbial mixes in our own fermentation facility. XyclonyX has microbial technology, patents, and a unique culture collection developed over the past 30 years. We couple this proprietary technology with world-class engineering services to deliver cost-effective solutions that typically take half the time with half the cost of conventional technology. This simple strategy should make U.S. Microbics, Inc. an internationally recognized provider of natural solutions for many of today's most challenging environmental problems.

U.S. Microbics, Inc. and its customers, investors, strategic partners, and employees are truly on the verge of providing a proven alternative technology that can rectify many environmental mistakes of the past and provide new hope for those in need of better quality food, clean water, and healthy soil.

Our future success leads to a brighter future for us all. Please join us in making this a cleaner, healthier world for this generation and for generations to come.

Sincerely,

Robert C. Brehm
Chairman and CEO, U. S. Microbics, Inc.



Education is the key.

Industries, businesses, and individuals need to make greater use of microbial bioremediation to clean-up polluted sites.

U.S. Microbics is engaged in programs to educate and enlighten multiple groups:

- Industries – including petrochemical companies in the U.S.A. and internationally
- Businesses – owner/operators of gas stations, dry cleaners, and other businesses
- Individuals – including property owners, lienholders, investors, and the general public.

In addition, U.S. Microbics, Inc. is working with a nonprofit educational foundation to establish microbial remediation educational programs for students and their teachers from kindergarten through high school (K-12).



I'm a Microbe and proud of it! Microbes are vital to life on Earth. Microbes create most of the oxygen in the atmosphere, contribute to the richness of soil, and assist the life-sustaining functions of animals and plants.

Microbes are the foundation of the food chain, and the best adapted life-forms known to exist. No matter how hot or cold, wet or dry, or chemically hostile, you'll find microbes!

Microbes can be used to clean-up the environment and repair the damage done by pollution. Microbes can heal the Earth.

The damage that's been done to the environment eventually will be cleaned by microbes over the course of the next thousands or millions of years. Science shows us how we can use those same microbes to speed up the process, and clean-up the environment – faster, better, cheaper & safer.

Microbes are microorganisms, including fungi, bacteria, protozoa, and viruses. They are very small.

Bioremediation harnesses the ability of a select few species of microbes (including bacteria and fungi) to clean up the environment.

Microbe-enabled agriculture uses beneficial microbes to increase the bounty of harvests.

Everybody needs beauty as well as bread, places to play in and pray in, where nature may heal and give strength to body and soul.

– John Muir, naturalist



U.S. Microbics, Inc. is recognized as a leader in the bioremediation industry. The roots of the company go back to four decades, to the pioneering work of **George Robinson**, who first advanced the idea of using microbes to consume oil spilled along the coast of Santa Barbara, California. His legacy includes thirty-years of theoretical and empirical research leading to the successful formulas for microbe separation, ultra-high yield fermentation, consortium formulations for specific problem solving tasks, long term storage of microorganisms, and completion of field-successful applications. **Mery Robinson**, George Robinson's daughter, is Executive Vice President of U.S. Microbics, and President of two of the Company's subsidiaries.

Microbes are Interesting!!!

Oldest Form of Life? *Microbes!*

They've been on Earth for 3.8 Billion Years

More than Half of All Life on Earth? *Microbes!*

Based on biomass (total weight) of all living things, microbes represent approximately 60%.

Who Makes More than Half the Oxygen We Breathe?

(This is too easy....) *Microbes!*

The Ultimate Survivalists? *Microbes!*

Microbes have adapted to every environmental niche, usually in great numbers. A liter of coastal seawater typically contains a billion or more microbes. A single gram of soil often contains more than a billion microbes.

Microbes drive the chemistry of life and affect global climate.

By applying the right combination of microbes, we can make the desert bloom and fish smile.



Yeast is a helpful microbe that humans have used to make breads for thousands of years.

[magnification: approx. 7,000 times]



U.S. Microbics, Inc. (OTC-BB: BUGS)

is a corporation with active subsidiaries that represent every facet of microbe-smart remediation.

Operationally, U.S. Microbics, Inc. is organized into two groups: **USM Solutions** and **USM Capital**.

USM Solutions consists of five majority-owned subsidiaries using biological technology to revolutionize environmental clean-up and agricultural growth. USM Solutions companies manufacture, develop, and market proprietary microbial technologies that provide natural solutions to environmental problems.

USM Solutions



Sub-Surface Waste Management of Delaware Inc. (OTC-BB: SSWM) provides comprehensive civil and environmental engineering project management services. Sub-Surface Waste Management's team designs, permits, builds, and operates environmental waste clean-up treatment systems using conventional, biological, and filtration technologies.

SSWM is capitalizing on its patented and patent-pending technology by forming strategic alliances and joint ventures with well-established engineering firms.

Sub-Surface Waste Management of Delaware, Inc. is majority owned by U.S. Microbics, Inc.



XyclonyX develops and applies its key technologies that include patents, proprietary knowledge, products, processes, and expert personnel.

XyclonyX technologies are sold to the environmental, petrochemical, agricultural, and waste treatment markets. XyclonyX has developed a formulation for mass producing proprietary microbial blends in liquid and powder forms.

XyclonyX is wholly owned by U.S. Microbics, Inc.



West Coast Fermentation Center, Inc. (WCFC) cultivates microbial cultures for the Company's product lines: Bi-Agra™ Remediline™ and Wasteline™.

WCFC operates a microbe laboratory, pilot plant, and quality control center. WCFC produces microbial blends using fermentation technology, powder blending, and combinatorial liquifaction.

WCFC is wholly owned by U.S. Microbics, Inc.

USM Solutions provides environmental technologies, environmental services, and environmental products.

In addition to the five companies identified below that are part of the USM Solutions, U.S. Microbics, Inc. has three additional wholly owned companies: USM Information Services, Inc.; USM Products, Inc.; and USM Resources Development, Inc.

USM Capital is the financial services division of U.S. Microbics, Inc.

USM Solutions

USM Capital



Sol Tech, Inc. (doing business as **Wasteline Performance Corp.**) was formed specifically to serve markets for treating wastewater in the U.S.A. and internationally.

Sol Tech, Inc. is majority owned by U.S. Microbics, Inc.



Bio-Con Microbes, Inc. provides microbial blends and bio-processing treatment systems for agricultural yield enhancement, odor control, insect control, and cogeneration.

Bio-Con Microbes, Inc. has a wholly owned subsidiary in Mexico: Natura Agricultura, S.A. d. C.V., which has conducted tests that demonstrate microbial-based increases to sugar cane production.

Bio-Con Microbes, Inc. is wholly owned by U.S. Microbics, Inc.



USM Capital Group, Inc. assists in financing and development of the five USM Solutions companies, with additional equity holdings primarily in environmental industry companies at key stages in the process of going public.

USM Capital provides management consulting, administrative services, and investor relations services to its clients.

USM Capital Group, Inc. is a majority owned by U.S. Microbics, Inc.



Challenges must be faced and changes must be made to protect the Earth.

We must work together to reverse the cumulative effects of pollution, loss of natural habitat, and the impact of our expanding human population, which globally is projected to surpass 7 billion people within a decade.

U.S. Microbics, Inc. is committed to providing leadership through:

- **Best use of special blends of naturally occurring microbes** to consume pollutants and toxins, thus restoring the health of soil and groundwater.
- **Pay-for-performance contracts** that reward our meeting milestones for cleaning-up polluted sites – faster, better, cheaper, and safer!
- **Rapid detox at the source of pollution** – instead of downstream.
- **Reclamation of wastewater** to increase the availability of potable water.
- **Agricultural applications** to produce more and better food on less land.
- **Education programs** to disseminate information about the benefits of microbial remediation and microbial enhancement of agriculture.

We're Microbes – working together to help the environment! Microbial blends are mixtures of different microorganisms that occur naturally. One microbe might work to break up long chains of hydrocarbon molecules into smaller units, while another microbe consumes key components of pollutants and reduces their toxicity. A third microbe may help the others do their jobs by creating micro-environmental conditions that allow the microbes to flourish and speed up the process.

When precise blends of the right microorganisms are introduced at a polluted site, they can consume the toxic substances, until harmless byproducts are all that remain. Having done their job, and run out of food, the microbes fall back to their natural levels. Different microbial blends can be used in agriculture to make sure humans never run out of food. Best of all, the wise use of microbes poses no threat to humans or to Nature.

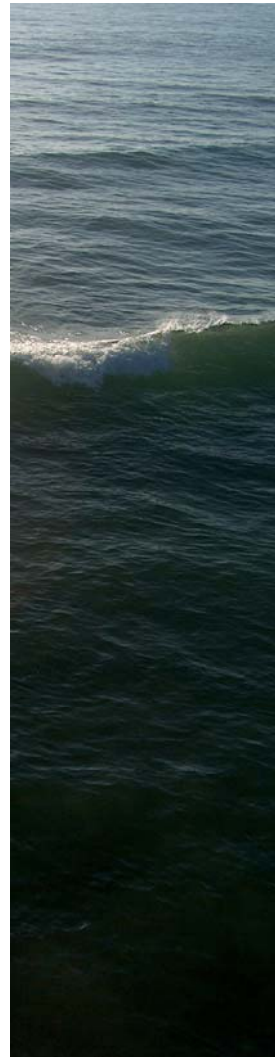




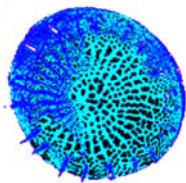
Be the change you want to see in the world.

– Mahatma Gandhi

U.S. Microbics, Inc. is an important part of the new wave of environmentally preferable and sustainable solutions.



Objectives	The Old Paradigm	The New Paradigm
To increase agricultural output	Chemical pesticides, herbicides, and fertilizers that poison the land and water, and compromise the food chain worldwide	Naturally occurring microbial blends that increase arable acreage and crop yields per field, while reducing the length of growing seasons
To increase available supplies of clear, clean water	Reclaiming wastewater typically relies on chemical treatment systems that include filtration, settling and evaporation subsystems	Nature's own microbes that cost-effectively facilitate the transformation of municipal and industrial wastewater into potable water
To undo the environmental caused by manmade pollution	"Pump and treat" contracts with no guarantee of results, usually at sites that are downstream from the source of pollution	Pay-for-Performance contracts that ensure measurable results so environmentally damaged sites are cleaned at the source, and pollution downstream disappears



Microorganisms (like this diatom) are a major source of atmospheric oxygen.
[magnified: approx. 625 times]

Of the approximately 1.75 million known species of life on Earth, approximately 125,000 are microorganisms. A relatively small number of these "bugs" have proven to be useful in cleaning-up the environment. For example, the right blend of microbes can be used to break-down various hydrocarbon substances, including oil, diesel fuel, perchloroethylene (PCE), methyl tertiary butyl ether (MTBE), certain toxic waste, and certain water and soil contamination.

On the other hand, the total number of species yet to be discovered is estimated to be somewhere in the wide range of 3.5 million to 100 million, with microorganisms representing a significant portion of these unknown species. As new, beneficial microbes are discovered, the quest continues to determine which will help most in efforts to improve the quality of all life on Earth.



Mission Statement

The Company's mission, through its majority owned subsidiaries and portfolio of companies and financial support services, is to build shareholder value through the successful development of environmental companies and deployment of environmental technologies.



Robert C.
Brehm

Mery C.
Robinson

Robert H.
Key

Roger K.
Knight

Mark A.
Holmstedt



Bruce
Beattie

Behzad
Mirzayi

Conrad
Nagel

Laurie
Romag

Officers and Directors of U.S. Microbics, Inc. and Major Subsidiaries

Robert C. Brehm: Chairman of the Board, Chief Executive Officer, and President of U.S. Microbics, Inc.

Mery C. Robinson: Director, Corporate Secretary, and Chief Operating Officer of U.S. Microbics, Inc.
Chief Executive Officer and President of XyclonyX
Chief Executive Officer of Bio-Con Microbes, Inc.

Roger K. Knight: Director and Vice President Business Development of U.S. Microbics, Inc.

Robert H. Key: Director of U.S. Microbics, Inc.

Mark A. Holmstedt: Director of U.S. Microbics, Inc.

Conrad Nagel: Chief Financial Officer of U.S. Microbics, Inc.
President of USM Capital Group, Inc.

Bruce Beattie: Director and President of Sub-Surface Waste Management of Delaware, Inc.

Behzad Mirzayi: Director, Executive Vice President. and Chief Engineer of
Sub-Surface Waste Management of Delaware, Inc.

Bill Hopkins: Director of Sub-Surface Waste Management of Delaware, Inc.

Laurie Romag, General Manager of West Coast Fermentation Center, Inc.



Stock Ticker

OTC-BB: BUGS

Transfer Agent

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