Consolidated Financial Statements

Environmental Waste International Inc.

December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Environmental Waste International Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Environmental Waste International Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1,142,905 during the year ended December 31, 2018 and, as of that date, had a working capital deficiency of $5,323,539 and a cumulative deficit of $59,748,975. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit that resulted in this independent auditor’s report is Saad Shaikh.

MNP LLP

Toronto, Ontario
July 31, 2019

Chartered Professional Accountants
Licensed Public Accountants

MNP

Environmental Waste International Inc.

Incorporated under the laws of Ontario

Consolidated statements of financial position

[Expressed in Canadian dollars]

As at

	December 31 2018	December 31 2017
	$	$
Assets		
Current		
Cash	**13,382**	27,537
Accounts receivable, net of expected credit loss	**51,055**	39,994
Prepaid expenses and sundry	**64,900**	74,726
Total current assets	**129,337**	142,257
Property and equipment, net *[note 7]*	**1,164,296**	1,249,557
	1,293,633	1,391,814
Liabilities and shareholders' deficiency		
Current		
Accounts payable and accrued liabilities	**946,726**	705,260
Provisions *[note 8]*	**81,600**	163,200
Current portion of term loan payable *[note 9[a]]*	**2,133,333**	271,367
Promissory note payable *[note 9[b]]*	**1,648,794**	938,427
Derivative liability *[note 9[c]]*	**557,054**	834,841
Current portion of mortgages payable *[note 9[d]]*	**19,308**	18,187
Deferred revenue	**66,061**	62,136
Total current liabilities	**5,452,876**	2,993,418
Term loan payable *[note 9[a]]*	**—**	1,781,966
Convertible loan payable *[note 9[c]]*	**1,048,195**	882,917
Mortgages payable *[note 9[d]]*	**13,684**	32,992
Total liabilities	**6,514,755**	5,691,293
Shareholders' deficiency		
Capital stock *[note 10]*	**48,658,125**	48,393,195
Shares to be issued *[note 10]*	**—**	114,000
Contributed surplus *[note 10]*	**5,971,088**	5,900,756
Deficit	**(59,748,975)**	(58,606,070)
Deficiency attributable to owners of the Parent	**(5,119,762)**	(4,198,119)
Non-controlling interests	**(101,360)**	(101,360)
Total shareholders' deficiency	**(5,221,122)**	(4,299,479)
	1,293,633	1,391,814

Going concern *[note 3]*

Commitments and contingencies *[note 15]*

Subsequent events *[note 17]*

The accompanying notes are an integral part of these consolidated financial statements

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,

	2018	2017
	$	$
Revenue		
Sales and other	**221,089**	197,769
Expenses		
Operating, labour and manufacturing	**1,156,894**	1,306,407
Stock-based compensation *[note 10]*	**70,332**	95,237
Depreciation of property and equipment *[note 7]*	**85,261**	86,849
Finance expense – interest on loans payable	**—**	4,458
Finance expense – interest on term loan payable *[note 9a]*	**80,000**	77,395
Finance expense – interest on promissory note payable *[note 9b]*	**75,587**	47,870
Finance expense – interest on convertible loan payable *[note 9c]*	**67,500**	55,386
Finance expense – interest on mortgages payable *[note 9d]*	**2,565**	29,347
Accretion expense - convertible loan payable *[note 9c]*	**97,778**	136,624
Gain on settlement of debt *[note 9e]*	**—**	(139,598)
Write down of loan receivable	**—**	18,817
Government assistance *[note 11]*	**—**	(48,154)
Foreign exchange loss	**5,864**	14,633
(Gain)/loss on fair value of derivative *[note 9c]*	**(277,787)**	290,454
	1,363,994	1,975,725
Net loss and comprehensive loss for the year	**(1,142,905)**	(1,777,956)
Net loss and comprehensive loss attributable to:		
Shareholders	**(1,142,905)**	(1,777,956)
Non-controlling interests	**—**	—
	(1,142,905)	(1,777,956)
Loss per share – basic and diluted *[note 10]*	**(0.01)**	(0.01)
Weighted average number of shares outstanding – basic and diluted *[note 10]*	**165,341,426**	156,842,739

The accompanying notes are an integral part of these consolidated financial statements

Environmental Waste International Inc.

Consolidated statements of changes in shareholders' deficiency

[Expressed in 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, 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 10]*	—	—	95,237	—	—	—	95,237	—	95,237
Warrants cancelled or expired *[note 10]*	—	—	44,183	(44,183)	—	—	—	—	—
Share subscriptions issued *[note 10]*	—	213,133	—	—	—	—	213,133	—	213,133
Shares issued for share subscriptions	660,096	(662,938)	—	2,842	—	—	—	—	—
Conversion of loans payable	63,080	—	—	—	—	—	63,080	—	63,080
Conversion of debt	1,282,354	—	—	—	(126,083)	—	1,156,271	—	1,156,271
Share issue costs	(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)**
Options issued *[note 10]*	—	—	70,332	—	—	—	70,332	—	70,332
Share subscriptions issued *[note 10]*	114,000	(114,000)	—	—	—	—	—	—	—
Shares issued for share subscriptions *[note 10]*	150,930	—	—	—	—	—	150,930	—	150,930
Net loss and comprehensive loss for the year	—	—	—	—	—	(1,142,905)	(1,142,905)	—	(1,142,905)
Balance, December 31, 2018	**48,658,125**	**—**	**5,971,088**	**—**	**—**	**(59,748,975)**	**(5,119,762)**	**(101,360)**	**(5,221,122)**

The accompanying notes are an integral part of these consolidated financial statements

Environmental Waste International Inc.

Consolidated statements of cash flows

[Expressed in Canadian dollars]

Year Ended December 31,

	2018	2017
	$	$
Operating activities		
Net loss for the year	**(1,142,905)**	(1,777,956)
Add items not involving cash		
Depreciation of property and equipment *[note 7]*	**85,261**	86,849
Write down of loan receivable	**—**	18,817
Finance expense *[note 9]*	**223,087**	172,313
Accretion expense *[note 9c]*	**97,778**	136,624
Stock-based compensation *[note 10]*	**70,332**	95,237
Gain on settlement of debt *[note 9e]*	**—**	(139,598)
Change in fair value of derivative liability	**(277,787)**	290,454
	(944,234)	(1,117,260)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(11,061)**	(22,919)
Loan receivable	**—**	20,141
Prepaid expenses and sundry	**9,826**	(7,966)
Deferred revenue	**3,925**	(3,562)
Accounts payable and accrued liabilities	**242,036**	(419,985)
Provisions	**(81,600)**	(91,800)
Cash used in operating activities	**(781,108)**	(1,643,351)
Financing activities		
Proceeds from issuance of units on private placement	**—**	371,250
Proceeds from issuance of share subscriptions *[note 10]*	**150,930**	213,133
Procceds from the issuace of promissory note *[note 9b]*	**634,210**	1,038,000
Repayment of promissorty note *[note 9b]*	**—**	(135,000)
Proceeds from issuance of convertible debt *[note 9c]*	**—**	1,350,000
Repayments of mortgages payable *[note 9d]*	**(18,187)**	(752,130)
Repayment of accrued interest on mortgage and term loan payable	**—**	(460,062)
Cash provided by financing activities	**766,953**	1,625,191
Net decrease in cash during the year	**(14,155)**	(18,160)
Cash, beginning of year	**27,537**	45,697
Cash, end of year	**13,382**	27,537

The accompanying notes are an integral part of these consolidated financial statements

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 July 31, 2019. 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 $1,142,905 during the year ended December 31, 2018 [2017 – $1,777,956] and, as at that date, had a working capital deficiency of $5,323,539 [2017 – $2,851,161] and a cumulative deficit of $59,748,975 [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 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, 2018. 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

Basis of consolidation – 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

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of January 1, 2018. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. In its adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2018 and were previously accounted for under IAS 11 and IAS 18. There was no material impact on the Company's net loss and financial position resulting from the adoption of IFRS 15 and there was no effect to the opening deficit from the application of IFRS 15 to revenue contracts in progress at January 1, 2018.

4. Summary of significant accounting policies - continued

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

Typically, the Company enters into contracts that contain multiple and services such as combined maintenance and support contracts. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company’s promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price (“SSP”).

The Company recognizes revenue when the transfer of control of the promised products or services has occurred. Maintenance and support revenue is recognized over the term of the maintenance agreement. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as contract liabilities (deferred revenues).

Interest income

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

Financial instruments

Adoption of IFRS 9

As a result of the adoption of IFRS 9, the Company’s accounting policies for financial instruments have been updated and applied from January 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The Company applied the new standard using the modified retrospective approach. The adoption of IFRS 9 did not have a material impact on the Company’s consolidated financial statements and did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2018.

4. Summary of significant accounting policies - continued

[a] Financial assets

Initial recognition and measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in the consolidated statements of loss and comprehensive loss when incurred.

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

Subsequent measurement – loans and receivables

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

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 recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated balance sheet as a deduction from the gross carrying amount of the financial asset.
Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

4. Summary of significant accounting policies - continued

[b] Financial liabilities

Initial recognition and measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Compound financial liabilities and embedded derivatives

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. 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 and has been classified as fair value through profit and 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. 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.

4. Summary of significant accounting policies - continued

Derecognition of financial liabilities

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.

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.

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

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

4. Summary of significant accounting policies - continued

Research and development costs - continued

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.

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

4. Summary of significant accounting policies - continued

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.

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.

4. Summary of significant accounting policies - continued

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.

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.

4. Summary of significant accounting policies – continued

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

IFRS 9 – Financial Instruments was adopted effective January 1, 2018 as described under the section “Financial Instruments“. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018 and provides new requirements for recognizing revenue. IFRS 15's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 sets out enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. The pattern of revenue recognition has remained unchanged as a result of adoption of this standard.

Standards issued and not yet adopted

In January 2016, the IASB issued IFRS 16, Leases, effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will replace IAS 17, Leases. The Company intends to adopt IFRS 16 in its financial statements for the fiscal year beginning on January 1, 2019.

IFRS 16 removes the distinction between operating and finance leases from the lessee’s perspective and introduces a single lessee accounting model. The standard requires a lessee to recognize a “right of use” asset and a corresponding lease liability for substantially all leases, with the exception of leases with terms less than 12 months and leases of low value assets. Requirements for lessor accounting are largely unchanged from IAS 17. IFRS 16 will also result in reclassification of the nature of lease expenses to depreciation and interest expense, from their classification of “premises expense” under IAS 17.

IFRS 16 offers a range of transition options. The Company plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16, if any, will be recognized as an adjustment to opening retained earnings as at January 1, 2019, with no restatement of comparative information.
Based on the information currently available, the Company estimates that it will recognize a lease liability and right to use asset of approximately $112,000 as of January 1, 2019.

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:

[a] 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:

[b] 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.

[c] 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.

6. Significant accounting judgments, estimates and assumptions - continued

[d] 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 10.

[e] Fair value of the derivative

The Company measures the fair value of the derivative liability using an option pricing model with both observable and unobservable inputs. Observable inputs include the Company's share price and implied volatility. Unobservable inputs include inputs such as expected future financing.

[f] Going concern

The Company's going concern assumption is subject to judgement from management and expected sources of future financings.

7. 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 December 31, 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	—	29,673	4,737	664	2,243	47,944	85,261
As at December 31, 2018	**—**	**272,854**	**37,896**	**35,176**	**26,538**	**382,105**	**754,479**
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, 2018	**68,261**	**712,140**	**33,164**	**1,549**	**12,028**	**337,154**	**1,164,296**

8. Provisions

	2018 $	2017 $
Balance, beginning of year	**163,200**	255,000
Paid during the year	**(81,600)**	(91,800)
Balance, end of year	**81,600**	163,200

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. In 2017, 9 monthly installments were made from April to December totaling $91,800.

During the year ended December 31, 2018, 8 monthly installments were made from January to August 2018 totaling $81,600. An agreement was made between the Company and the former CEO of the Company to defer the remaining 4 installments totaling $40,800 until the second half of fiscal 2019.

9. Loans and borrowings

[a] Term loan payable consists of the following:

	December 31, 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	**2,133,333**	2,053,333
Less current portion	**2,133,333**	271,367
	—	1,781,966

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. Payments have not commenced effective May 1, 2018 as per amendment agreement. During the year ended December 31, 2018, The Company was in violation of principal payments due to the NOHFC and continues to renegotiate the terms of the repayment.

The amount of interest accrued at December 31, 2018 was $133,333 [December 31, 2017- $53,333].

During the year, 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 $80,000 (2017 - $77,395) was recorded for the year ended December 31, 2018.

[b] Promissory note payable consists of the following:

	December 31, 2018 $	**December 31, 2017** $
Promissory note payable, with interest at 6% per annum, payable on June 30, 2019	**1,648,794**	938,427
Less current portion	**1,648,794**	938,427
	—	—

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 to December 31, 2017. At December 31, 2017, principal balance of $903,000 and accrued interest of $35,427 resulted in a loan balance of $938,427.

9. Loans and borrowings – continued

On March 6, 2018, the maturity date was deferred to June 30, 2018, and during the year this promissory note payable was increased by additional capital of $634,210 for a note payable balance of $1,537,209. On July 8, 2018 the maturity date on this note of June 30, 2018 was extended to June 30, 2019.

Accrued interest of $111,014 was included in the balance as at December 31, 2018. [December 31, 2017 - $35,427]. Interest expense for the year ended December 31, 2018 was $75,587 (2017 - $47,870).

Subsequent to the year end, the promissory note was increased by an additional $126,564 [note 17]

[c] Convertible loan payable consists of the following:

	December 31 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%	**112,500**	45,000
Accrued accretion expense	**158,259**	60,481
	1,048,195	882,917
Less current portion	—	—
	1,048,195	882,917

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%.

9. Loans and borrowings - continued

The derivative liability was re-valued as at December 31, 2018 and 2017, using a Monte Carlo simulation with the following assumptions:

	December 31, 2018 $	December 31, 2017 $
Volatility	**122.4%**	156.2%
Dividend yield	**0%**	0%
Risk-free rate	**1.86%**	1.86%
Expected life	**3.3 years**	4.33 years

The fair value of the derivative liability was $557,054 as at December 31, 2018 (2017 – 834,841) and the Company recorded a gain on fair value of derivative liability of $277,787 for the year ended December 31, 2018 (2017 – loss on fair value of derivative liability of 290,454).

Accretion expense for the year ended December 31, 2018 was $97,778 (2017 – 136,624), and interest expense was $67,500 (2017 - $55,386). Included in total accretion expense of $136,624 for the year ended December 31, 2017 was an amount of $76,143 relating to a convertible loan issued in 2015 and converted to common shares of the Company on March 24, 2017.

[d] Mortgages payable consist of the following:

	December 31, 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	**32,992**	51,179
Less current portion	**19,308**	18,187
	13,684	32,992

Total interest of $2,565 was recorded for the year ended December 31, 2018 (2017 - $29,347). Included in total interest expense of $29,347 for the year ended December 31, 2017 was an amount of $25,724 relating to a second mortgage of $735,000 that was repaid on April 15, 2017.

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:

	$
2019	19,308
2020	13,684
	32,992

9. Loans and borrowings - continued

[e] During 2017 the Company converted several loans plus accrued interest to commons shares of the Company at $0.10 per common share. A gain on settlement of debt totaling $139,598 was recorded representing the difference between the fair value of the equity issued upon conversion and the fair value at the date of conversion.

10. 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, December 31, 2018	**165,827,736**	**48,658,125**

[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.

[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.

10. Share capital and reserves – continued

[3] During the year ended December 31, 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 of which $114,000 was received in December 2017 and recorded as Shares to be issued, and $150,930 received in 2018.

Shares to be issued	**Number of shares subscribed**	**Amount**
	#	$
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]	(2,649,300)	(264,930)
Balance, December 31, 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

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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, 2,649,300 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.

10. Share capital and reserves – continued

Share-based payment plans - continued

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

	December 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	**(1,605,000)**	**(0.16)**	(560,000)	(0.25)
Granted	**1,485,000**	**0.10**	1,400,000	0.10
Balance, end of period	**14,505,000**	**0.10**	14,625,000	0.11

A summary of stock options outstanding and exercisable as at December 31, 2018 is set out below:

	Outstanding and exercisable stock options		
Range of exercise prices $	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price $
0.10	**13,430,000**	**1.18**	**0.10**
0.11 to 0.20	**1,075,000**	**2.42**	**0.11**
	14,505,000	**1.28**	**0.10**

A total of 1,605,000 stock options with exercise prices ranging from $0.10 to $0.20 expired during the year ended December 31, 2018.

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.

The fair value of options issued during the year was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2017 – 0%]; expected volatility of 192% [2017 – 186%]; risk-free interest rates of 2.07% [2017 – 1.0%]; and an average expected life of five years [2017 – five years]. This resulted in stock-based compensation expense of $70,332 [2016 – $95,237]. The weighted average exercise price of options granted during the year was $0.10 [2017 – $0.11].

10. Share capital and reserves – continued

Warrants

There were no warrant transactions during the year ended December 31, 2018. 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 December 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 2018	**3,712,500**	—	**0.11**

A summary of warrants outstanding and exercisable as at December 31, 2018 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**	**3.34**	**0.11**

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**

10. Share capital and reserves – continued

Contributed surplus

	December 31 2018	December 31 2017
	$	$
Balance, beginning of year	**5,900,756**	5,761,336
Stock-based compensation	**70,332**	95,237
Warrants expired or cancelled during the year	—	44,183
Balance, end of year	**5,971,088**	5,900,756

Per share amounts

For the year ended December 31, 2018, the weighted average number of shares outstanding was 165,341,426 [2017 – 156,842,739]. As at December 31, 2018, the Company had 14,505,000 [2016 – 14,625,000] stock options and 3,712,500 warrants [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.

11. 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 $Nil during the year ended December 31, 2018 as research and development costs were insignificant and the Company did not file for SR&ED tax credits. In 2017 the Company recognized $48,154 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.

12. Income taxes

The reconciliation of the combined federal and provincial statutory income tax rate of 26.5% [2017 – 26.5%] to the effective tax rate is as follows:

	2018	**2017**
	$	$
Net loss before recovery of income taxes	**(1,142,905)**	(1,777,956)
Expected income tax (recovery) expense	**(302,870)**	(471,440)
Tax rate changes and other adjustments	**—**	(66,780)
Share based compensation and non-deductible expenses	**(27,137)**	118,990
Capitalized share issuance costs	**---**	(22,550)
Converted loan adjustment	**—**	184,450
Change in tax benefits not recognized	**330,007**	257,330
Income tax expense	**—**	—

12. 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:

	2018 $	2017 $
Deferred tax assets		
SR&ED expenditures	**2,559,396**	2,559,396
Unused tax losses carryforwards	**19,938,094**	17,993,570
Investment tax credits	**2,763,213**	2,016,831
Temporary differences		
Provisions	**81,600**	163,200
Property and equipment	**2,245,211**	2,159,950
Intangible assets	**394,610**	394,610
Imputed interest on loans and notes	**380,909**	157,822
Deferred financing costs and other	**100,418**	124,662
Total deferred tax assets	**28,463,451**	25,570,041
Losses and other temporary differences not benefited	**(28,463,451)**	(25,570,041)
Net deferred tax assets	**—**	—

The Company’s investment tax credits expire from 2024 to 2035.

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

	Non-capital losses $
2026	491,483
2028	519,673
2029	1,157,841
2030	2,513,251
2031	3,656,018
2032	2,220,307
2033	1,444,772
2034	2,830,766
2035	1,471,694
2036	782,905
2037	1,765,317
2038	1,084,067
Total	**19,938,094**

13. 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. As at December 31, 2018, the Company had $75,702 of accounts receivable outstanding of which $24,647 was outstanding for greater than 90 days. The Company has estimated an expected credit loss provision of $24,647 for amounts outstanding as at December 31, 2018. All remaining amounts have been subsequently collected after December 31, 2018.

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.

13. 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, 2018	Less than 1 year	2 – 3 years	4 – 5 years	Greater than 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities and provisions	1,028,326	—	—	—	1,028,326
Promissory note payable	1,648,794	—	—	—	1,648,794
Term loan payable	2,133,333	—	—	—	2,133,333
Mortgages payable	19,308	13,684	—	—	32,992
Convertible loan payable	—	—	1,462,500	—	1,462,500
Total	**4,829,761**	**13,684**	**1,462,500**	**—**	**6,305,945**

[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:

	2018	2017
	$	$
Interest-bearing loans and borrowings	5,277,619	4,760,697
Trade payables and other and provisions	1,028,326	868,460
Less cash	(13,382)	(27,537)
Net debt	6,292,563	5,601,620
Shareholders' deficiency	(5,221,122)	(4,299,479)
Total capital	1,071,441	1,302,141

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, 2018. The Company is not subject to externally imposed capital requirements.

14. 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, 2018 for interest on loans to the directors of $143,987 [2017 – $54,616]. At December 31, 2018, $223,514 was included in loans payable [December 31, 2017 - $32,613]

As at December 31, 2018, the Company has $51,215 [2017 – $51,215] 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, 2018 in the amount of $287,773 [2017 – $319,017] and stock-based compensation in the amount of $42,949 [2017 – $70,350] to key management personnel.

Accounts payable as at December 31, 2018, includes $482,504 [2017 – $339,042] related to compensation of key management personnel.

15. 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:

	$
2019	72,939
2020	72,939
2021	72,939
2022	48,626
	267,443

[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.

16. 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

	2018 $	2017 $
Canada	**25,112**	165
United States	**195,977**	197,604
	221,089	197,769

Revenue from one customer amounted to $195,977 [2017 – $197,604].

Non-current assets

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

17. Subsequent events

The following events took place subsequent to December 31, 2018:

[a] In May 2019 the Company received proceeds of $475,000 pursuant to a share subscription arrangements whereby the Company agreed to issue common shares at $0.05 per share and one half of a warrants at $0.20.

[b] A director of the Company made advances totaling $126,564 as follows:

January 30, 2019	$32,980
March 11, 2019	$33,535
April 1, 2019	$33,343
April 22, 2019	$26,706

18. Comparative information

Certain comparative figures have been reclassified to conform with current year presentation.