

Condensed Interim Consolidated financial statements

Environmental Waste International Inc.

For the six months ended June 30, 2018

Notice to Reader

The accompanying unaudited condensed interim financial statements of Environmental Waste International Inc. (“EWI” or the “Company”) for the six months ended June 30, 2018 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company’s external auditors or any other accounting firm.

Responsibility for unaudited interim consolidated financial statements

The accompanying unaudited condensed interim financial statements of Environmental Waster International Inc. have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) consistently applied. The most significant of these accounting principles have been set out in the December 31, 2017 audited financial statements.

Auditor Involvement

The Auditor of Environmental Waste Inc. has not performed a review of these condensed interim financial statements.

Ajax, Ontario

August 27, 2018

Environmental Waste International Inc.

Incorporated under the laws of Ontario

Interim condensed consolidated statements of financial position

[Expressed in Canadian dollars]

[Unaudited]

As at

	June 30 2018	December 31 2017
	\$	\$
Assets		
Current		
Cash	56,837	27,537
Accounts receivable	27,778	39,994
Prepaid expenses and sundry	75,640	74,726
Total current assets	160,255	142,257
Property and equipment, net [note 5]	1,206,926	1,249,557
	1,367,181	1,391,814
Liabilities and shareholders' equity (deficiency)		
Current		
Accounts payable and accrued liabilities	777,140	705,260
Provisions [note 6]	102,000	163,200
Current portion of term loan payable [note 7[a]]	421,385	271,367
Promissory note payable [note 7[b]]	1,397,835	938,427
Current portion of mortgages payable [note 7[d]]	18,187	18,187
Deferred revenue	17,229	62,136
Total current liabilities	2,733,776	2,158,577
Term loan payable [note 7[a]]	1,671,948	1,781,966
Convertible loan payable [note 7[c]]	962,026	882,917
Derivative liability [note 7[c]]	834,841	834,841
Mortgages payable [note 7[d]]	24,033	32,992
Total liabilities	6,226,624	5,691,293
Shareholders' deficiency		
Capital stock [note 8]	48,658,125	48,393,195
Shares to be issued [note 8]	—	114,000
Contributed surplus [note 8]	5,933,832	5,900,756
Deficit	(59,350,040)	(58,606,070)
Deficiency attributable to owners of the Parent	(4,758,083)	(4,198,119)
Non-controlling interests	(101,360)	(101,360)
Total shareholders' deficiency	(4,859,443)	(4,299,479)
	1,367,181	1,391,814

Going concern [note 3]

Commitments and contingencies [note 10]

Subsequent events [note 12]

See accompanying notes

Approved by the Board:

"Emanuel Gerard"
Director

"Robert MacBean"
Director

Environmental Waste International Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

[Canadian dollars]

[Unaudited]

Three and six months ended June 30	3 months ended June 30 2018 \$	3 months ended June 30 2017 \$	6 months ended June 30 2018 \$	6 months ended June 30 2017 \$
Revenue				
Sales and other	49,488	42,075	111,151	83,371
Expenses				
Operating, labour and manufacturing	317,271	368,709	623,847	712,513
Stock-based compensation [notes 9b]	14,844	26,100	33,076	53,545
Depreciation of property and equipment [note 5]	21,315	21,315	42,631	43,315
Finance expense – interest on loans payable	—	1,622	—	4,458
Finance expense – interest on term loan payable [note 7a]	20,000	13,333	40,000	27,361
Finance expense – interest on promissory note payable [note 7b]	18,505	10,844	32,571	23,287
Finance expense – interest on convertible loan payable [note 7c]	16,875	11,250	33,750	21,636
Finance expense – interest on mortgages payable [note 7d]	681	4,621	1,415	27,659
Accretion expense - convertible loan payable [note 7c]	22,680	7,192	45,360	83,335
Gain on settlement of debt	—	—	—	(44,977)
Foreign exchange loss	(854)	12,843	2,471	13,755
	431,317	477,829	855,121	965,887
Net loss and comprehensive loss for the period	(381,829)	(435,754)	(743,970)	(882,516)
Net loss and comprehensive loss attributable to:				
Shareholders	(381,829)	(435,754)	(743,970)	(882,516)
Non-controlling interests	—	—	—	—
	(381,829)	(435,754)	(743,970)	(882,516)
Loss per share – basic and diluted [note 8]	(0.002)	(0.003)	(0.005)	(0.006)
Weighted average number of shares outstanding – basic and diluted [note 8]	165,827,736	159,624,141	163,848,039	150,316,289

See accompanying notes

Environmental Waste International Inc.

Interim condensed consolidated statements of changes in shareholders' deficiency

[Expressed in Canadian dollars]

[Unaudited]

Six months ended June 30, 2018 and 2017

	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, 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	371,250	—	—	—	—	—	371,250	—	371,250
Options issued [note 8]	—	—	53,545	—	—	—	53,545	—	53,545
Warrants issued	(2,842)	—	—	142,777	—	—	139,935	—	139,935
Warrants cancelled or expired [note 8]	—	—	41,341	(41,341)	—	—	—	—	—
Share subscriptions issued [note 8]	—	99,133	—	—	—	—	99,133	—	99,133
Shares issued for share subscriptions	662,938	(662,938)	—	—	—	—	—	—	—
Conversion of loans payable	157,701	—	—	—	—	—	157,701	—	157,701
Conversion of debt	1,282,354	—	—	—	(126,083)	—	1,156,271	—	1,156,271
Issuance of convertible debt	—	—	—	—	—	—	—	—	—
Share issue costs	(85,087)	—	—	—	—	—	(85,087)	—	(85,087)
Net loss and comprehensive loss for the period	—	—	—	—	—	(882,516)	(882,516)	—	(882,516)
Balance, June 30, 2017	48,487,816	—	5,856,222	142,777	—	(57,710,630)	(3,223,815)	(101,360)	(3,325,175)
Balance, December 31, 2017	48,393,195	114,000	5,900,756	—	—	(58,606,070)	(4,198,119)	(101,360)	(4,299,479)
Options issued [note 8]	—	—	33,076	—	—	—	33,076	—	33,076
Share subscriptions issued [note 8]	—	(114,000)	—	—	—	—	(114,000)	—	(114,000)
Shares issued for share subscriptions	264,930	—	—	—	—	—	264,930	—	264,930
Net loss and comprehensive loss for the period	—	—	—	—	—	(743,970)	(743,970)	—	(743,970)
Balance, June 30, 2018	48,658,125	—	5,933,832	—	—	(59,350,040)	(4,758,083)	(101,360)	(4,859,443)

See accompanying notes

Environmental Waste International Inc.

Interim condensed consolidated statements of cash flows

[Expressed in Canadian dollars]

[Unaudited]

Six months ended June 30, 2018 and 2017

	6 months ended June 30 2018	6 months ended June 30 2017
	\$	\$
Operating activities		
Net loss for the period	(743,970)	(882,516)
Add items not involving cash		
Depreciation of property and equipment	42,631	43,315
Finance expense	106,321	55,476
Accretion expense	45,360	83,335
Stock-based compensation	33,076	53,545
Gain on settlement of debt	—	(44,977)
	(516,582)	(691,822)
Changes in non-cash working capital balances related to operations		
Accounts receivable	12,216	(32,573)
Prepaid expenses and sundry	(914)	(6,185)
Deferred revenue	(44,907)	(47,579)
Accounts payable and accrued liabilities	72,413	(272,542)
Provisions	(61,200)	(30,600)
Cash used in operating activities	(538,974)	(1,081,301)
Financing activities		
Proceeds from issuance of units on private placement	—	371,250
Proceeds from issuance of share subscriptions	150,930	99,133
Proceeds from the issuance of promissory note	426,303	938,000
Repayment of promissory note	—	(135,000)
Proceeds from issuance of convertible debt	—	1,350,000
Repayments of mortgages payable	(8,959)	(743,439)
Repayment of accrued interest on mortgage and term loan payable	—	(460,062)
Cash provided by financing activities	568,274	1,419,882
Net increase in cash during the period	29,300	338,581
Cash, beginning of period	27,537	45,697
Cash, end of period	56,837	384,278

See accompanying notes

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

1. Nature of operations and Going Concern

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 Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

The Company's success depends on the commercialization of its Reverse Polymerization technology. 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. 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

2. Basis of preparation and statement of compliance

Statement of compliance

The unaudited interim condensed consolidated financial statements of EWI have been prepared in accordance with International Financial Reporting Standards 34 "Interim Financial Reporting" (IAS 34). The notes presented in these unaudited interim consolidated financial statements include only significant events and transactions occurring since the last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved the interim condensed consolidated financial statements on August 27, 2018.

Basis of Measurement

These unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain instruments that are measured at fair value.

Functional and presentation currency

These unaudited condensed consolidated financial statements are presented in Canadian dollars, which is the Company's financial currency

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 \$743,970 during the six months ended June 30, 2018 [2017 – \$882,516] and, as at that date, had a working capital deficiency of \$2,573,521 [2017 – \$2,016,320] and a cumulative deficit of \$59,350,040 [2017 – \$58,606,070]. 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

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

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

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2017 and have been applied consistently to all periods presented in these unaudited interim consolidated financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2017.

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts 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 [Company is primary beneficiary]. Environmental Waste International Inc. is the parent company.

Recent accounting pronouncements

Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments. In accordance with the transitional provisions, the Company adopted the standard retrospectively without restating comparatives as the change did not impact the opening balances.

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

The Company's financial instruments consist of the following:

Financial Instruments Classification	IAS 39	IFRS 9
Cash	Fair value through profit or loss	Amortized Cost
Accounts receivable	Loans and receivables	Amortized Cost
Accounts payables and accrued liabilities	Other financial liabilities	Amortized Cost
Loans and notes payable	Other financial liabilities	Amortized Cost

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

The following are the Company's new accounting policies for financial instruments under IFRS 9:

Financial assets and liabilities

Financial assets

Non-derivative financial assets within the IFRS 9 are classified as "financial assets at fair value (either through other comprehensive income ("FVOCI"), or through profit or loss ("FVPL"))", and "financial assets at amortized costs" as appropriate. The Company determines the classification of its financial assets at initial recognition based on the Company's business model and contractual terms of cash flows.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Where the fair values of financial assets recorded on the interim condensed consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the interim condensed consolidated statements of earnings (loss).

Financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not have any financial assets classified as at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the interim condensed consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the asset.

Impairment of financial assets

The Company's only financial assets subject to impairment are trade and other receivables, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

The expected lifetime loss of a financial asset at amortized cost, is estimated based on the expected credit loss ("ECL"). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Financial liabilities

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include trade payable and accrued liabilities which are each measured at amortized cost.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the interim condensed consolidated statements of earnings (loss).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gains or losses reported in other income or expense in the consolidated statements of earnings (loss).

IFRS 15 – Revenue from Contracts with Customers

The Company elected to adopt IFRS15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's services.

Accounting Policy for Revenue Recognition

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

Standards issued but not yet effective

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.

5. 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, 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
As at June 30, 2018	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
Accumulated depreciation							
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
Depreciation charge	—	14,836	2,369	333	1,121	23,972	42,631
As at June 30, 2018	—	258,017	35,528	34,845	25,416	358,043	711,849
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 June 30, 2018	68,261	726,977	35,532	1,881	13,150	361,126	1,206,926

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

6. Provisions

	June 30 2018 \$	December 31 2017 \$
Balance, beginning of period	163,200	255,000
Paid during the period	(61,200)	(91,800)
Balance, end of period	<u>102,000</u>	<u>163,200</u>

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

7. Loans and borrowings

[a] Term loan payable consists of the following:

	June 30 2018 \$	December 31 2017 \$
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	2,093,333	2,053,333
Less current portion	421,385	271,367
	<u>1,671,948</u>	<u>1,781,966</u>

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. Interest will continue to accrue on the outstanding principal of the loan and accrued interest, compounded monthly. The amount of interest accrued at June 30, 2018 was \$93,333 [December 31, 2017- \$53,333].

The company is currently in discussions with the NOHFC regarding the terms of repayment for this loan.

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 for the six months ended June 30, 2018 was \$40,000 [2017 - \$27,361].

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

7. Loans and borrowings - continued

[b] Promissory note payable consists of the following:

	June 30 2018 \$	December 31 2017 \$
Promissory note payable, with interest at 6% per annum, payable on December 31, 2018	1,397,835	938,427
Less current portion	1,397,835	938,427
Long term portion	—	—

In 2017, the Company received net proceeds of \$903,000 in the form of a promissory note which bears interest at 6%. During the six months ended June 30, 2018 this promissory note payable was increased by an additional \$426,303 for a note payable balance of \$1,329,838. The former maturity date on this note of June 30, 2018 was extended to December 31, 2018.

Accrued interest of \$67,997 was included in the balance as at June 30, 2018. [December 31, 2017 - \$35,427].

[c] Convertible loan payable consists of the following:

	June 30 2018 \$	December 31 2017 \$
Face value of convertible loan payable upon issuance	1,350,000	1,350,000
Less: conversion feature	(423,433)	(423,433)
Less: warrant liability	(120,954)	(120,954)
Less: debt issue costs	(28,177)	(28,177)
Carrying value of convertible loan on initial recognition	777,436	777,436
Accrued interest payable at 5%	78,750	45,000
Accretion expense	105,841	60,481
	962,026	882,917
Less current portion	—	—
	962,026	882,917

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

7. Loans and borrowings - continued

In 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 six month period ended June 30, 2018 was \$45,360 [2017 – Nil] and interest expense was \$33,750 [2017 – Nil].

The derivative liability was re-valued at \$834,841 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.

[d] Mortgages payable consist of the following:

	June 30 2018	December 31 2017
	\$	\$
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	42,220	51,179
Less current portion	18,187	18,187
	<u>24,033</u>	<u>32,992</u>

[i] First mortgage Security

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	94,725
	<u>42,220</u>

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

8. Share capital and reserves

Authorized - Unlimited common shares
Issued and outstanding

	Number of shares #	Amount \$
Balance, December 31, 2016	140,191,205	46,101,502
Conversion of promissory note payable ^[1]	6,277,810	627,781
Conversion of convertible loan payable ^[1]	5,284,900	528,490
Transfer of residual value of converted loan payable ^[1]	—	126,083
Conversion of loans payable ^[2]	1,577,010	63,080
Issuance of shares pursuant to share subscriptions ^[2]	6,135,011	662,938
Issuance of warrants ^[2]	—	(2,842)
Private placements ^[2]	3,712,500	371,250
Share issuance costs	—	(85,087)
Balance, December 31, 2017	163,178,436	48,393,195
Issuance of shares pursuant to share subscriptions ^[3]	2,649,300	264,930
Balance, June 30, 2018	165,827,736	48,658,125

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] In 2017, the holder of both a promissory note payable and a convertible loan payable 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.

In addition the Company recorded a gain on settlement of debt in the amount of \$44,977 during the three months ended March 31, 2017, 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.

- ^[2] In 2017, 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. 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. In addition, 6,135,011 common shares pursuant to subscription agreements were issued.

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 incurred share issuance costs of \$85,087 relating the equity transactions during 2017.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

8. Share capital and reserves – continued

^[3] In the six months ended June 30, 2018, the Company completed a private placement and issued 2,649,300 common shares at a price of \$0.10 per common share for gross proceeds of \$264,930.

Shares to be issued	Number of	Amount
	shares subscribed	
	#	\$
Balance, December 31, 2016	5,143,681	563,805
Share subscriptions signed ^[1]	2,131,330	213,133
Common shares issued for shares subscriptions signed ^[1]	(6,135,011)	(662,938)
Balance, December 31, 2017	1,140,000	114,000
Share subscriptions signed ^[2]	1,509,300	150,930
Common shares issued for shares subscriptions signed ^[2]	(2,639,930)	(264,930)
Balance, June 30, 2018	—	—

^[1] During 2017, the Company received proceeds for a total of \$213,133 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at \$0.10 per share. 6,135,011 common shares pursuant to subscription agreements were issued

In December 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 per share.

^[2] In January and February 2018, the Company received proceeds for a total of \$150,930 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at \$0.10 per share.

On March 8, 2018, 2,639,930 common shares pursuant to subscription agreements were issued.

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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

8. Share capital and reserves – continued

The following options to purchase shares were outstanding on June 30, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of period	14,625,000	0.11	13,785,000	0.12
Expired	(820,000)	(0.16)	(560,000)	(0.25)
Granted	-	-	1,400,000	0.10
Balance, end of period	13,805,000	0.10	14,625,000	0.11

A summary of stock options outstanding and exercisable as at June 30, 2018 is set out below:

Range of exercise prices \$	Outstanding and exercisable stock options		
	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
0.10	11,945,000	1.85	0.10
0.11 to 0.20	1,860,000	1.79	0.13
	13,805,000	1.85	0.10

820,000 stock options with exercise prices ranging from \$0.10 to \$0.20 expired on June 11, 2018.

Stock-based compensation expense during the six months ended June 30, 2018 expense of \$33,076 [2017 – \$53,545].

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

8. Share capital and reserves – continued

Warrants

During fiscal 2017 the following transactions occurred:

- [i] Pursuant to the financing that closed in 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 7[c]].
- [ii] 744,000 common share purchase warrants at an average price of \$0.20 per share were cancelled.
- [iii] 427,500 common share purchase warrants at a price of \$0.10 per share expired.

A summary of the status of the Company's warrants at March 31, 2018 are as follows:

	Number of warrants #	Amount \$	Weighted average exercise price \$
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 and June 30, 2018	3,712,500	—	0.11

A summary of warrants outstanding and exercisable as at March 31, 2018 is set out below:

Range of exercise prices \$	Outstanding and exercisable warrants		
	Number of warrants #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
0.11	3,712,500	3.84	0.11

Contributed surplus

	June 30 2018 \$	December 31 2017 \$
Balance, beginning of period	5,900,756	5,761,336
Stock options granted and/or vested during the period	33,076	95,237
Warrants expired or cancelled during the period	-	44,183
Balance, end of period	5,933,832	5,900,756

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

8. Share capital and reserves – continued

Per share amounts

For the six months ended June 30, 2018, the weighted average number of shares outstanding was 163,848,039 [2017 – 150,316,289]. As at June 30, 2018, the Company had 13,805,000 [December 31, 2017 – 14,625,000] stock options and 3,712,500 warrants [December 31, 2017 – 3,712,500 warrants] as well as convertible instruments that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

9. Related party disclosures

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

During the six months ended June 30, 2018, 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 six months ended June 30, 2018 for interest on loans and notes to directors of \$66,321 [2017 – \$38,825]. At June 30, 2018, \$67,997 accrued interest was included in the \$1,397,835 due to a director of the Company, and \$78,750 accrued interest was included in the \$962,026 convertible loan payable owing to a director of the Company [December 31, 2017 - \$35,427].

As at June 30, 2018, the Company has \$51,215 [December 31, 2017 – \$51,215] included in accounts payable and accrued liabilities owing to directors.

[b] Transactions with key management personnel

The Company recorded compensation expense during the six months ended June 30, 2018 in the amount of \$149,113 [2017 – \$178,073] and share-based compensation in the amount of \$9,061 [2017 – \$17,830] to key management personnel.

Accounts payable as at June 30, 2018, includes \$282,571, [December 2017 – \$339,042] related to compensation of key management personnel.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

10. 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
	<u>340,382</u>

[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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2018 and 2017

11. 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

	Six months ended June 30, 2018 \$	Six months ended June 30, 2017 \$
Canada	14,850	-
United States	96,301	83,371
	<u>111,151</u>	<u>83,371</u>

Revenue from one customer amounted to \$96,301 [2017 – \$83,371].

Non-current assets

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

12. Subsequent Events

On July 3, 2018, the Company granted a total of 1,485,000 stock options, including 1,000,000 to Directors and Officers and 485,000 to employees and consultants. All stock options were issued with an exercise price of \$0.10, vesting over 3 years with an expiry date of July 3, 2023.

On August 9, 2018 the promissory note payable owing to a director of the Company was increased by an additional \$65,150 to a principal balance of \$1,394,988 and the maturity date was extended to December 31, 2018.