Consolidated financial statements

Environmental Waste International Inc.

December 31, 2017 and 2016

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, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' 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 audit 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 auditor considers 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, 2017 and 2016, 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 describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Environmental Waste International Inc.'s ability to continue as a going concern.

MNP LLP

Mississauga, Ontario
April 26, 2018

Chartered Professional Accountant
Licensed Public Accountants

MNP

Environmental Waste International Inc.
Incorporated under the laws of Ontario

Consolidated statements of financial position

[Canadian dollars]

As at

	December 31 2017	December 31 2016
	$	$
Assets		
Current		
Cash	**27,537**	45,697
Accounts receivable	**39,994**	17,075
Loan receivable *[note 8]*	**—**	20,141
Prepaid expenses and sundry	**74,726**	66,760
Total current assets	**142,257**	149,673
Property and equipment, net *[note 9]*	**1,249,557**	1,336,406
	1,391,814	1,486,079
Liabilities and shareholders' equity (deficiency)		
Current		
Accounts payable and accrued liabilities	**705,260**	1,125,245
Provisions *[notes 11]*	**163,200**	255,000
Current portion of loans payable *[note 12[a]]*	**—**	103,761
Current portion of term loan payable *[note 12[b]]*	**271,367**	2,315,700
Current portion of promissory note payable *[note 12[c],[d]]*	**938,427**	615,339
Current portion of mortgages payable *[note 12[e]]*	**18,187**	752,130
Deferred revenue	**62,136**	65,698
Total current liabilities	**2,158,577**	5,232,873
Loans payable *[note 12[a]]*	**—**	50,501
Term loan payable *[note 12[b]]*	**1,781,966**	—
Convertible loan payable *[note 12[d]]*	**882,917**	486,938
Derivative liability *[note 12[d]]*	**834,841**	—
Mortgages payable *[note 12[e]]*	**32,992**	51,174
Total liabilities	**5,691,293**	5,821,486
Shareholders' deficiency		
Capital stock *[note 13]*	**48,393,195**	46,101,502
Shares to be issued *[note 13]*	**114,000**	563,805
Contributed surplus *[note 13]*	**5,900,756**	5,761,336
Warrants *[note 13]*	**—**	41,341
Equity portion of convertible debt *[note 12[d]]*	**—**	126,083
Deficit	**(58,606,070)**	(56,828,114)
Deficiency attributable to owners of the Parent	**(4,198,119)**	(4,234,047)
Non-controlling interests	**(101,360)**	(101,360)
Total shareholders' deficiency	**(4,299,479)**	(4,335,407)
	1,391,814	1,486,079

Commitments and contingencies *[note 18]*
Going concern *[note 3]*
Subsequent events *[note 20]*

See accompanying notes

Approved by the Board: ***"Emanuel Gerard"*** Director ***"Robert MacBean"*** Director

Environmental Waste International Inc.

Consolidated statements of loss and comprehensive loss

[Canadian dollars]

Year ended December 31

	2017	2016
	$	$
Revenue		
Sales	**197,769**	172,665
Expenses		
Operating, labour and manufacturing *[notes 6 and 11]*	**1,306,407**	1,228,328
Stock-based compensation *[notes 13 and 17[b]]*	**95,237**	170,894
Depreciation of property and equipment *[note 9]*	**86,849**	88,627
Amortization of intangible assets *[note 10]*	**—**	56,010
Finance expense – interest on loans payable *[note 12[a]]*	**4,458**	8,400
Finance expense – interest on term loan payable *[note 12[b]]*	**77,395**	90,652
Finance expense – interest on promissory note payable *[note 12[c]]*	**47,870**	53,175
Finance expense – interest on convertible loan payable *[note 12[d]]*	**55,386**	42,260
Finance expense – interest on mortgages payable *[note 12[e]]*	**29,347**	96,567
Accretion expense - convertible loan payable *[note 12[d]]*	**136,624**	49,940
Gain on settlement of debt *[note 12 [a], [d]]*	**(139,598)**	—
Write down of loan receivable *[note 8]]*	**18,817**	—
Government assistance *[note 14]*	**(48,154)**	(83,191)
Foreign exchange loss	**14,633**	12,098
Change in fair value of derivative *[note 12[d]]*	**290,454**	—
	1,975,725	1,813,760
Net loss and comprehensive loss for the year	**(1,777,956)**	(1,641,095)
Net loss and comprehensive loss attributable to:		
Shareholders	**(1,777,956)**	(1,641,095)
Non-controlling interests	**—**	—
	(1,777,956)	(1,641,095)
Loss per share – basic and diluted *[note 13]*	**(0.01)**	(0.01)
Weighted average number of shares outstanding – basic and diluted *[note 13]*	**156,842,739**	140,043,681

See accompanying notes

Environmental Waste International Inc.

Consolidated statements of changes in shareholders' deficiency

[Canadian dollars]

	Capital stock	Shares to be issued	Contributed surplus	Warrants	Equity portion of convertible debt	Deficit	Total attributable to owners of the parent	Non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
Balance, December 31, 2015	45,851,502	40,000	5,356,570	275,213	—	(55,187,019)	(3,663,734)	(101,360)	(3,765,094)
Private placement *[note 13]*	250,000	—	—	—	—	—	250,000	—	250,000
Options issued *[note 13]*	—	—	170,894	—	—	—	170,894	—	170,894
Warrants expired *[note 13]*	—	—	233,872	(233,872)	—	—	—	—	—
Share subscriptions issued	—	523,805	—	—	—	—	523,805	—	523,805
Equity component of convertible loan *[note 12[d]]*	—	—	—	—	126,083	—	126,083	—	126,083
Net loss and comprehensive	—	—	—	—	—	—	—	—	—
loss for the year	—	—	—	—	—	(1,641,095)	(1,641,095)	—	(1,641,095)
Balance, December 31, 2016	**46,101,502**	**563,805**	**5,761,336**	**41,341**	**126,083**	**(56,828,114)**	**(4,234,047)**	**(101,360)**	**(4,335,407)**
Private placement *[note 13]*	371,250	—	—	—	—	—	371,250	—	371,250
Options issued *[note 13]*	—	—	95,237	—	—	—	95,237	—	95,237
Warrants cancelled or expired *[note 13]*	—	—	44,183	(44,183)	—	—	—	—	—
Share subscriptions issued *[note 13]*	—	213,133	—	—	—	—	213,133	—	213,133
Shares issued for share subscriptions *[note 13]*	660,096	(662,938)	—	2,842	—	—	—	—	—
Conversion of loans payable *[note 12(a)]*	63,080	—	—	—	—	—	63,080	—	63,080
Conversion of debt *[note 12(c)(d)]*	1,282,354	—	—	—	(126,083)	—	1,156,271	—	1,156,271
Share issue costs *[note 13]*	(85,087)	—	—	—	—	—	(85,087)	—	(85,087)
Net loss and comprehensive	—	—	—	—	—	—	—	—	—
loss for the year	—	—	—	—	—	(1,777,956)	(1,777,956)	—	(1,777,956)
Balance, December 31, 2017	**48,393,195**	**114,000**	**5,900,756**	**—**	**—**	**(58,606,070)**	**(4,198,119)**	**(101,360)**	**(4,299,479)**

See accompanying notes

Consolidated statements of cash flows

[Canadian dollars]

Years ended December 31

	2017	2016
	$	$
Operating activities		
Net loss for the year	**(1,777,956)**	(1,641,095)
Add items not involving cash		
Depreciation of property and equipment	**86,849**	88,627
Amortization of intangible assets	**—**	56,010
Write down of loan receivable	**18,817**	—
Finance expense	**172,313**	194,487
Accretion expense	**136,624**	49,940
Stock-based compensation	**95,237**	170,894
Gain on settlement of debt	**(139,598)**	—
Change in fair value of derivative liability	**290,454**	—
	(1,117,260)	**(1,081,137)**
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(22,919)**	28,329
Loan receivable	**20,141**	619
Prepaid expenses and sundry	**(7,966)**	(1,512)
Deferred revenue	**(3,562)**	9,892
Accounts payable and accrued liabilities	**(419,985)**	265,764
Provisions	**(91,800)**	—
Cash used in operating activities	**(1,643,351)**	(778,045)
Financing activities		
Proceeds from issuance of units on private placement	**371,250**	250,000
Proceeds from issuance of share subscriptions	**213,133**	523,805
Proceeds from the issuance of loans payable	**—**	50,000
Proceeds from the issuance of promissory note	**1,038,000**	—
Repayment of promissory note	**(135,000)**	—
Issuance of convertible loan payable	**1,350,000**	—
Repayments of mortgages payable	**(752,130)**	—
Repayment of accrued interest on mortgage and term loan payable	**(460,062)**	(16,122)
Cash provided by financing activities	**1,625,191**	807,683
Net increase (decrease) in cash during the year	**(18,160)**	29,638
Cash, beginning of year	**45,697**	16,059
Cash, end of year	**27,537**	45,697

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 4]* were authorized for issue in accordance with a resolution of the Board of Directors on April 26, 2018. 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 $1,777,956 during the year ended December 31, 2017 [2016 – $1,641,095] and, as at that date, had a working capital deficiency of $2,016,320 [2016 – $5,083,200] and a cumulative deficit of $58,606,070 [2016 – $56,828,114]. 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 yet 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. 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, 2017. 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:

4. Summary of significant accounting policies - continued

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- 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.

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 Environmental Ltd. [100% equity interest], EWI Rubber Inc. [100% equity interest], 2228641 Ontario Limited [100% equity interest] and EWILP [consolidated structured entity].

Profit or loss and each component of other comprehensive income 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.

Service revenue

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

4. Summary of significant accounting policies - continued

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 transaction costs, except for financial assets classified at fair value through profit or loss, which are initially measured at fair value.

The Company's financial assets include cash and cash equivalents and accounts receivable excluding HST. 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 indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4. Summary of significant accounting policies - continued

Impairment of financial assets - continued

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 assets' 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, loans payable, term loan payable, promissory note payable, mortgages payable and convertible loan payable and derivative liability. All of the Company's financial liabilities are classified as loans and borrowings.

Financial instruments recorded at fair value in the statement of financial position are classified according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative liability is classified as level 3 in the fair value hierarchy.

4. Summary of significant accounting policies - continued

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 equity (deficiency). The carrying amount of the conversion option is not remeasured in subsequent years.

Debt component of convertible loans - continued

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

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 depreciation 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.

4. Summary of significant accounting policies - continued

Depreciation 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 are 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.

4. Summary of significant accounting policies - continued

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; and
- 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 or cash-generating unit's ["CGU's"] 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 which is the higher of value in use or fair value less costs to sell. 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 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.

4. Summary of significant accounting policies - continued

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

Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed, using the treasury stock method, to show the potential reduction in earnings per share that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same

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.

4. Summary of significant accounting policies - continued

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' deficiency. When the warrants are exercised, the proceeds received together with the related amount allocated as a separate component of shareholders' deficiency are allocated to capital stock. If the warrants expire unexercised, the related amount separately allocated to shareholders' 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 deducted 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.

4. Summary of significant accounting policies - continued

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 arises related to facts and circumstances that existed at the acquisition date. The adjustment would either be treated as a reduction to goodwill if it is incurred during the measurement period, with any excess amount recognized 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, which are effective for annual periods beginning on or after January 1, 2017. The nature and the impact of each new standard and amendment is described below:

Annual Improvements 2012 – 2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2017. They include the following:

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Assets [or disposal groups] are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, but rather a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7, *Financial Instruments: Disclosures*

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

This amendment did not have any impact on the Company.

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 is a critical judgment that has been made in applying the Company's accounting policies that has the most significant effect on the amounts in the consolidated financial statements:

6. Significant accounting judgments, estimates and assumptions - continued

Consolidation of a structured entity

During fiscal 2007, Environmental Waste International Limited Partnership ["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. EWI had 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 limited partnership Units by issuing up to $5,000,000 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. This right expired unexercised on November 1, 2017. 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 13.

[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 Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will not have a material effect on the classification and measurement of the Company's financial assets, and no impact on the classification and measurement of the Company's financial liabilities.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company plans to adopt the new standard on the required effective date using the full retrospective method. The Company has assessed that there is no impact on the Company's consolidated financial statements with the adoption of this new standard.

IFRS 16, *Leases*

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little changed to the existing accounting in IAS 17 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

8. Loan receivable

Loan receivable consists of the following:

	2017	**2016**
	$	$
Loan receivable	—	20,141

The loan receivable had an annual interest rate of 12%. The loan in the original amount of $15,000 US was not repaid on its maturity date of October 11, 2013. During the year ended December 31, 2017, the Company determined to write off the loan and recorded a loss of $18,817.

9. 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, 2015	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at December 31, 2016	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at December 31, 2017	**68,261**	**984,994**	**71,060**	**36,725**	**38,566**	**719,169**	**1,918,775**
Accumulated depreciation							
As at December 31, 2015	—	180,075	23,685	32,208	19,592	238,182	493,742
Depreciation charge	—	32,197	4,737	1,355	2,393	47,945	88,627
As at December 31, 2016	—	**212,272**	**28,422**	**33,563**	**21,985**	**286,127**	**582,369**
Depreciation charge	—	30,909	4,737	949	2,310	47,944	86,849
As at December 31, 2017	**—**	**243,181**	**33,159**	**34,512**	**24,295**	**334,071**	**669,218**
Net book value							
As at December 31, 2017	**68,261**	**741,813**	**37,901**	**2,213**	**14,271**	**385,098**	**1,249,557**
As at December 31, 2016	**68,261**	**772,722**	**42,638**	**3,162**	**16,581**	**433,042**	**1,336,406**

Notes to consolidated financial statements

For the years ended December 31, 2017 and 2016

10. Intangible assets

Intangible assets consist of the following:

	Technology rights $	Acquired in-process development $	Marketing rights $	Total $
Cost				
As at December 31, 2015	500,000	2,750,000	610,610	3,860,610
As at December 31, 2016	500,000	2,750,000	610,610	3,860,610
As at December 31, 2017	**500,000**	**2,750,000**	**610,610**	**3,860,610**
Accumulated amortization				
As at December 31, 2015	500,000	2,704,167	600,433	3,804,600
Amortization charge	—	45,833	10,177	56,010
As at December 31, 2016	**500,000**	**2,750,000**	**610,610**	**3,860,610**
Amortization charge	—	-	-	-
As at December 31, 2017	**500,000**	**2,750,000**	**610,610**	**3,860,610**
Net book value				
As at December 31, 2017	**—**	**—**	**—**	**—**
As at December 31, 2016	—	—	—	—

The Company has one main research and development project: the TR900 tire recycling prototype. Intangible assets relating to this project have been fully amortized as at December 31, 2017 and 2016. Management has determined that the related development costs are not eligible for capitalization and have expensed $3,186 [2016-$37,628] in operating, labour and manufacturing expenses.

11. Provisions

	2017 $	2016 $
Balance, beginning of year	**255,000**	255,000
Paid during the year	(91,800)	—
Balance, end of year	**163,200**	255,000

The provision balance consists of an accrual of one year's annual salary to a former CEO of the Company. In March 2017, the claim was settled for $255,000 payable over 25 months in equal installments of $10,200 per month commencing April 2017. During the year, nine payments were made totaling $91,800.

12. Loans and borrowings

[a] Loans payable consist of the following:

	December 31, 2017 $	December 31, 2016 $
Fixed rate loans due to directors of the Company, with interest at 8% per annum, payable on April 30, 2017 *[i]*	—	103,761
Convertible loan payable, with interest at 6% per annum, repayable on November 2, 2018 *[ii]*	—	50,501
	—	154,262
Less current portion	—	103,761
	—	50,501

[i] The loans were originally from directors of the Company in the amount of $84,000 plus interest accretion of $23,201 [2016 - $19,761] for a total of $107,201. On May 1, 2017 these loans were converted to common shares of the Company at $0.10 per common share for a total of 1,072,010 common shares. 84,000 warrants pertaining to these loans were cancelled. The Company recorded a gain on settlement of debt in the amount of $64,321, representing the difference between the fair value of the equity issued upon conversion and the fair value of at the date of conversion.

[ii] On May 1, 2017, the loan payable of $50,000 plus accrued interest of $500 was converted into common shares of the Company at $0.10 per common share for a total of 505,000 common shares. The Company recorded a gain on settlement of debt in the amount of $30,300, representing the difference between the fair value of the equity issued upon conversion and the fair value at the date of conversion. *[note13]*

Interest expense of $4,458 on these loans was recorded during the year ended December 31, 2017 (2016- $8,400).

[b] Term loan payable consists of the following:

	December 31, 2017 $	December 31, 2016 $
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum, payable by March 23, 2020	**2,053,333**	2,315,700
Less current portion	**271,367**	2,315,700
	1,781,966	—

During the period from May 1, 2015 to April 30, 2017, interest-only payments were due on the loan in the amount of $13,334 per month, representing $6,667 in respect of interest accrued during the period from April 1, 2013 to April 30, 2015 and $6,667 in respect of regular interest payable. This amount of interest totaling $315,700 was accrued at December 31, 2016.

12. Loans and borrowings - continued

On May 8, 2017, the Company repaid the NOHFC $339,762 representing all unpaid and accrued interest until that date. On May 18, 2017, the Company and the NOHFC signed a third amendment to the loan agreement to further defer the interest and principal payments to April 30, 2018. This amendment was accounted for as a modification of debt. Interest will continue to accrue on the outstanding principal of the loan and accrued interest, compounded monthly. The amount of interest accrued at December 31, 2017 was $53,333.

Commencing June 1, 2018, monthly blended payments of principal and interest shall commence on the first day of each month until maturity.

In addition, the NOHFC agreed to waive $500,000 of their first security interest on the land and building owned by Ellsin Environmental Ltd, but has a first security interest in all of the assets of the Company pursuant to a General Security agreement registered under PPSA.

Total interest expense of $77,395 (2016 - $90,652) was recorded for the year ended December 31, 2017.

[c] Promissory note payable consists of the following:

	December 31, 2017 $	**December 31, 2016** $
Promissory note payable, with interest at 8% per annum, [i]	—	615,339
Promissory note payable, with interest at 6% per annum, payable on December 31, 2017[ii]	**938,427**	—
	938,427	615,339
Less current portion	**938,427**	615,339
Long term portion	—	—

[i] On March 3, 2017, the terms of this loan were amended to permit the lender to convert the outstanding principal and accrued interest into common shares of the Company. This amendment was accounted for as a modification of debt. On March 24, 2017 this loan and accrued interest in the total amount of $627,781 was converted into common shares of the Company at $0.10 per common share *[note 13].*

[ii] On April 12, 2017, the Company received proceeds of $938,000 in the form of a promissory note which bears interest at 6%. $135,000 of this loan was repaid on May 1, 2017 from proceeds of the private placement that closed on April 28, 2017. On November 21, 2017, the promissory note payable was increased by an additional $100,000 to $903,000, and the maturity date was extended until December 31, 2017 from the initial maturity date of July 11, 2017. These amendments were treated as a modification of debt. Accrued interest of $35,427 for the period from April 12, 2017 to December 31, 2017 was included in the balance as at December 31, 2017.

Subsequent to the year end, the promissory note was increased by an additional $266,500 and the maturity date was deferred until June 30, 2018. [note 20]

Total interest recorded for promissory notes payable was $47,870 for the year ended December 31, 2017 (2016 - $53,175).

12. Loans and borrowings - continued

[d] Convertible loan payable consists of the following:

	December 31 2017 $	December 31 2016 $
Face value of loan payable upon issuance	—	500,000
Less: discount	—	(126,083)
Book value of loan repayable on June 10, 2018	—	373,917
Accrued interest payable at 8%	—	63,081
Accrued accretion expense	—	49,940
	—	486,938
Less current portion	—	—
	—	486,938

In 2015, the Company received proceeds of $500,000 through the issuance of a convertible loan. The fair value of the promissory note was deemed to be $373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%. Accretion expense for the year ended December 31, 2017 was $76,143 and $49,940 in 2016 amounting to $126,083 which represents the full discount of $126,083.

On March 24, 2017 this loan and accrued interest in the total amount of $528,490 was converted into common shares of the Company at $0.10 per common share. The Company recorded a gain on settlement of debt in the amount of $44,977, representing the difference between the fair value of the loan payable at the conversion date at the amount of $528,490 that was converted into common shares based on the agreement terms. The discount of $126,083 was transferred from equity portion of convertible debt to share capital.

12. Loans and borrowings - continued

Convertible loan payable consists of the following:

	December 31 2017	December 31 2016
	$	$
Face value of convertible loan payable upon issuance	**1,350,000**	—
Less: conversion feature	**(423,433)**	—
Less: warrant liability	**(120,954)**	—
Less: debt issue costs	**(28,177)**	—
Carrying value of convertible loan on initial recognition	**777,436**	—
Accrued interest payable at 5%	**45,000**	—
Accretion expense during the year	**60,481**	—
	882,917	—
Less current portion	—	—
	882,917	—

Pursuant to the financing that closed on April 28, 2017, the Company received proceeds of $1,350,000 through the issuance of a 5 year 5% unsecured convertible loan payable. The note payable is convertible at a price of $0.11 per common share. Accrued interest is required to be paid annually and, may be payable in cash or common shares of the Company at the Company's discretion. In addition, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years.

The conversion feature and the warrants have been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture and warrants. The fair value of the derivative liability upon issuance was $544,387 as valued using a Monte Carlo simulation with the following assumptions: risk free rate of return of 1%, expected share volatility of 152.9%, dividend yield of 0%, expected life of 5 years, the probability of a subsequent equity raise and expected issuance price. Debt issuance costs of $28,177 were reduced from the value of the loan at the time of issuance. The residual value of $777,436 was allocated to the convertible loan payable which has an effective interest rate of 19%. Accretion expense for the year ended December 31, 2017 was $60,481, and interest expense was $45,000.

The derivative liability was re-valued as at December 31, 2017, using a Monte Carlo simulation with the following assumptions: risk free rate of return of 1.86%, expected share volatility of 156.2%, dividend yield of 0%, expected life of 4.33 years, the probability of a subsequent equity raise and expected issuance price. Change in the fair value of the derivative liability for the year ended December 31, 2017 was $290,454 resulting in a derivative liability value of $834,841 at December 31, 2017.

Total interest and accretion recorded related to the convertible loans payable amount to $55,386 and $136,624 respectively (2016 - $42,260 and $49,940, respectively).

12. Loans and borrowings - continued

[e] Mortgages payable consist of the following:

	December 31, 2017 $	December 31, 2016 $
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	**51,179**	68,304
Fixed-rate second mortgage, eight-year amortization period, with interest at 12% per annum, repayable in full on April 15, 2017	**—**	735,000
	51,179	803,304
Less current portion	**18,187**	752,130
	32,992	51,174

On April 15, 2017, the second mortgage of $735,000 and accrued interest amounting to $120,300 were repaid for a total payment of $855,300. At December 31, 2016 interest of $94,575 to certain holders of the second mortgage was included in accounts payable and accrued liabilities.

Total interest of $29,347 was recorded for the year ended December 31, 2017 (2016 - $96,567).

The security for the above mortgages is as follows:

[i] First mortgage

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

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

	$
2018	18,187
2019	19,308
2020	13,684
2021	—
	51,179

13. Share capital and reserves

Authorized - Unlimited common shares
Issued and outstanding

	Number of shares #	Amount $
Balance, December 31, 2015	138,268,128	45,851,502
Private placement [1]	1,923,077	250,000
Balance, December 31, 2016	**140,191,205**	**46,101,502**
Conversion of promissory note payable [2]	6,277,810	627,781
Conversion of convertible loan payable [2]	5,284,900	528,490
Transfer of residual value of converted loan payable [2]	—	126,083
Conversion of loans payable [3]	1,577,010	63,080
Issuance of shares pursuant to share subscriptions [3]	6,135,011	662,938
Issuance of warrants [3]	—	(2,842)
Private placements [3]	3,712,500	371,250
Share issuance costs	—	(85,087)
Balance, December 31, 2017	**163,178,436**	**48,393,195**

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 29, 2016, the Company closed a private placement for 1,923,077 common shares with gross proceeds of $250,000, less agent's fees of nil.

[2] On March 24, 2017, the holder of both the promissory note payable and convertible loan payable *[note 12(c) and (d)]* exercised their right for conversion and elected to convert their debt and accrued and unpaid interest into 6,277,810 and 5,284,900 common shares of the Company respectively at $0.10 per common share for a total value of $1,156,271. The residual value of the converted loan payable of $126,083 was transferred from equity component of convertible debt to share capital.

[3] On April 28, 2017, pursuant to a financing, the Company completed a private placement totaling $1,721,250. The Company issued 3,712,500 common shares at a price of $0.10 per common share for proceeds of $371,250.

The Company converted $157,701 of loans into common shares. The fair value of the equity on the date of conversion of $63,080 was recorded as share capital and the Company recorded a total gain on settlement of this debt in the amount of $94,621 representing the difference between the fair value of the equity issued and the actual fair value of the debt on the date of conversion. Of this debt, $107,201 were loans due to directors of the Company and were converted at $0.10 per common share for a total of 1,072,010 common shares. $50,500 convertible loan payable was also converted at $0.10 per common share for a total of 505,000 common shares [note 12(a)].

On April 28, 2017, 6,135,011 common shares pursuant to subscription agreements were issued.

The Company incurred share issuance costs of $85,087 relating the equity transactions during the year.

13. Share capital and reserves - continued

Shares to be issued	**Number of shares subscribed**	**Amount**
	#	$
Balance, December 31, 2015	**381,818**	**40,000**
Share subscriptions signed [1]	4,761,863	523,805
Balance, December 31, 2016	**5,143,681**	**563,805**
Share subscriptions signed [2]	2,131,330	213,133
Common shares issued for shares subscriptions signed [2]	(6,135,011)	(662,938)
Balance, December 31, 2017	**1,140,000**	**114,000**

[1] During 2016, the Company received proceeds of $523,805 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at a price of $0.11 per share.

[2] On February 15, and March 3, 2017, the Company received proceeds of $65,800 and $33,333 for a total of $99,133 pursuant to a share subscription arrangement whereby the Company agreed to issue common shares at $0.10 per share.

On April 28, 2017, 6,135,011 common shares and 160,000 share purchase warrants pursuant to subscription agreements were issued. Share purchase warrants issued entitled the holder to acquire an additional common share at $0.10 per share until November 12, 2017.

On December 15, 2017 the Company received additional proceeds of $114,000 pursuant to share subscription agreements whereby the company agreed to issue common shares at $0.10, and these agreements are outstanding at December 31, 2017.

Share-based payment plans

The Board of Directors has established a stock option plan [the "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.

Subject to the guidelines contained in the Plan, the Company has adopted a 10% rolling stock option plan dated May 6, 2013 and approved by the Board of Directors on May 9, 2013 and by the shareholders of the Company on June 11, 2013, pursuant to which the Board of Directors may, from time to time, authorize the issuance of options to directors, employees, officers and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding common shares at the time of the grant.

13. Share capital and reserves – continued

Share-based payment plans - continued

The following options to purchase shares were outstanding on December 31, 2017 and 2016:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	$	#	$
Balance, beginning of year	**13,785,000**	**0.12**	13,065,000	0.12
Expired	**(560,000)**	**(0.25)**	—	—
Cancelled	—	—	(355,000)	(0.10)
Granted	**1,400,000**	**0.10**	1,075,000	0.11
Balance, end of year	**14,625,000**	**0.11**	**13,785,000**	**0.12**

A summary of stock options outstanding and exercisable as at December 31, 2017 is set out below:

	Outstanding and exercisable stock options		
Range of exercise prices	**Number of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.10	**12,265,000**	**2.14**	**0.10**
0.11 to 0.20	**2,360,000**	**1.89**	**0.14**
	14,625,000	**2.07**	**0.11**

Effective June 27, 2017, the Company granted 1,400,000 stock options. These options have an exercise price of $0.10, annual vesting in three equal tranches over three years from grant date and expire on June 27, 2017 and June 27, 2022, respectively.

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% [2016 – 0%]; expected volatility of 186% [2016 – 169%]; risk-free interest rates of 1% [2016 – 0.70%]; and an average expected life of five years [2016 – five years]. This resulted in stock-based compensation expense of $95,237 [2016 – $170,894]. The weighted average exercise price of options granted during the year was $0.11 [2016 – $0.12].

13. Share capital and reserves – continued

Warrants

During the year ended December 31, 2016, the following transactions occurred:

[i] 4,920,833 share purchase warrants that entitled the holder to acquire an additional common share at $0.21 per share expired. The value of these warrants of $233,872 was transferred from warrants to contributed surplus.

During the year ended December 31, 2017, the following transactions occurred:

[ii] On March 3, 2017, pursuant to the conversion right granted to the lender of the promissory note payable [[note 12(b)], the lender agreed to the cancellation of 500,000 common share purchase warrants that were issued at the time the loan was made. The value of these warrants of $16,471 was transferred from warrants to contributed surplus.

[iii] On March 31, 2017, 427,500 share purchase warrants that entitled the holder to acquire an additional common share at $0.10 per share expired. The value of these warrants of $20,500 was transferred from warrants to contributed surplus.

[iv] Pursuant to the financing that closed on April 28, 2017, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years . The value of these warrants has been accounted for as a derivative liability.*[note 12[d]]*.

[v] On April 28, 2017, 84,000 common share warrants at a $0.20 were cancelled with the repayment of the associated director's loans. *[note 13[a]].*The value of these warrants of $4,370 was transferred from warrants to contributed surplus. In addition, 160,000 common share purchase warrants valued at $2,842 were issued at $0.10 and expire on November 12, 2017.

[vi] On November 12, 2017 160,000 common shares purchase warrants at $0.10 were cancelled. The value of these warrants of $2,842 was transferred from warrants to capital stock.

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

	Number of warrants #	**Amount** $	**Weighted average exercise price** $
Balance, December 31, 2015	5,932,333	275,213	0.16
Expired	(4,920,833)	(233,872)	(0.21)
Balance, December 31, 2016	1,011,500	41,341	0.16
Granted	3,872,500	2,842	0.11
Cancelled	(744,000)	(23,683)	(0.20)
Expired	(427,500)	(20,500)	(0.10)
Balance, December 31, 2017	**3,712,500**	—	**0.11**

Notes to consolidated financial statements

For the years ended December 31, 2017 and 2016

13. Share capital and reserves – continued

Warrants - continued

A summary of warrants outstanding and exercisable as at December 31, 2017 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.11	**3,712,500**	**4.17**	**0.11**

Pursuant to the issuance of convertible debt on April 28, 2017, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years. The warrants have been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture and warrant.

Contributed surplus

	2017	**2016**
	$	$
Balance, beginning of year	**5,761,336**	5,356,570
Stock options granted and/or vested during the year		
Stock options issued	**95,237**	170,894
Warrants expired or cancelled during the year	**44,183**	233,872
Balance, end of year	**5,900,756**	5,761,336

Equity component of convertible loan

	2017	**2016**
	$	$
Balance, beginning of year	**126,083**	—
Residual value of debt allocated to equity	—	126,083
Transfer of residual value on conversion of loan	**(126,083)**	—
Balance, end of year	—	**126,083**

13. Share capital and reserves – continued

Contributed surplus - continued

In 2015, the Company received proceeds of $500,000 through the issuance of a promissory note. The note was convertible into common shares of the Company at $0.10 per common share *[note 12d].* The fair value of the promissory note was deemed to be $373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%. The residual value of $126,083 was recorded as equity value of convertible debt. On March 24, 2017 the loan was converted into common shares of the Company and the value of $126,083 was transferred to share capital.

Per share amounts

For the year ended December 31, 2017, the weighted average number of shares outstanding was 156,842,739 [2016 – 140,043,681]. As at December 31, 2017, the Company had 14,625,000 [2016 – 13,785,000] stock options and 3,712,500 warrants [2016 – 1,011,500 warrants] as well as convertible instruments that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

14. Government assistance

Federal scientific research and experimental development tax credits ["SR&ED tax credits"] are recorded in the period when reasonable assurance of their realization exists. The Company has recognized $48,154 [2016 – $83,191] 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.

15. Income taxes

The reconciliation of the combined federal and provincial statutory income tax rate of 26.5% [2016 – 26.5%] to the effective tax rate is as follows:

	2017 $	**2016** $
Net loss before recovery of income taxes	**(1,777,956)**	(1,641,095)
Expected income tax (recovery) expense	**(471,440)**	(434,890)
Tax rate changes and other adjustments	**(66,780)**	16,120
Share based compensation and non-deductible expenses	**118,990**	45,290
Capitalized share issuance costs	**(22,550)**	—
Converted loan adjustment	**184,450**	—
Change in tax benefits not recognized	**257,330**	373,480
Income tax expense	**—**	—

15. Income taxes - continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following temporary differences:

	2017	**2016**
	$	$
Deferred tax assets		
SR&ED expenditures	**2,559,396**	2,842,184
Unused tax losses carryforwards	**17,993,570**	17,418,100
Investment tax credits	**2,016,831**	1,929,156
Temporary differences		
Provisions	**163,200**	255,000
Property and equipment	**2,159,950**	2,073,102
Intangible assets	**394,610**	394,610
Imputed interest on loans and notes	**157,822**	458,488
Deferred financing costs and other	**124,662**	—
Total deferred tax assets	**25,570,041**	24,770,640
Losses and other temporary differences not benefited	**(25,570,041)**	(24,770,640)
Net deferred tax assets	—	—

The Company’s investment tax credits expire from 2024 to 2037.

The Company’s Canadian non-capital income tax losses expire as follows:

	Non-capital losses	**Investment tax credits**
	$	$
2024	—	118,627
2025	—	141,638
2026	—	106,215
2027	—	82,915
2028	519,673	61,309
2029	1,077,951	18,166
2030	2,369,540	134,445
2031	3,500,541	482,170
2032	2,216,230	276,527
2033	1,444,772	203,833
2034	2,830,766	162,365
2035	1,471,694	140,946
2036	782,905	87,675
2037	1,779,498	—
Total	**17,993,570**	**2,016,831**

16. Financial instruments

[a] Fair value information

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

Fair value estimates of the loans and borrowings are made at the initial recognition date by discounting future cash flows using rates available for debt on similar terms, credit risk and remaining maturities.

[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 excluding HST and cash.

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.

16. Financial instruments - continued

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, 2017	**Less than 1 year**	**2 – 3 years**	**4 – 5 years**	**Greater than 5 years**	**Total**
	$	$	$	$	$
Accounts payable and accrued liabilities and provisions	868,460	—	—	—	868,460
Promissory note payable	938,427	—	—	—	938,427
Term loan payable	271,367	1,781,966	—	—	2,053,333
Mortgages payable	18,187	32,992	—	—	51,179
Convertible loan payable	—	—	882,917	—	882,917
Derivative liability	—	—	834,841	—	834,841
Total	**2,096,441**	**1,814,958**	**1,717,758**	**—**	**5,629,157**

[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:

	2017	**2016**
	$	$
Interest-bearing loans and borrowings	4,760,697	4,375,543
Trade payables and other and provisions	868,460	1,380,245
Less cash and cash equivalents	(27,537)	(45,697)
Net debt	5,601,620	5,710,091
Shareholders' deficiency	(4,299,479)	(4,335,407)
Total capital	1,302,141	1,374,684

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, 2017. The Company is not subject to externally imposed capital requirements.

17. Related party disclosures

[a] 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:

The Company recognized an expense during the year ended December 31, 2017 for interest on loans to the directors of $54,616 [2016 – $64,151]. At December 31, 2017, $32,613 was included in loans payable [December 31, 2016 - $56,250 was included in accounts payable and accrued liabilities, and $7,901 was included in loans payable].

As at December 31, 2017, the Company has $51,215 [2016 – $71,001] included in accounts payable and accrued liabilities owing to directors in addition to the interest included in accounts payable and accrued liabilities.

[b] Transactions with key management personnel

The Company recorded compensation expense during the year ended December 31, 2017 in the amount of $319,017 [2016 – $320,683] and share-based compensation in the amount of $70,350 [2016 – $61,028] to key management personnel.

Accounts payable as at December 31, 2017, includes $339,042 [2016 – $331,597] related to compensation of key management personnel.

18. Commitments and contingencies

[a] Commitments

The Company is committed under a long-term lease for its premises, which expires on August 31, 2022.

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:

	$
2018	72,939
2019	72,939
2020	72,939
2021	72,939
2022	48,626
	340,382

[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 fiscal 2014, the Company announced that EWILP commenced a lawsuit seeking injunctive relief to prevent the Company from interfering with certain intellectual property rights that EWILP purports belong to it. In 2007, the Company sold certain intellectual property rights to EWILP, which were immediately licensed back to the Company. At the request of both parties, this claim was dismissed in court on September 28, 2017.

19. Segment information

The Company is organized into one operating segment. Management monitors the operating results of the Company on this basis. The following represents geographic information:

Revenue from external customers

	2017 $	**2016** $
Canada	**165**	210
United States	**197,604**	172,454
	197,769	172,664

Revenue from one customer amounted to $197,604 [2016 – $172,454].

Non-current assets

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

20. Subsequent Events

The following events took place subsequent to December 31, 2017:

[a] In January 2018, the Company received proceeds of $150,930 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at $0.10 per share.

[b] On March 6, 2018 the promissory note payable held by the Company was increased by an additional $172,000 to $1,075,000 and the maturity date was deferred until June 30, 2018. On April 13, 2018 an additional $94,500 was received increasing the note payable to $1,169,500. *[note 12c]*