

# **Environmental Waste International Inc.**

## **Condensed Interim Consolidated Financial Statements**

**For the three and nine months ended September 30, 2014**

**(Unaudited)**

### **Notice to Reader**

The accompanying unaudited condensed interim financial statements of Environmental Waste International Inc. (“EWI” or the “Company”) for the nine months ended September 30, 2014, 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.

# Environmental Waste International Inc.

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# **Environmental Waste International Inc.**

## **Responsibility for unaudited interim consolidated financial statements**

The accompanying unaudited interim consolidated financial statements for Environmental Waste 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, 2013 audited financial statements.

## **Auditor Involvement**

The auditor of Environmental Waste International Inc. has not performed a review of these unaudited interim financial statements.

Ajax, Ontario  
November 25, 2014

# Environmental Waste International Inc.

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at [Canadian Dollars]	September 30 2014 \$	December 31 2013 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	690,872	130,044
Accounts receivable	67,403	125,017
Loans receivable <i>[note 4]</i>	15,216	15,954
Prepaid expenses and sundry	55,332	67,540
<b>Total current assets</b>	<b>828,823</b>	<b>338,555</b>
Property and equipment <i>[note 5]</i>	1,538,154	1,596,248
Intangible assets <i>[note 6]</i>	896,161	1,400,254
	<b>3,263,138</b>	<b>3,335,057</b>

# Environmental Waste International Inc.

As at [Canadian Dollars]	September 30 2014	December 31 2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	430,798	386,803
Provisions [note 7]	255,000	255,000
Subscription payable [note 9 and 14]	1,000,000	—
Loans payable [note 8[a]]	—	497,000
Current portion of term loan payable [note 8[b]]	—	2,000,000
Current portion of mortgages payable [note 8[d]]	14,316	14,316
Deferred revenue	63,092	45,042
<b>Total current liabilities</b>	<b>1,763,206</b>	<b>3,198,161</b>
Loans payable [note 8[a]]	84,000	—
Term loan payable [note 8[b]]	2,000,000	—
Promissory note payable [note 8 [c]]	485,818	—
Mortgages payable [note 8[d]]	823,808	834,456
<b>Total liabilities</b>	<b>5,156,832</b>	<b>4,032,617</b>
Commitments and contingencies [note 12]		
<b>Shareholders' equity (deficiency)</b>		
Capital stock [note 9]	44,591,372	43,668,244
Contributed surplus [note 9]	4,471,133	3,975,352
Warrants [note 9]	894,978	893,426
Equity component of convertible loans [note 9]	—	63,820
Deficit	(51,749,817)	(49,197,042)
Equity attributable to owners of the Parent	(1,792,334)	(596,200)
Non-controlling interests	(101,360)	(101,360)
<b>Total shareholders' equity (deficiency)</b>	<b>(1,893,694)</b>	<b>(697,560)</b>
	<b>3,263,138</b>	<b>3,335,057</b>

Approved by the Board:

"Emanuel Gerard"

Director

"Daniel Kaute"

Director

# Environmental Waste International Inc.

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Nine and three month periods ended September 30  
[Canadian Dollars]

	Three months ended Sept 30 2014 \$	Three months ended Sept 30 2013 \$	Nine months ended Sept 30 2014 \$	Nine months ended Sept 30 2013 \$
<b>REVENUE</b>				
Sales and other income	<b>23,292</b>	28,970	<b>94,216</b>	153,402
<b>EXPENSES</b>				
Operating, labour and manufacturing <i>[note 6]</i>	<b>750,517</b>	570,689	<b>1,772,027</b>	1,786,950
Stock-based compensation <i>[note 9]</i>	<b>64,212</b>	94,187	<b>183,170</b>	132,523
Amortization of property and equipment <i>[note 5]</i>	<b>23,607</b>	23,501	<b>69,925</b>	71,043
Amortization of intangible assets <i>[note 6]</i>	<b>168,031</b>	168,031	<b>504,093</b>	504,093
Interest on loans payable	<b>1,730</b>	12,442	<b>20,130</b>	37,409
Interest on term loan payable	<b>20,000</b>	—	<b>120,000</b>	—
Interest on promissory note payable	<b>11,524</b>	—	<b>19,126</b>	—
Interest on mortgages payable	<b>22,921</b>	28,206	<b>66,662</b>	80,331
Government assistance <i>[note 10]</i>	<b>(111,516)</b>	(130,192)	<b>(111,516)</b>	(130,192)
Foreign exchange loss (gain)	<b>364</b>	7,900	<b>3,374</b>	(3,497)
	<b>951,390</b>	774,764	<b>2,646,991</b>	2,478,660
Loss before non-controlling interests	<b>(928,098)</b>	(745,794)	<b>(2,552,775)</b>	(2,325,258)
Non-controlling interests	—	—	—	—
<b>Net loss and comprehensive loss for the period</b>	<b>(928,098)</b>	(745,794)	<b>(2,552,775)</b>	(2,325,258)
<b>Loss per share - basic and diluted</b>	<b>(0.007)</b>	(0.007)	<b>(0.021)</b>	(0.022)
<b>Weighted average number of shares outstanding - basic and diluted <i>[note 9]</i></b>	<b>125,418,128</b>	109,084,797	<b>122,188,839</b>	106,356,797

See accompanying notes to the interim condensed consolidated financial statements

# Environmental Waste International Inc.

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

Nine months ended September 30  
[Canadian Dollars]

	Capital stock	surplus	Warrants	loans	Deficit	parent	interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2013</b>	43,668,244	3,975,352	893,426	63,820	(49,197,042)	(596,200)	(101,360)	(697,560)
Private placement <i>[note 9]</i>	923,128	—	233,872	—	—	1,157,000	—	1,157,000
Warrants issued <i>[note 8 and 9]</i>	—	—	80,291	(63,820)	—	16,471	—	16,471
Options issued <i>[note 9]</i>	—	183,170	—	—	—	183,170	—	183,170
Warrants expired <i>[note 9]</i>	—	312,611	(312,611)	—	—	—	—	—
Net loss and comprehensive loss for the year	—	—	—	—	(2,552,775)	(2,552,775)	—	(2,552,775)
<b>Balance, September 30, 2014</b>	<b>44,591,372</b>	<b>4,471,133</b>	<b>894,978</b>	<b>—</b>	<b>(51,749,817)</b>	<b>(1,792,334)</b>	<b>(101,360)</b>	<b>(1,893,694)</b>
<b>Balance, December 31, 2012</b>	42,353,325	3,091,483	1,012,611	63,820	(45,973,960)	547,279	(135,758)	411,521
Private placement <i>[note 9]</i>	982,725	—	262,275	—	—	1,245,000	—	1,245,000
Options exercised <i>[note 9]</i>	46,971	(18,771)	—	—	—	28,200	—	28,200
Options issued <i>[note 9]</i>	—	132,523	—	—	—	132,523	—	132,523
Warrants expired <i>[note 9]</i>	—	700,000	(700,000)	—	—	—	—	—
Net loss and comprehensive loss for the year	—	—	—	—	(2,325,258)	(2,325,258)	—	(2,325,258)
<b>Balance, September 30, 2013</b>	<b>43,383,021</b>	<b>3,905,235</b>	<b>574,886</b>	<b>63,820</b>	<b>(48,299,218)</b>	<b>(372,256)</b>	<b>(135,758)</b>	<b>(508,014)</b>

See accompanying notes to the interim condensed consolidated financial statements

# Environmental Waste International Inc.

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30  
[Canadian Dollars]

	<b>Nine months ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(2,552,775)	(2,325,258)
Add (deduct) items not involving cash		
Amortization of property and equipment	69,925	71,043
Amortization of intangible assets	504,093	504,093
Amortization of financing costs	2,289	—
Stock-based compensation	183,170	132,523
	<u>(1,793,298)</u>	<u>(1,617,599)</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	57,614	15,939
Loans receivable	738	—
Prepaid expenses and sundry	12,208	(20,374)
Deferred revenue	18,050	(42,218)
Accounts payable and accrued liabilities	(95,673)	(128,885)
Interest payable	139,668	—
<b>Cash used in operating activities</b>	<u>(1,660,693)</u>	<u>(1,793,137)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(11,831)	—
<b>Cash used in investing activities</b>	<u>(11,831)</u>	<u>—</u>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from issuance of common stock on private placement	1,157,000	1,245,000
Net proceeds from subscriptions payable	1,000,000	—
Proceeds from the issuance of common stock on exercise of options	—	28,200
Repayments of mortgages payable	(10,648)	(10,030)
Issuance of promissory note payable	500,000	
Repayment of loans payable	(413,000)	
<b>Cash provided by financing activities</b>	<u>2,233,352</u>	<u>1,263,170</u>
<b>Net increase in cash during the period</b>	<b>560,828</b>	<b>(529,967)</b>
Cash and cash equivalents, beginning of period	<u>130,044</u>	<u>673,578</u>
<b>Cash and cash equivalents, end of period</b>	<u><b>690,872</b></u>	<u><b>143,611</b></u>

See accompanying notes to the interim condensed consolidated financial statements

# **Environmental Waste International Inc.**

## **Notes to the interim Condensed Consolidated Financial Statements**

**September 30, 2014**

Amounts in Canadian Dollars

(Unaudited)

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Environmental Waste International Inc. (“EWI”) is incorporated under the Ontario Business Corporations Act and is listed on the TSX Venture Exchange under the symbol EWS. 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 completion and commercialization of its Reverse Polymerization technology. There is no assurance that EWI will be successful in the completion and development and commercialization of this process. Based on its current operating and financial plans, management of the Company believes that it can successfully 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 the 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. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

### **2. BASIS OF PRESENTATION**

#### **[a] Statement of compliance**

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 34 “Interim Financial Reporting” (“IAS 34”). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since our 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 November 25, 2014.

#### **[b] 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.

#### **[c] Functional and presentation currency**

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

#### **[d] Use of significant 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, revenues and expenses, and the disclosure of contingent assets and contingent liabilities and the determination of the Company's ability to continue as a going concern. Actual results could differ materially from these estimates and assumptions. The Company reviews its estimates and underlying assumptions on an ongoing basis. Revisions are recognized in

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

the period in which the estimates are revised and may impact future periods. Management has applied significant estimates and assumptions to:

### 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 September 30, 2014, management concluded that none of the Company's non-financial assets were impaired.

### 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.

### Development costs

Development costs are capitalized in accordance with the accounting policy note in the Company's annual audited consolidated financial statements for the year ended December 31, 2013. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. After assessing all available facts and circumstances, management has determined that no development costs meet the recognition criteria to date.

## 3. 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, 2013 and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, except as described below in new standards and interpretations adopted during 2014. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2013.

### [a] Basis of consolidation

These 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]. The ultimate parent of the Company is Environmental Waste International Inc.

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

[b] New standards and interpretations not yet effective

### **IFRS 9 Financial Instruments**

In November 2009, the IASB issued IFRS 9 (2009), which covers classification and measurement as the first phase of its project to replace IAS 39. In October 2010, IFRS 9 (2010) the IASB also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. In 2013, IFRS 9 introduced new hedging guidance. On July 24, 2014, the IASB issued the final version of the standard, which supersedes all previous versions, IFRS 9 (2014). The Company does not intend to early adopt IFRS 9 (2014) in its financial statements and will adopt it for the annual period beginning on January 1, 2018, which is the mandatory adoption date specified in IFRS 9 (2014).

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from contracts with customers is effective for annual periods beginning on or after January 1, 2017 and provides new requirements for recognizing revenue. The standard's core principal is for a company to recognize revenue to depict a transfer of goods or services to customers that reflect the amount of consideration to which the company expects to be entitled in exchange for those goods or services. The new standard sets out enhanced disclosure about revenues, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multi-element arrangements. The Company intends to adopt the new standard on its effective date and has yet to consider the impact on its financial reporting.

## **4. LOANS RECEIVABLE**

Loans receivable consist of the following:

	<b>September 30, December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Loan receivable, with interest at 12% per annum was repayable on October 11, 2013	<b>15,216</b>	15,954

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Cost	Land \$	Building \$	Fixture \$	Computer equipment \$	Office equipment \$	Equipment - gas engine \$	Total \$
At December 31, 2013	68,261	984,994	71,060	36,725	26,735	719,169	1,906,944
Additions	-	-	11,831	-	-	-	11,831
At September 30, 2014	68,261	984,994	82,891	36,725	26,735	719,169	1,918,775
<b>Accumulated amortization</b>							
At December 31, 2013	—	111,601	14,211	27,507	15,085	142,292	310,696
Amortization charge	—	26,839	4,722	2,074	332	35,958	69,925
At September 30, 2014	—	138,440	18,933	29,581	15,417	178,250	380,621
<b>Net book value</b>							
At September 30, 2014	68,261	846,554	63,958	7,144	11,318	540,919	1,538,154
At December 31, 2013	68,261	873,393	56,849	9,218	11,650	576,877	1,596,248

### 6. INTANGIBLE ASSETS

Intangible assets consist of the following:

Cost	Technology rights \$	Acquired in-process development \$	Marketing rights \$	Total \$
At December 31, 2013 and September 30, 2014	500,000	2,750,000	610,610	3,860,610
<b>Accumulated amortization</b>				
At December 31, 2013	500,000	1,604,167	356,189	2,460,356
Amortization charge	—	412,500	91,593	504,093
At September 30, 2014	500,000	2,016,667	447,782	2,964,449
<b>Net book value</b>				
At September 30, 2014	—	733,333	162,828	896,161
At December 31, 2013	—	1,145,833	254,421	1,400,254

There is one main research and development project: the TR900 tire recycling prototype. To date, management has determined that the related development costs that are not eligible for capitalization have been expensed and are recognized in operating, labour and manufacturing expenses. A total of \$342,601 [2013 - \$237,399] was recognized in operating, labour and manufacturing expenses during the nine months ended September 30, 2014 related to development costs.

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

### 7. PROVISIONS

The provision balance is comprised of an accrual of one year annual salary to former senior management of the Company. The Company was party to a claim made by former senior management whose employment was terminated on March 1 2013, who is seeking four years severance pay in the amount of \$1,020,000 [see note 12[b]]. Management believes that this claim for 48 months of pay is inflated and without merit and has provided for one year salary of \$255,000, less amounts already paid of \$39,231 and any amounts subject to mitigation, as the Company believes the likelihood of payout of this net amount is probable.

### 8. LOANS AND BORROWINGS

[a] Loans payable consists of the following:

	September 30 2014 \$	December 31 2013 \$
Fixed rate loan due to relative of former director, with interest at 10% per annum, repaid on April 30, 2014	—	301,000
Fixed rate loans due to former directors, with interest at 10% per annum, repaid on April 30, 2014	—	112,000
Fixed rate loans due to directors of the Company, with interest at 8% per annum, repayable on April 30, 2017	<b>84,000</b>	84,000*
	<b>84,000</b>	497,000
Less current portion	—	497,000
	<b>84,000</b>	—

During fiscal 2010, the Company borrowed a total amount of \$497,000 from a relative of a former director of the Company and from five directors of the Company by way of convertible loans. On March 10, 2014, the Company issued 798,000 common share purchase warrants to the debt holders who agreed to extend the maturity of the debt until April 30, 2014 and relinquish the convertible feature of the debt, in consideration for the issuance of these warrants. [see note 9]

On April 30, 2014, \$413,000 of proceeds from a new promissory note issued on that date [see note 8(c)] were used to repay loans outstanding to a relative of a former director in the amount of \$301,000 and former directors in an aggregate amount of \$112,000.

The remaining loans payable to current directors of \$84,000 were extended for a three year period and mature on April 30, 2017. In consideration for the extension of these loans, the Company has agreed to issue 84,000 common share purchase warrants at an exercise price of \$0.20.

\*The original loan of \$84,000 was at an interest rate of 10%.

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

[b] Term loan payable consists of the following:

	September 30 2014 \$	December 31 2013 \$
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ("NOHFC"), with interest at 4% per annum, repayable by March 23, 2020 or as further agreed to by the Company and NOHFC	2,000,000	2,000,000
Less current portion	—	2,000,000
	<b>2,000,000</b>	—

On April 14, 2014 the Company signed a second amendment to the term loan agreement agreeing to defer payments that were due to commence on April 1, 2013. Payments in respect of interest or principal due during the period from April 1, 2013 to April 30, 2015 are deferred until April 30, 2017. During this period, interest will accrue on the outstanding principal amount of the loan, compounded monthly. During the period May 1, 2015 to April 30, 2017 the Company will make interest only payments on the loan in the amount of \$13,334 per month, representing \$6,667 in respect of interest accruing during the period from April 1, 2013 to April 30, 2015 and \$6,667 in respect of regular interest payable. Commencing May 1, 2017 monthly blended payments of principal and interest shall commence on the first day of each month until maturity.

During the nine month period ended September 30, 2014, the Company recorded \$120,000 of interest expense representing the accrual for period April 1, 2013 to September 30, 2014.

The loan is collateralized by a general security agreement covering all of the assets of Ellsin except real property and an assignment of all risks and fire insurance on the subject properties.

[c] Promissory note payable consist of the following:

	September 30 2014 \$	December 31 2013 \$
Promissory note payable, with interest at 8% per annum repayable on April 30, 2017	500,000	—
Net financing costs	(14,182)	—
	<b>485,818</b>	—
Less current portion	—	—
	<b>485,818</b>	—

On April 30, 2014 the Company received proceeds of \$500,000 from issuance of a promissory note. Interest will accrue at a rate of 8% per annum quarterly in arrears, calculated on outstanding principal. Interest will be capitalized over the term of the loan, and payable in cash at maturity. Proceeds of the loan were reduced Net financing costs of \$14,182 representing the fair value of 500,000 share purchase warrants issued to the debt holder in consideration for the promissory note are deducted from the carrying value of the note payable. Total financing cost of \$16,471 are amortized over the term of the note using the effective interest method. Amortization of transaction costs of \$2,289 were recorded and included in interest expense during the period.

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

[d] Mortgages payable consist of the following:

	September 30 2014 \$	December 31 2013 \$
Fixed rate first mortgage, ten year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2017	103,124	113,772
Fixed rate second mortgage, eight year amortization period, with interest at 12% per annum, repayable in full on April 15, 2015	735,000	735,000
	<b>838,124</b>	848,772
Less current portion	14,316	14,316
	<b>823,808</b>	834,456

The collateral for the above mortgages is as follows:

[a] First mortgage

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

On August 1, 2014, the Company renewed its fixed rate first mortgage for a three year term, six year amortization period with interest at 6% per annum, calculated monthly, repayable by August 1, 2017.

[b] Second mortgage

Second charge on the property, subordinate to the first charge of \$103,124 of Community Development Corporation of Sault Ste. Marie.

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

	\$
2014	14,316
2015	750,198
2016	16,122
2017	57,488
	<b>838,124</b>

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

September 30, 2014

Amounts in Canadian Dollars

(Unaudited)

### 9. SHARE CAPITAL AND RESERVES

	Number of shares #	Amount \$
<b>Authorized</b>		
Unlimited common shares		
<b>Issued and outstanding</b>		
Balance, December 31, 2012	102,344,797	42,353,325
Private placement <sup>[1]</sup>	13,231,666	1,869,800
Share issue costs <sup>[1]</sup>	-	(21,037)
Warrants issued <sup>[1]</sup>	-	(580,815)
Options exercised	235,000	46,971
Share Exchange <sup>[2]</sup>	(35,000)	-
Balance, December 31, 2013	115,776,463	43,668,244
Private placements <sup>[3]</sup>	9,641,665	1,157,000
Warrants issued <sup>[3]</sup>	-	(233,872)
<b>Balance, September 30, 2014</b>	<b>125,418,128</b>	<b>44,591,372</b>

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.

<sup>[1]</sup> On March 14, 2013, the Company closed a private placement for 4,425,000 Units with gross proceeds of \$885,000, less agent's fees of \$nil. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of \$0.35 per share through to March 14, 2015. All shares issued in the private placement were subject to a hold period that expired on July 15, 2013.

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

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

<sup>[2]</sup> During 2013, a shareholder who was formerly involved in the business activities with the Company several years ago cancelled 1,000,000 shares. These shares had restricted trading provisions, and in return, he was issued 965,000 shares with more favorable terms. The new terms include the ability to trade a fixed number of shares at specific dates over the years 2013 to 2017.

<sup>[3]</sup> On January 31, 2014, the Company concluded a private placement for 4,583,333 Units with proceeds of \$550,000. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of \$0.21 per share through to January 31, 2016. The shares and share purchase warrants are subject to a four month hold period that expired on May 31, 2014.

On May 30, 2014, the Company concluded a private placement for 5,058,332 Units with proceeds of \$607,000. Each Unit consists of one common share and 0.50 of a share purchase warrant. A whole share purchase warrant allows for the purchase of one additional common share of EWI at a price of \$0.21 per share through to May 30, 2016. The shares and share purchase warrants are subject to a four month hold period that expired on September 30, 2014.

# Environmental Waste International Inc.

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On September 22, 2014, the Company concluded a private placement for 10,000,000 Units with proceeds of \$1,000,000. All proceeds of the private placement were received by September 22, 2014. TSX approval for 400,000 shares was obtained on October 3, 2014 and the remaining 600,000 shares received TSX approval on November 7, 2014. The \$1,000,000 is reported as subscriptions payable on the balance sheet at September 30, 2014 and will be transferred to equity on the dates of TSX approval subsequent to the end of period. [see note 14] The shares are subject to a four month hold period that expires on January 23, 2015.

### Share-based payment plans

The Board of Directors have 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 Corporation has adopted a 10% rolling stock option plan (the "New Plan") dated May 6, 2013, approved by the Board on May 9, 2013 and by the shareholders of the Corporation on June 11, 2013, pursuant to which the Board may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Corporation and its subsidiaries to a maximum of 10% of the issued and outstanding Common Shares at the time of the grant. In accordance with the rules and policies of the TSX Venture Exchange, rolling stock option plans must be re-approved by shareholders on an annual basis and management will be asking shareholders to confirm, ratify and re-approve the New Plan at the next Annual General and Special meeting of the shareholders on June 2, 2014.

The following options to purchase shares were outstanding on September 30, 2014 and December 31, 2013:

	2014		2013	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
<b>Balance, beginning of period</b>	<b>6,835,000</b>	<b>0.22</b>	6,505,000	0.27
Exercised	-	-	(235,000)	(0.12)
Expired	(600,000)	(0.22)	(625,000)	(0.17)
Cancelled	(330,000)	(0.13)	(3,000,000)	(0.26)
Granted	<b>4,680,000</b>	<b>0.10</b>	4,135,000	0.16
<b>Balance, end of period</b>	<b>10,585,000</b>	<b>0.17</b>	6,835,000	0.22

The following represents the range of exercise prices for outstanding options at September 30, 2014:

	Outstanding and exercisable stock options		
Range of exercise prices \$	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
Less than 0.20	6,795,000	4.66	0.12
0.20 - 0.29	2,615,000	2.85	0.22
0.30 - 0.40	1,175,000	0.98	0.34
	<b>10,585,000</b>	<b>3.81</b>	<b>0.17</b>

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The fair value of all options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2013 – 0%]; expected volatility of 133% [2013-155%]; risk-free interest rates of 1.34% [2013 – 1.50%]; and an average expected life of five years. This resulted in stock-based compensation expense of \$183,170 during the nine month period [2013 - \$132,523].

### Warrants

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

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

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

On January 14, 2014 the Company amended the terms of the 3,000,000 common share warrants issued on January 31, 2012. Each warrant entitled the holder to acquire one common share of the Company at \$0.50 for a period of two years. The amendment resulted in 2,900,000 of the warrants being cancelled with the remaining 100,000 warrants being amended such that the exercise price was reduced to \$0.21 and the expiry date extend to January 31, 2016. Should the closing price of the Company's shares be \$0.25 or higher for ten consecutive trading days, the expiry of the warrants will be accelerated to the 30<sup>th</sup> day following such occurrence.

On January 31, 2014, the Company issued 2,291,667 warrants. Each warrant entitles the holder to acquire an additional common share at \$0.21 per share and expires on January 31, 2016.

On March 10, 2014, the Company issued 798,000 common share purchase warrants to holders of previously issued convertible loans in the aggregate amount of \$497,000. [see note 8(a)] Each warrant entitles the holder to acquire an additional common share at \$0.21 per share and expires on April 30, 2015. The Company transferred \$63,820 representing the carrying value of the amount that was added to shareholders' equity from Equity Component of Convertible Loans to Warrants.

On April 30, 2014, the Company issued 500,000 common share purchase warrants to the holder of the promissory note in consideration for providing the new debt of \$500,000 [ see note 8c]. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.20 per share on or before April 30, 2017.

On May 30, 2014, the Company issued 2,529,166 warrants. Each warrant entitles the holder to acquire an additional common share at \$0.21 per share and expires on May 30, 2016.

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

	Number	Weighted average exercise price
	#	\$
Balance, December 31, 2012	5,500,000	0.50
Expired	(2,500,000)	0.50
Issued	6,615,833	0.25
Outstanding, December 31, 2013	9,615,833	0.33
Cancelled	(2,900,000)	(0.50)
Issued	6,118,833	0.21
<b>Outstanding, September 30, 2014</b>	<b>12,834,666</b>	<b>0.23</b>

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The following represents the range of exercise prices for outstanding warrants at September 30, 2014:

Range of exercise prices \$	Outstanding and exercisable warrants		
	Number of warrants #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
Less than 0.20	1,800,000	0.86	0.175
0.20 - 0.29	8,822,166	2.07	0.21
0.30 - 0.40	2,212,500	0.45	0.35
	<b>12,834,666</b>	<b>1.62</b>	<b>0.23</b>

The fair values of all warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 156%, risk-free interest rates of 1.17% and an average expected life of two years.

A reconciliation of warrants and changes during the period is set out below:

	Number #	Amount \$
Balance, December 31, 2012	5,500,000	1,012,611
Expired in the year	(2,500,000)	(700,000)
Warrants granted	6,615,833	580,815
Balance, December 31, 2013	9,615,833	893,426
Expired during the period	(2,900,000)	(312,611)
Warrants granted	6,118,833	314,163
<b>Balance, September 30, 2014</b>	<b>12,834,666</b>	<b>894,978</b>

### Contributed surplus

	September 30, 2014 \$	December 31, 2013 \$
<b>Balance, beginning of period</b>	<b>3,975,352</b>	3,091,483
Stock options granted and/or vested during the period	<b>183,170</b>	202,640
Stock options issued		
Stock options exercised during the period	-	(18,771)
Warrants expired during the period	<b>312,611</b>	700,000
<b>Balance, end of period</b>	<b>4,471,133</b>	3,975,352

# Environmental Waste International Inc.

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### Equity component of convertible loans

	2014	2013
	\$	\$
<b>Balance, beginning of period</b>	<b>63,820</b>	63,820
Transfer to warrants	<b>(63,820)</b>	-
<b>Balance, end of period</b>	<b>-</b>	<b>63,820</b>

During fiscal 2010, the Company borrowed a total amount of \$497,000 [see note 8(a)]. The Company bifurcated the equity component from the financial liability component. The value of the financial liability component was determined to be \$433,180. As a result, an amount of \$63,820 was added to shareholders' equity at that time. On March 10, 2014, the Company issued 798,000 common share purchase warrants to the debt holders. The Company transferred \$63,820 representing the carrying value of the amount that was added to shareholders' equity from Equity Component of Convertible Loans to Warrants.

### Weighted average number of common shares

For the three months ended September 30, 2014 and September 30, 2013 the weighted average number of shares outstanding was 125,418,128 and 109,084,797 respectively.

## 10. GOVERNMENT ASSISTANCE

The Company has no outstanding claims for federal scientific research and experimental development tax credits ["SR&ED tax credits"] for the years 2004 through 2013 inclusive. Since these claims have not been formally approved, the benefit thereof has not been reflected in these consolidated financial statements. The tax credits will be recorded in the period when reasonable assurance of their realization exists. The Company has recognized \$111,516 [2013 - \$130,192] as a recovery of expenses during the three months ended September 30, 2014 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.

## 11. RELATED PARTIES

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

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

Interest to directors totaled \$45,156 [2013 - \$9,187] and to a relative of a former Director of the Company totaled \$10,693 [2013 - \$15,050].

### [b] Transactions with key management personnel

The Company recognized as an expense during the nine months ended September 30, 2014 salaries and benefits of \$366,787 [2013 - \$397,855] and share-based payment transactions of \$129,849 [2013 - \$122,165] with respect to key management personnel.

# Environmental Waste International Inc.

## Notes to the interim Condensed Consolidated Financial Statements

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### 12. COMMITMENTS AND CONTINGENCIES

#### [a] Commitments

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

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

#### [b] Contingencies

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

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

The former president and CEO whose employment was terminated on March 1, 2013 commenced an action against the Company wherein he is seeking four years of severance pay in the amount of \$1,020,000. Management believes that the claim for 48 months is without merit and has provided for one year salary in the amount of \$255,000, less any amounts already paid of \$39,231 and any amounts subject to mitigation [*see note 7*] as the Company believes the likelihood of payout of this net amount is probable.

On July 21, 2014 the Company announced that Environmental Waste International Limited Partnership ("EWILP") commenced a lawsuit seeking injunctive relief to prevent the Company from interfering with certain intellectual property rights with EWILP purports belong to it. In 2007, the Company sold certain intellectual property rights to EWILP which were immediately licensed back to the Company. No specific amount was claimed as damages. Management denies all allegations and believes that this claim is without merit and plans to defend this action.

# Environmental Waste International Inc.

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### 13. SEGMENT INFORMATION

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

#### Sales and other income

	2014	2013
	\$	\$
Canada	-	45,844
United States	<b>94,216</b>	107,558
	<b>94,216</b>	153,402

Sales from one customer amounted to \$94,216 [2013 - \$ 107,558].

### 14. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the private placement concluded on September 22, 2014 for 10,000,000 Units with proceeds of \$1,000,000, TSX approval was obtained for 4,000,000 shares on October 3, 2014 and 6,000,000 shares on November 7, 2014. \$400,000 of the \$1,000,000 subscriptions payable balance at September 30, 2014 and will be transferred to equity on October 3, 2014 and \$600,000 will be transferred to equity on November 7, 2014.

This financing was in accordance with an announcement made by the Company on September 5, 2014 where EWI announced that a non-binding letter of intent (“LOI”) had been entered into regarding the proposed acquisition of all of the issued and outstanding common shares of EWI by A.C. Simmonds and Sons Inc. (“ACS”) in exchange for common stock of ACS. This LOI has been extended to December 15, 2014 to provide sufficient time to complete the due diligence and the definitive legal agreement. Under the terms of the Proposed Acquisition, ACS will issue to the shareholders of EWI one ACS Share for every 40 EWI Shares. The Proposed Acquisition is premised on a deemed acquisition price of \$0.25 per EWI Share and a deemed issued price of \$10 per ACS Share. Under the terms of the LOI, EWI may issue up to 20 million common shares pursuant to one or more equity private placements without any change to the 40 for 1 exchange ratio. Following the signing of the LOI, on September 22, 2014, the Company issued 10 million common shares at \$0.10 per share as noted above.