Consolidated Financial Statements

Environmental Waste International Inc.

December 31, 2013 and 2012

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Environmental Waste International Inc.

We have audited the accompanying consolidated financial statements of **Environmental Waste International Inc.**, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Environmental Waste International Inc.** as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicates that the Company incurred a net loss of $3,223,082 during the year ended December 31, 2013 and, as of that date, the Company's current liabilities exceeded its current assets by $2,859,606. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
April 25, 2014.

Environmental Waste International Inc.
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at
[Canadian Dollars]

	December 31, 2013	December 31, 2012
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 8]*	**130,044**	673,578
Accounts receivable	**125,017**	15,939
Loan receivable *[note 9]*	**15,954**	14,924
Prepaid expenses and sundry	**67,540**	42,951
Total current assets	**338,555**	747,392
Property and equipment, net *[note 10]*	**1,596,248**	1,689,632
Intangible assets, net *[note 11]*	**1,400,254**	2,072,376
	3,335,057	4,509,400
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	**386,803**	417,008
Provisions *[note 12]*	**255,000**	294,758
Debt component of convertible loans *[note 13[a]]*	**497,000**	497,000
Current portion of loan payable *[note 13[b]]*	**2,000,000**	246,042
Current portion of mortgages payable *[note 13[c]]*	**14,316**	13,480
Deferred revenue	**45,042**	45,326
Total current liabilities	**3,198,161**	1,513,614
Loan payable *[note 13[b]]*	—	1,735,493
Mortgages payable *[note 13[c]]*	**834,456**	848,772
Total liabilities	**4,032,617**	4,097,879
Commitments and contingencies *[note 19]*		
Shareholders' equity (deficiency)		
Capital stock *[note 14]*	**43,668,244**	42,353,325
Contributed surplus *[note 14]*	**3,975,352**	3,091,483
Warrants *[note 14]*	**893,426**	1,012,611
Equity component of convertible loans *[notes 13 and 14]*	**63,820**	63,820
Deficit	**(49,197,042)**	(45,973,960)
Equity attributable to owners of the Parent	**(596,200)**	547,279
Non-controlling interests	**(101,360)**	(135,758)
Total shareholders' equity (deficiency)	**(697,560)**	411,521
	3,335,057	4,509,400

Events after the reporting period *[note 21]*

See accompanying notes

Approved by the Board:

"Emanuel Gerard"
Director

"Daniel Kaute"
Director

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Years ended December 31
[Canadian Dollars]

	2013	2012
	$	$
REVENUE		
Sales and other *[note 20]*	**123,285**	130,157
OTHER INCOME		
Finance income	**20,603**	47,447
EXPENSES		
Operating, labour and manufacturing *[notes 11 and 15]*	**2,379,089**	2,521,798
Stock-based compensation *[notes 14 and 18[d]]*	**202,640**	281,689
Amortization of property and equipment *[note 10]*	**94,544**	97,799
Amortization of intangible assets *[note 11]*	**672,122**	722,122
Finance expense - interest on convertible loans	**49,861**	64,900
Finance expense - interest on mortgages payable	**95,468**	96,251
Finance expense - interest on loan payable	**18,465**	78,977
Government assistance *[note 15]*	**(130,192)**	(871,594)
Foreign exchange loss (gain)	**(15,027)**	42,572
	3,366,970	3,034,514
Net loss and comprehensive loss	**(3,223,082)**	(2,856,910)
Net loss and comprehensive loss attributable to:		
Shareholders	**(3,223,082)**	(2,861,459)
Non-controlling interests	**—**	4,549
	(3,223,082)	(2,856,910)
Loss per share - basic and diluted *[note 14]*	**(0.03)**	(0.03)
Weighted average number of shares outstanding - basic and diluted *[note 14]*	**108,505,632**	101,473,989

See accompanying notes

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

Years ended December 31
[Canadian Dollars]

	Capital stock $	Contributed surplus $	Warrants $	Equity portion of convertible loans $	Deficit $	Total attributable to owners of the parent $	Non-controlling interests $	Total $
Balance, December 31, 2011	40,551,465	2,851,515	700,000	63,820	(43,117,050)	1,049,750	(105,381)	944,369
Private placement *[note 14]*	1,687,389	—	312,611	—	—	2,000,000	—	2,000,000
Options exercised *[note 14]*	114,471	(41,721)	—	—	—	72,750	—	72,750
Options issued *[note 14]*	—	281,689	—	—	—	281,689	—	281,689
Finance income from non-controlling interests	—	—	—	—	—	—	(25,828)	(25,828)
Net loss and comprehensive loss for the year	—	—	—	—	(2,856,910)	(2,856,910)	(4,549)	(2,861,459)
Balance, December 31, 2012	42,353,325	3,091,483	1,012,611	63,820	(45,973,960)	547,279	(135,758)	411,521
Private placement *[note 14]*	1,267,948	—	580,815	—	—	1,848,763	—	1,848,763
Options exercised *[note 14]*	46,971	(18,771)	—	—	—	28,200	—	28,200
Options issued *[note 14]*	—	202,640	—	—	—	202,640	—	202,640
Warrants expired *[note 14]*	—	700,000	(700,000)	—	—	—	—	—
Finance income from non-controlling interests	—	—	—	—	—	—	(18,844)	(18,844)
Proceeds from non-controlling interests	—	—	—	—	—	—	53,242	53,242
Net loss and comprehensive loss for the year	—	—	—	—	(3,223,082)	(3,223,082)	—	(3,223,082)
Balance, December 31, 2013	**43,668,244**	**3,975,352**	**893,426**	**63,820**	**(49,197,042)**	**(596,200)**	**(101,360)**	**(697,560)**

See accompanying notes

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31
[Canadian Dollars]

	2013 $	2012 $
OPERATING ACTIVITIES		
Net loss for the year	**(3,223,082)**	(2,856,910)
Add (deduct) items not involving cash		
Amortization of property and equipment	**94,544**	97,799
Amortization of intangible assets	**672,122**	722,122
Finance expense	**163,794**	240,128
Stock-based compensation	**202,640**	281,689
Finance income from non-controlling interest	**(18,844)**	(25,828)
Non-controlling interests	**—**	(4,549)
	(2,108,826)	(1,545,549)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(109,078)**	(2,667)
Loan receivable	**(1,030)**	(14,924)
Prepaid expenses and sundry	**(24,589)**	35,531
Deferred revenue	**(284)**	3,424
Accounts payable and accrued liabilities [1]	**34,795**	(59,281)
Provisions	**(39,758)**	—
Interest paid	**(145,329)**	(146,002)
Cash used in operating activities	**(2,394,099)**	(1,729,468)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,160)**	(45,651)
Cash used in investing activities	**(1,160)**	(45,651)
FINANCING ACTIVITIES		
Proceeds from non-controlling interests	**53,242**	—
Proceeds from issuance of common stock on private placement [1]	**1,783,763**	2,000,000
Proceeds from issuance of common stock on exercise of options	**28,200**	72,750
Repayments of mortgages payable	**(13,480)**	(12,699)
Cash provided by financing activities	**1,851,725**	2,060,051
Net increase (decrease) in cash during the year	**(543,534)**	284,932
Cash and cash equivalents, beginning of year	**673,578**	388,646
Cash and cash equivalents, end of year	**130,044**	673,578

[1] During 2013, $65,000 of accounts payable and accrued liabilities were settled through the issuance of shares.

See accompanying notes

1. CORPORATE INFORMATION

Environmental Waste International Inc. ["EWI" or the "Company"] is incorporated under the Ontario Business Corporations Act. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization process and dealing with environmental waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world. The consolidated financial statements of EWI *[note 18[a]]* were authorized for issue in accordance with a resolution of the Board of Directors on April 25, 2014. The Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of EWI have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

These consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars.

3. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared on a basis that assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company incurred a net loss of $3,223,082 during the year ended December 31, 2013 [2012 - $2,856,910] and, as at that date, has a working capital deficiency of $2,859,606 [2012 - $766,222] and a cumulative deficit of $49,197,042 [2012 - $45,973,960]. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is at an early stage and the Company has not achieved a level of profitability and positive cash flows. The Company needs to obtain additional financing to enable it to continue operations. In the absence of additional financing, the Company is not expected to have sufficient funds to meet its obligations. Management continues to monitor cash needs and is considering various alternatives to raise additional financing *[note 21]*. There can be no assurances that the Company will be able to secure the necessary financing to enable it to continue as a going concern. The factors noted above indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2013. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee [i.e., existing rights that give it the current ability to direct the relevant activities of the investee];
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ["OCI"] are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Construction contracts
Construction contracts involve production, customization and installation services. Revenue from construction contracts is recognized using the percentage-of-completion method. The degree of completion is determined based on costs incurred as a percentage of total costs anticipated for each contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. A complete provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

Rendering services
Service revenue includes maintenance contracts and extended warranty contracts. Revenue from services rendered is recognized when the stage of completion can be measured reliably.

Interest income
For all financial instruments measured at amortized cost and interest bearing financial assets, interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statements of loss and comprehensive loss.

Financial instruments

[a] Financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39, *Financial Instruments – Recognition and Measurement* ["IAS 39"] are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or

derivatives designated in an effective hedge, as appropriate. The Company determines classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include cash and cash equivalents, accounts receivable and loan receivable. All of the Company's financial assets are classified as loans and receivables.

Subsequent measurement - loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the consolidated statements of loss and comprehensive loss. The losses arising from impairment are recognized in the consolidated statements of loss and comprehensive loss in finance expense.

Derecognition
A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Impairment of financial assets
The Company determines at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first determines whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future expected credit losses that have not yet been incurred]. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss.

[b] Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This recognition includes directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, debt component of convertible loans, mortgages payable and loan payable. All of the Company's financial liabilities are classified as loans and borrowings.

Subsequent measurement - loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance expense in the consolidated statements of loss and comprehensive loss.

Debt component of convertible loans
Convertible loans are separated into liability and equity components based on the terms of the contract. On issuance of convertible loans, the fair value of the liability component is determined using a market rate for an equivalent non-convertible loan. This amount is classified as a financial liability measured at amortized cost [net of transaction costs] until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity (deficiency). The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of loss and comprehensive loss.

[c] Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with an initial maturity of three months or less.

Property and equipment

Property and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment. Repairs and maintenance are charged against income as incurred. Expenditures that extend the estimated life of an asset are capitalized.

Amortization is provided annually on property and equipment, other than land, at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

Computer equipment	30 - 55% declining balance
Building	4% declining balance
Equipment - gas engine	15 years straight-line
Office equipment	20% declining balance
Fixtures	15 years straight-line

The assets' residual values, useful lives and methods of amortization are reviewed at each fiscal year end and adjusted prospectively, if appropriate.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset] is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss and comprehensive loss in the expense category consistent with the function of the intangible assets.

Amortization is provided annually on intangible assets at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

Technology rights	10 years straight-line
In-process development	5 years straight-line
Marketing rights	5 years straight-line

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied, requiring the asset to be carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization of the asset begins when development is complete and the asset is available for use. The asset is amortized over the period of expected future benefit. Amortization is recorded in the consolidated statements of loss and comprehensive loss in the expense category consistent with the function of the asset. During the period of development, the asset is tested for impairment annually.

Impairment of non-financial assets

The Company determines at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ["CGUs"] fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated for valuation multiples or other available fair value indicators.

Impairment losses are recognized in the consolidated statements of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date of whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If an indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of loss and comprehensive loss.

Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of loss and comprehensive loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense.

Share-based payment transactions

Stock options
Employees [including senior executives] of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments [equity-settled transactions].

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statements of loss and comprehensive loss expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in operating expenses. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of recognition and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award and designated as replacement awards on the date of grant, the cancelled and new awards are treated as if they were a modification of the original awards, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted loss per share.

Warrants

The Company issues warrants as part of brokered and non-brokered private placement offerings for common shares or as part of other compensation. Warrants are measured at fair value at the date of the offering and accounted for as a separate component of shareholders' equity (deficiency). When the warrants are exercised, the proceeds received together with the related amount allocated as a separate component of shareholders' equity (deficiency) are allocated to capital stock. If the warrants expire unexercised, the related amount separately allocated to shareholders' equity (deficiency) is allocated to contributed surplus.

Share issue costs

Direct costs associated with an issue of capital stock or warrants are deducted from the related proceeds at the time of issue.

Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under finance leases is amortized on the same basis as described above. Operating lease payments are recognized as an operating expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

Investment tax credits ["ITCs"] and government grants

Refundable ITCs are accounted for as a reduction in the cost of the related asset or expense where there is reasonable assurance that such credits will be realized. Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is deducted from expenses. When the grant relates to an asset, it is deduced from the cost of the related asset. If a grant becomes repayable, the inception-to-date impact of the assistance previously recognized in income is reversed immediately in the period that the assistance becomes repayable.

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the appropriate rates of exchange prevailing at the consolidated statement of financial position dates while other assets and liabilities are converted at the rates of exchange applicable at the dates acquired or incurred. Revenue and expenses are translated into Canadian dollars at rates of exchange applicable during the periods in which they were earned or expensed. All gains and losses are included in the consolidated statements of loss and comprehensive loss as they arise.

Taxes

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of loss and comprehensive loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction, either in other comprehensive loss or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill [as long as it does not exceed goodwill] if it is incurred during the measurement period, or in profit or loss.

Sales tax
Revenue, expenses and assets are recognized net of the amount of sales tax. The net amount of sales tax recoverable from or payable to the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Company applied, for the first time, certain standards and amendments. These include IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 13, *Fair Value Measurement*, IAS 19, *Employee Benefits (Revised 2011)* and amendments to IAS 1, *Presentation of Financial Statements*.

IFRS 10, *Consolidated Financial Statements*
The Company adopted IFRS 10 in the current year. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the

investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC 12, *Consolidations - Special Purpose Entities* and replaces parts of IAS 27, *Consolidated and Separate Financial Statements*.

For all financial years up to December 31, 2012, Environmental Waste International Limited Partnership ["EWILP"] was considered to be a special purpose entity and the Company consolidated EWILP, accounting for the net assets of EWILP as non-controlling interests. At the date of initial application of IFRS 10 [January 1, 2012], the Company assessed that it controls EWILP based on the factors explained in note 6 below. The transition did not have any impact on the opening balances as at January 1, 2012 or comparative information for the year ended December 31, 2012.

IFRS 11, *Joint Arrangements*
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures are accounted for using the equity method of accounting while for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers* and IAS 31, *Joint Ventures*.

The transition was applied retrospectively as required by IFRS 11 and did not have any impact on the opening balances as at January 1, 2012 or comparative information for the year ended December 31, 2012.

IFRS 12, *Disclosure of Interests in Other Entities*
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. IFRS 12 replaces the previous disclosure requirements included in IAS 27, *Consolidated and Separate Financial Statements*, IAS 28, *Investment in Associates* and IAS 31, *Joint Ventures*. While the Company has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in note 6.

IFRS 13, *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 19.

IAS 19, *Employee Benefits (Revised 2011)*
The IASB made a number of amendments to IAS 19, none of which apply to the Company as the Company does not have any defined benefit pension plans.

IAS 1, *Clarification of the Requirement for Comparative Information (Amendment)*
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position [as at January 1, 2012 in the case of the Company], presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect presentation only and have no impact on the Company's financial position or performance.

IAS 27, *Separate Financial Statements*
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 has been renamed IAS 27, *Separate Financial Statements* and is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not present separate financial statements.

IAS 28, *Investments in Associates and Joint Ventures*
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28, *Investments in Associates and Joint Ventures* and describes the application of the equity method to investments in joint ventures in addition to associates. The Company does not have any investments in associates or joint ventures.

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The following are the critical judgments that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

[a] Leases

The Company has entered into a commercial property lease for its corporate headquarters. The Company has determined, based on an evaluation of the terms and conditions of the arrangement, that the arrangement is an operating lease.

[b] Consolidation of a structured entity

During fiscal 2007, EWILP, a limited partnership, was formed to hold the Company's intellectual property and to license certain intellectual property back to the Company by way of a license agreement. As EWILP was consolidated shortly after the transfer of intellectual property from the Company to EWILP, the measurement of the intellectual property was at book value. The Company and EWILP also entered into a management services agreement where the Company was contracted to manage the remaining affairs of EWILP, including the intellectual property not licensed back to the Company through the license agreement. Amounts due from EWILP for management fees, interest and principal on notes are recorded on a cash basis as the Company does not have reasonable assurance as to the collectability. EWI has the right, but not the obligation, to re-acquire all assigned rights to the patents, proprietary software and system design portfolio through the purchase of all outstanding LP Units. This option can be exercised from January 10, 2010 through to November 1, 2017 by issuing up to $7,000,000 in EWI stock at its then fair market value, based on the 10-day average trading price, to be not less than $0.50 per share. Based on the contractual terms of the agreements in place, the Company assessed that the voting rights in EWILP are not the dominant factor in deciding who controls the entity. Therefore, the Company concluded that EWILP is a structured entity under IFRS 10 and that it controls EWILP with 100% non-controlling interests, and therefore EWILP is consolidated in these consolidated financial statements.

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

[a] Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights. At the year end, management concluded that none of the Company's non-financial assets were impaired.

[b] Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Because the Company has a history of losses, it has not recognized the value of any deferred tax assets in its consolidated statements of financial position.

[c] Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 14.

[d] Development costs

Development costs are capitalized in accordance with the accounting policy in note 4. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. After assessing all available facts and circumstances, management has determined that no development costs meet the recognition criteria to date.

7. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9, *Financial Instrument - Classification and Measurement*
IFRS 9, as issued in 2010, reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of an entity's financial assets, but will not have an impact on the classification and measurements of financial liabilities. In November 2013, IFRS 9 was amended to include new requirements for hedge accounting and the effective date and transition provisions were amended to remove the mandatory effective date of IFRS 9. Entities may still choose to apply IFRS 9 immediately, but are not required to do so. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements, and will do so in conjunction with the other phases, when the final standard including all phases is issued.

IAS 32, *Financial Instruments: Presentation*
IAS 32, *Financial Instruments: Presentation*, was amended in 2011 and provides additional guidance when applying the offsetting requirements and clarifies the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Company does not expect that this amendment will result in a material impact to the consolidated financial statements.

IFRIC 21, *Levies*
IFRIC 21 is an interpretation of IAS 37. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Company is in the process of assessing the impact of this interpretation on its consolidated financial statements.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2013 $	December 31, 2012 $
Cash	**130,044**	307,106
Cash equivalents	**—**	366,472
	130,044	673,578

9. LOAN RECEIVABLE

Loan receivable consists of the following:

	December 31, 2013 $	December 31, 2012 $
Loan receivable, with interest at 12% per annum, was repayable on October 11, 2013.	**15,954**	14,924

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Land $	Building $	Fixtures $	Computer equipment $	Office equipment $	Equipment - gas engine $	Total $
Cost							
As at December 31, 2011	68,261	981,902	71,060	21,942	13,235	703,733	1,860,133
Additions	—	3,092	—	13,623	13,500	15,436	45,651
As at December 31, 2012	68,261	984,994	71,060	35,565	26,735	719,169	1,905,784
Additions	—	—	—	1,160	—	—	1,160
As at December 31, 2013	**68,261**	**984,994**	**71,060**	**36,725**	**26,735**	**719,169**	**1,906,944**
Accumulated amortization							
As at December 31, 2011	—	37,302	4,737	19,119	10,279	46,916	118,353
Amortization charge	—	37,908	4,737	4,934	2,790	47,430	97,799
As at December 31, 2012	—	75,210	9,474	24,053	13,069	94,346	216,152
Amortization charge	—	36,391	4,737	3,454	2,016	47,946	94,544
As at December 31, 2013	**—**	**111,601**	**14,211**	**27,507**	**15,085**	**142,292**	**310,696**
Net book value							
As at December 31, 2013	**68,261**	**873,393**	**56,849**	**9,218**	**11,650**	**576,877**	**1,596,248**
As at December 31, 2012	68,261	909,784	61,586	11,512	13,666	624,823	1,689,632

11. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Technology rights $	Acquired in-process development $	Marketing rights $	Total $
Cost				
As at December 31, 2011	500,000	2,750,000	610,610	3,860,610
Additions	—	—	—	—
As at December 31, 2012	500,000	2,750,000	610,610	3,860,610
Additions	—	—	—	—
As at December 31, 2013	**500,000**	**2,750,000**	**610,610**	**3,860,610**
Accumulated amortization				
As at December 31, 2011	450,000	504,167	111,945	1,066,112
Amortization charge	50,000	550,000	122,122	722,122
As at December 31, 2012	500,000	1,054,167	234,067	1,788,234
Amortization charge	—	550,000	122,122	672,122
As at December 31, 2013	**500,000**	**1,604,167**	**356,189**	**2,460,356**
Net book value				
As at December 31, 2013	—	**1,145,833**	**254,421**	**1,400,254**
As at December 31, 2012	—	1,695,833	376,543	2,072,376

There is one main research and development project: the TR900 tire recycling prototype. To date, management has determined that the related development costs that are not eligible for capitalization have been expensed and are recognized in operating, labour and manufacturing expenses. A total of $348,870 [2012 - $227,578] was recognized in operating, labour and manufacturing expenses related to development costs.

12. PROVISIONS

	Amount $
Balance, December 31, 2011 and 2012	294,758
Net amounts reversed during the year	(39,758)
Balance, December 31, 2013	**255,000**

The provision balance consists of an accrual of one year's annual salary to former senior management of the Company. The Company was party to a claim made by former senior management whose employment was terminated on March 1, 2013, who is seeking four years severance pay in the amount of $1,020,000 *[note 19[b]]*. Management believes that this claim for 48 months of pay is inflated and without merit and has provided for one year's salary of $255,000, as the Company believes the likelihood of payout of this amount is probable.

In 2012, the provision of $294,758 consisted of an accrual for retroactive salary to the same senior management. As at December 31, 2013, the Company has provided for one year's annual salary of $255,000 as described above and believes that, based on the facts and circumstances as at December 31, 2013, the amount of $294,758 is no longer due and that the $255,000 provision encompasses the entire estimated amount owing to former senior management.

13. LOANS AND BORROWINGS

[a] Debt component of convertible loans consists of the following:

	December 31, 2013 $	December 31, 2012 $
Fixed rate convertible loans due to relative of former director, with interest at 10% per annum, repayable on demand, convertible for common shares at the rate of $0.35 per share	**301,000**	301,000
Fixed rate convertible loans due to former directors, with interest at 10% per annum, repayable on demand, convertible for common shares at the rate of $0.25 per share	**112,000**	112,000
Fixed rate convertible loans due to directors of the Company, with interest at 10% per annum, repayable on demand, convertible for common shares at the rate of $0.25 per share.	**84,000**	84,000
	497,000	497,000
Less current portion	**497,000**	497,000
	—	—

During fiscal 2010, the Company borrowed a total amount of $497,000 from a relative of the president of the Company and from five directors of the Company by way of convertible loans. The Company bifurcated the equity component from the financial liability component. The value of the financial liability component was determined to be $433,180. As a result, an amount of $63,820 was added to shareholders' equity at that time. A balance of $301,000 was repayable on April 30, 2012 and the remaining $196,000 was repayable on April 30, 2013.

Subsequent to December 31, 2013, the Company received conditional approval to issue 798,000 common share purchase warrants to holders of these convertible loans. The debt holders agreed to extend the maturity of the debt until April 30, 2014 and relinquish the convertible feature of the debt in consideration for the issuance of the warrants. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.20 on or before April 30, 2015 *[note 21]*.

[b] Loan payable consists of the following:

	December 31, 2013 $	**December 31, 2012** $
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum compounded monthly, repayable on demand	**2,000,000**	1,981,535
Less current portion	**2,000,000**	246,042
	—	1,735,493

Payments on the loan have not commenced in April 2013 as specified in the loan agreement. The Company has been in negotiations with the NOHFC to amend the terms of the loan including deferring interest payments. The loan is presented as current on the consolidated statement of financial position as at December 31, 2013 as it is in default.

The loan is collateralized by a general security agreement covering all of the assets of Ellsin Environmental Ltd., a subsidiary of the Company ["Ellsin"] except real property and an assignment of all risks and fire insurance on the subject properties.

[c] Mortgages payable consist of the following:

	2013 $	**2012** $
Fixed rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2020	**113,772**	127,252
Fixed rate second mortgage, eight-year amortization period, with interest at 12% per annum, repayable in full on April 15, 2015	**735,000**	735,000
	848,772	862,252
Less current portion	**14,316**	13,480
	834,456	848,772

The collateral for the above mortgages is as follows:

[i] First mortgage

A fixed and floating charge on the business assets of Ellsin by way of a General Security Agreement subordinate to the NOHFC, covering all assets other than real property.

[ii] Second mortgage

Second charge on the property, subordinate to the first charge of $113,772 of Community Development Corporation of Sault Ste. Marie.

[iii] Principal repayments over the next five years and thereafter are as follows:

	$
2014	14,316
2015	750,198
2016	16,122
2017	17,130
2018 and thereafter	51,006
	848,772

14. SHARE CAPITAL AND RESERVES

	Number of shares #	**Amount** $
Authorized		
Unlimited common shares		
Issued and outstanding		
Balance, December 31, 2011	93,859,797	40,551,465
Private placement [1]	8,000,000	2,000,000
Warrants issued [1]	—	(312,611)
Options exercised	485,000	114,471
Balance, December 31, 2012	102,344,797	42,353,325
Private placements [2]	13,231,666	1,869,800
Share issue costs [2]	—	(21,037)
Warrants issued [2]	—	(580,815)
Options exercised	235,000	46,971
Share exchange [3]	(35,000)	—
Balance, December 31, 2013	**115,776,463**	**43,668,244**

The Company has placed a stop-trade order on 560,000 of the issued and outstanding shares for shares to be returned to the Company.

[1] On January 30, 2012, the Company closed a private placement for 8,000,000 Units with gross proceeds of $2,000,000, less agent's fees of nil. Each Unit consists of one common share and 0.375 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of $0.50 per share through to January 30, 2014. All shares issued in the private placement were subject to a hold period that expired on May 30, 2012.

[2] On March 14, 2013, the Company closed a private placement for 4,425,000 Units with gross proceeds of $885,000, less agent's fees of nil. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of $0.35 per share through to March 14, 2015. All shares issued in the private placement were subject to a hold period that expired on July 15, 2013.

On August 9, 2013, the Company closed a private placement for 3,600,000 Units with gross proceeds of $360,000, less agent's fees of nil. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of $0.175 per share through to August 9, 2015. All shares issued in the private placement were subject to a holding period that expired on December 9, 2013.

On October 17, 2013, the Company closed a private placement for 5,206,666 Units with gross proceeds of $624,800, less agent's fees of $21,037. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of $0.21 per share through to October 17, 2015. All shares issued in the private placement were subject to a hold period that expired on February 17, 2014.

[3] During the year, a shareholder who was formerly involved in the business activities of the Company several years ago cancelled 1,000,000 shares. These shares had restricted trading provisions, and in return, he was issued 965,000 shares with more favorable terms. The new terms include the ability to trade a fixed number of shares at specific dates over the years 2013 to 2017.

Share-based payment plans

The Board of Directors has established a stock option plan under which options to purchase shares are granted to directors, employees, officers and consultants of the Company. The number of options and exercise price thereof is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the market price of the common shares on the day immediately preceding the date of grant of the options, on the stock exchange on which such shares are then traded. All the options issued to date vest over a period between six months and three years and generally expire five years from the date of grant.

On June 16, 2011, at the Annual General and Special Shareholders' meeting, the shareholders approved the resolution to increase the number of common shares available for issue from 7,500,000 to 8,700,000 under the plan, representing less than 10% of the total number of shares in issue. Previously, the Board of Directors also approved the addition of a six-month vesting period on all new options issued under the plan after June 27, 2007.

The following options to purchase shares were outstanding on December 31, 2013 and 2012:

	2013		2012	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Balance, beginning of year	**6,560,000**	**0.27**	6,505,000	0.26
Exercised	**(235,000)**	**(0.12)**	(485,000)	(0.15)
Expired	**(625,000)**	**(0.17)**	—	—
Cancelled	**(3,000,000)**	**(0.26)**	(960,000)	(0.28)
Granted	**4,135,000**	**0.16**	1,500,000	0.26
Balance, end of year	**6,835,000**	**0.22**	6,560,000	0.27

	Outstanding and exercisable stock options		
Range of exercise prices $	**Number of options** #	**Weighted average remaining contractual life** [years]	**Weighted average exercise price** $
Less than 0.20	2,425,000	4.65	0.14
0.20 - 0.29	2,985,000	3.11	0.22
0.30 - 0.40	1,425,000	1.72	0.33
	6,835,000	**3.37**	**0.22**

The fair value of all options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2012 - 0%]; expected volatility of 114% to 159% [2012 - 158% to 162%]; risk-free interest rates of 0.94% to 1.75% [2012 - 1.3%]; and an average expected life of five years. This resulted in stock-based compensation expense of $202,640 [2012 - $281,689].

Warrants

On January 24, 2011, the Company issued 5,000,000 half warrants or the equivalent of 2,500,000 warrants. Each full warrant entitled the holder to acquire an additional common share at $0.50 per share. These warrants expired on January 23, 2013.

On January 30, 2012, the Company issued 3,000,000 warrants. Each warrant entitles the holder to acquire an additional common share at $0.50 per share and expires on January 30, 2014. Subsequent to December 31, 2013, the Company amended the terms of these warrants *[note 21]*.

On March 14, 2013, the Company issued 2,212,500 warrants. Each warrant entitles the holder to acquire an additional common share at $0.35 per share and expires on March 14, 2015.

On August 9, 2013, the Company issued 1,800,000 warrants. Each warrant entitles the holder to acquire an additional common share at $0.175 per share and expires on August 9, 2015.

On October 17, 2013, the Company issued 2,603,333 warrants. Each warrant entitles the holder to acquire an additional common share at $0.21 per share and expires on October 17, 2015.

A summary of the status of the Company's warrants and changes during the year are as follows:

	Number \#	**Weighted average exercise price** $
Balance, December 31, 2011	2,500,000	0.50
Issued	3,000,000	0.50
Outstanding, December 31, 2012	5,500,000	0.50
Expired	(2,500,000)	(0.50)
Issued	6,615,833	0.25
Outstanding, December 31, 2013	**9,615,833**	**0.33**

A summary of warrants outstanding and exercisable as at December 31, 2013 is set out below:

	Outstanding and exercisable warrants		
Exercise prices $	**Number of warrants** #	**Weighted average remaining contractual life** [years]	**Weighted average exercise price** $
0.50	3,000,000	0.07	0.50
0.35	2,212,500	1.20	0.35
0.21	2,603,333	1.61	0.21
0.175	1,800,000	1.79	0.18
	9,615,833	**1.08**	**0.33**

The fair values of all warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 117% to 147%; risk-free interest rates of 1.01% to 1.18% and an average expected life of two years.

Reconciliation:

	Number #	**Amount** $
Balance, December 31, 2011	2,500,000	700,000
Warrants granted	3,000,000	312,611
Balance, December 31, 2012	5,500,000	1,012,611
Expired during the year	(2,500,000)	(700,000)
Warrants granted	6,615,833	580,815
Balance, December 31, 2013	**9,615,833**	**893,426**

Contributed surplus

	2013 $	2012 $
Balance, beginning of year	**3,091,483**	2,851,515
Stock options granted and/or vested during the year		
Stock options issued	**202,640**	281,689
Stock options exercised during the year	**(18,771)**	(41,721)
Warrants expired during the year	**700,000**	—
Balance, end of year	**3,975,352**	3,091,483

Equity component of convertible loans

	2013 $	2012 $
Balance, beginning and end of year	**63,820**	63,820

Per share amounts

For the year ended December 31, 2013, the weighted average number of shares outstanding was 108,505,632 [2012 - 101,473,989]. As at December 31, 2013, the Company had 6,835,000 [2012 - 6,560,000] stock options, 9,615,833 warrants [exercisable for 9,615,833 shares] [2012 - 5,500,000 warrants [exercisable for 5,500,000 common shares]] and $497,000 of convertible debt [exercisable for 1,644,000 common shares] [2012 - $497,000 of convertible debt [exercisable for 1,644,000 common shares]] that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

15. GOVERNMENT ASSISTANCE

The Company has no outstanding claims for federal scientific research and experimental development tax credits ["SR&ED tax credits"] for the years 2004 through 2012 inclusive. The tax credits will be recorded in the period when reasonable assurance of their realization exists. The Company has recognized $130,192 [2012 - $871,594] as a recovery of expenses during the year for claims for which the tax credits have been realized.

These SR&ED tax credits have been recorded as a reduction of expenses in the period of receipt.

During the year, the Company also received government grants from a program supporting small and medium-sized enterprises in Canada undertaking technology innovation. The Company recognized $173,793 in 2013 [2012 - $20,102] as a recovery of operating, labour and manufacturing expenses as the grant relates to expense items, there are no unfulfilled conditions or contingencies attached to these grants and there is reasonable assurance that the grants will be received. As at December 31, 2013, the accounts receivable balance contains $80,218 [December 31, 2012 - nil] relating to this government assistance.

16. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to loss before income taxes. The significant differences are as follows:

	2013 $	**2012** $
Combined Canadian statutory rates	**26.50%**	26.50%
Recovery at combined statutory rates	**(854,117)**	(757,081)
Losses and other temporary differences not benefited	**799,185**	591,225
Stock-based compensation	**53,700**	74,648
Non-controlling interest	**—**	20,204
Effect of change in income tax rates	**—**	68,512
Other	**1,232**	2,492
Income tax expense	**—**	—

The difference between the effective rate of 26.5% as at December 31, 2013 [2012 - 26.50%] and the actual rate of nil as at December 31, 2013 [2012 - nil] is attributable to the fact that no deferred tax assets have been recorded for available loss carryforwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets are calculated and, if realization is not considered likely, any unused losses and other temporary differences not expected to be realized are provided for.

The significant components of deferred tax assets and liabilities are as follows:

	December 31, 2013 $	December 31, 2012 $
Deferred tax assets		
SR&ED expenditures	**—**	—
Unused tax losses carryforwards	**3,618,555**	2,978,133
Investment tax credits	**1,210,613**	980,972
Reserves	**67,575**	78,111
Property and equipment	**460,192**	364,823
Convertible debt and loan payable	**44,273**	24,943
Total deferred tax assets	**5,401,208**	4,426,982
Deferred tax liabilities		
Intangible assets	**(266,495)**	(444,644)
Total deferred tax liabilities	**(266,495)**	(444,644)
Total deferred tax assets	**5,134,713**	3,982,338
Losses and other temporary differences not benefited	**(5,134,713)**	(3,982,338)
Net deferred tax assets	**—**	—

No deferred tax assets are recognized in respect of losses and other temporary difference as it is not more likely than not that these losses will be utilized to recover the deferred tax assets.

As at December 31, 2013, subject to confirmation from the income tax authorities, the Company has a total of $13,785,115 of non-capital losses and $1,253,968 of investment tax credits that are available for carry forward to offset taxable income, expiring as follows:

	Non-capital losses $	**Investment tax credits** $
2024	—	118,627
2025	—	141,638
2026	536,460	106,215
2027	—	82,915
2028	519,673	61,309
2029	545,255	18,166
2030	689,587	145,111
2031	7,008,045	356,188
2032	2,215,253	223,799
2033	2,270,842	—
Total	13,785,115	1,253,968

17. FINANCIAL INSTRUMENTS

[a] Fair value information

The fair values of cash and cash equivalents, accounts receivable, loan receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments.

The fair values of loans and borrowings are as follows:

	December 31, 2013 $	**December 31, 2012** $
Convertible loans	**497,000**	497,000
Mortgages payable	**741,191**	684,191
Loan payable	**2,000,000**	1,993,496
	3,238,191	3,174,687

The fair values of the loans and borrowings are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. These fair value measurements use other observable inputs such as interest rates and are considered to be 'Level 2' fair value measurements in the fair value hierarchy.

[b] Financial risk management objectives and policies

The Company's principal financial liabilities comprise accounts payable and accrued liabilities and various loans and borrowings. The main purpose of these financial liabilities is to finance the Company's operations. The Company's accounts receivable arise from its operations.

The Company is exposed to credit risk and liquidity risk.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Company is exposed to credit risk from its operating activities [primarily for trade accounts receivable] and from its financing activities, including deposits with banks and financial institutions. Customer credit risk is managed subject to the Company's established policies, procedures and controls relating to customer credit risk management. The requirement for an impairment is analyzed at each reporting date on an individual basis. The maximum exposure to credit risk at the reporting date is the carrying value of trade accounts receivable, loans receivable and cash and cash equivalents.

Liquidity risk
Liquidity risk is the risk that the Company will not meet its obligations under its various loans and borrowings. The Company is exposed to liquidity risk from its financing activities, primarily for its various loans and borrowings and accounts payable and accrued liabilities. The Company monitors its risk to a shortage of funds regularly. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including expected interest payments:

As at December 31, 2013	**Less than 1 year** $	**2 - 3 years** $	**4 - 5 years** $	**Greater than 5 years** $	**Total** $
Accounts payable and accrued liabilities and provisions	**641,803**	—	—	—	**641,803**
Convertible loans	**497,000**	—	—	—	**497,000**
Mortgages payable	**108,952**	**802,230**	**41,506**	**34,588**	**987,276**
Loan payable	**2,000,000**	—	—	—	**2,000,000**
Total	**3,248,587**	**802,230**	**41,506**	**34,588**	**4,126,079**

[c] Capital management

The Company's objectives when managing its capital are:

[i] to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
[ii] to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
[iii] to safeguard the Company's ability to obtain financing should the need arise; and
[iv] to maintain financial flexibility in order to have access to capital in the event of future acquisitions and to improve current and new research and development for new technologies.

The Company manages the following as capital:

	December 31, 2013 $	**December 31, 2012** $
Interest-bearing loans and borrowings	**3,345,772**	3,340,787
Trade payables and other and provisions	**641,803**	711,766
Less cash and cash equivalents	**(130,044)**	(673,578)
Net debt	**3,857,531**	3,378,975
Shareholders' equity (deficiency)	**(697,560)**	411,521
Total capital	**3,159,971**	3,790,496

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

18. RELATED PARTY DISCLOSURES

[a] Subsidiaries and ultimate parent

The consolidated financial statements include the results of the Company and the following subsidiaries: Environmental Waste Management Corporation [100% equity interest], Jaguar Carbon Sales Limited [100% equity interest], Ellsin [100% equity interest], EWI Rubber Inc. [100% equity interest], 2228641 Ontario Limited [100% equity interest] and EWILP [consolidated structured entity].

[b] Transactions with related parties other than key management personnel

During the year, the Company engaged in transactions in the normal course of operations with the following related parties. All of these transactions have been accounted for at the exchange amount agreed to by the transacting parties as follows:

Interest paid to the directors totalled $8,400 [2012 - $12,250].

[c] Transactions with key management personnel

Interest paid to a key management personnel totalled nil [2012 - $7,350].

The Company recognized as an expense during the year ended December 31, 2013 salaries and benefits of $447,223 [2012 - $469,750] and share-based payment transactions of $162,887 [2012 - $163,276] with respect to key management personnel.

[d] Other transactions

During the year ended December 31, 2012, the Company loaned $90,000 to the former President and CEO of the Company and $30,000 to a former director of the Company to purchase shares from the Company's treasury. On June 26, 2013, the $90,000 loan was cancelled at the request of the former President and CEO. The share purchase loan of $30,000 outstanding bears interest at 1% per annum and matures on June 27, 2017. These loans have been accounted for as share-based payment transactions as it gives the holders the right, but not the obligation, to subscribe to the Company's shares at a fixed price for a specified period of time. The amount recorded in stock-based compensation expense during the year relating to these transactions is nil [2012 - $76,000].

19. COMMITMENTS AND CONTINGENCIES

[a] Commitments

The Company is committed under a long-term lease for premises which expires on August 31, 2017.

Future approximate minimum lease payments for the ensuing five years excluding the estimated tenant's share of operating expenses and realty taxes required under leases for the rental of premises are as follows:

	$
2014	85,624
2015	85,624
2016	85,624
2017	57,082

[b] Contingencies

Under its by-laws, the Company indemnifies its directors/officers, former directors/officers and individuals who have acted at the Company's request to be a director/officer of an entity in which the Company is a shareholder, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. Indemnification claims will be subject to any statutory or other legal limitation period. There are no indemnification claims known to the Company at this time. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in these consolidated financial statements with respect to any indemnifications.

During the ordinary course of business activities, the Company may be party to claims and may be contingently liable for litigation. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

During the year, the former president and CEO whose employment was terminated on March 1, 2013 commenced an action against the Company wherein he is seeking four years of severance pay in the amount of $1,020,000. Management believes that the claim for 48 months is without merit and has provided for one year's salary in the amount of $255,000 *[note 12]* as the Company believes the likelihood of payout of this amount is probable.

20. SEGMENT INFORMATION

The Company is organized into one operating segment. Management monitors the operating results of the Company on this basis.

Geographic information

Revenue from external customers

	2013 $	**2012** $
Canada	**4,060**	893
United States	**119,225**	129,264
	123,285	130,157

Revenue from one customer amounted to $119,225 [2012 - $129,264].

Non-current assets

All of the Company's non-current assets are located in Canada.

21. EVENTS AFTER THE REPORTING PERIOD

On January 14, 2014, the Company received conditional approval from the TSX Venture Exchange ["TSXV"] to amend the terms of the 3,000,000 common share purchase warrants that were issued on January 31, 2012. Each warrant entitled the holder to acquire one common share of the Company at $0.50 for a period of two years. The amendment will result in 2,900,000 of the warrants being cancelled with the remaining 100,000 warrants being amended such that the exercise price will be reduced to $0.21 and the expiry date will be extended to January 30, 2016. Should the closing price of the Company's shares be $0.25 or higher for ten consecutive trading days, the expiry of the warrants will be accelerated to the 30th day following such occurrence.

On January 31, 2014, the Company concluded a private placement for 4,583,333 Units with gross proceeds of $550,000 following approval by the TSXV. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of $0.21 per share through to January 31, 2016. The shares and share purchase warrants are subject to a TSXV four-month hold period that expires on May 31, 2014. The proceeds of the offering were received on January 31, 2014.

On March 10, 2014, the Company received conditional approval to issue 798,000 common share purchase warrants to holders of previously issued convertible loans in the aggregate amount of $497,000. A balance of $301,000 was repayable on April 30, 2012 and the remaining $196,000 was repayable on April 30, 2013. The debt holders agreed to extend the maturity date of the loans to April 30, 2014 and relinquish the convertible feature of the loans in consideration for the issuance of the warrants. Each warrant entitles the holder the purchase of one common share of the Company at an exercise price of $0.20 on or before April 30, 2015.