Consolidated Financial Statements

Environmental Waste International Inc.

December 31, 2014 and 2013

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Environmental Waste International Inc.

We have audited the accompanying consolidated financial statements of **Environmental Waste International Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Environmental Waste International Inc.** as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicates that the Company incurred a net loss of $3,243,857 during the year ended December 31, 2014 and, as of that date, the Company's current liabilities exceeded its current assets by $354,810. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 24, 2015

Environmental Waste International Inc.
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Canadian dollars]

As at December 31

	2014	**2013**
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 8]*	**207,854**	130,044
Accounts receivable	**42,933**	125,017
Loan receivable *[note 9]*	**17,402**	15,954
Prepaid expenses and sundry	**98,715**	67,540
Total current assets	**366,904**	338,555
Property and equipment, net *[note 10]*	**1,515,686**	1,596,248
Intangible assets, net *[note 11]*	**728,132**	1,400,254
	2,610,722	3,335,057
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	**402,864**	386,803
Provisions *[note 12]*	**215,769**	255,000
Current portion of loans payable *[note 13[a]]*	**—**	497,000
Current portion of term loan payable *[note 13[b]]*	**41,381**	2,000,000
Current portion of mortgages payable *[note 13[d]]*	**15,198**	14,316
Deferred revenue	**46,502**	45,042
Total current liabilities	**721,714**	3,198,161
Loans payable *[note 13[a]]*	**88,459**	—
Term loan payable *[note 13[b]]*	**2,022,315**	—
Promissory note payable *[note 13[c]]*	**513,587**	—
Mortgages payable *[note 13[d]]*	**819,258**	834,456
Total liabilities	**4,165,333**	4,032,617
Commitments and contingencies *[note 19]*		
Shareholders' equity (deficiency)		
Capital stock *[note 14]*	**45,591,372**	43,668,244
Contributed surplus *[note 14]*	**4,501,298**	3,975,352
Warrants *[note 14]*	**894,978**	893,426
Equity component of convertible loans *[notes 13 and 14]*	**—**	63,820
Deficit	**(52,440,899)**	(49,197,042)
Equity attributable to owners of the Parent	**(1,453,251)**	(596,200)
Non-controlling interests	**(101,360)**	(101,360)
Total deficiency	**(1,554,611)**	(697,560)
	2,610,722	3,335,057

Events after the reporting period *[note 21]*

See accompanying notes

Approved by the Board:

Director
Emanuel Gerard

Director
Robert MacBean

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[Canadian Dollars]

Years ended December 31

	2014 $	2013 $
REVENUE		
Sales and other *[note 20]*	**132,980**	123,285
OTHER INCOME		
Finance income	**—**	20,603
EXPENSES		
Operating, labour and manufacturing *[notes 11 and 15]*	**2,302,787**	2,379,089
Stock-based compensation *[notes 14 and 18[c]]*	**213,335**	202,640
Amortization of property and equipment *[note 10]*	**92,393**	94,544
Amortization of intangible assets *[note 11]*	**672,122**	672,122
Finance expense - interest on loans payable	**22,237**	49,861
Finance expense - interest on term loan payable	**63,696**	18,465
Finance expense - interest on promissory note payable	**30,058**	—
Finance expense - interest on mortgages payable	**94,636**	95,468
Government assistance *[note 15]*	**(111,516)**	(130,192)
Foreign exchange gain	**(2,911)**	(15,027)
	3,376,837	3,366,970
Net loss and comprehensive loss	**(3,243,857)**	(3,223,082)
Net loss and comprehensive loss attributable to:		
Shareholders	**(3,243,857)**	(3,223,082)
	(3,243,857)	(3,223,082)
Loss per share - basic and diluted *[note 14]*	(0.03)	(0.03)
Weighted average number of shares outstanding - basic and diluted *[note 14]*	**124,862,421**	108,505,632

See accompanying notes

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

[Canadian Dollars]

Years ended December 31

	Capital stock $	Contributed surplus $	Warrants $	Equity portion of convertible loans $	Deficit $	Total attributable to owners of the parent $	Non-controlling interests $	Total $
Balance, December 31, 2012	42,353,325	3,091,483	1,012,611	63,820	(45,973,960)	547,279	(135,758)	411,521
Private placement *[note 14]*	1,267,948	—	580,815	—	—	1,848,763	—	1,848,763
Options exercised *[note 14]*	46,971	(18,771)	—	—	—	28,200	—	28,200
Options issued *[note 14]*	—	202,640	—	—	—	202,640	—	202,640
Warrants expired *[note 14]*	—	700,000	(700,000)	—	—	—	—	—
Finance income from non-controlling interests	—	—	—	—	—	—	(18,844)	(18,844)
Proceeds from non-controlling interests	—	—	—	—	—	—	53,242	53,242
Net loss and comprehensive loss for the year	—	—	—	—	(3,223,082)	(3,223,082)	—	(3,223,082)
Balance, December 31, 2013	43,668,244	3,975,352	893,426	63,820	(49,197,042)	(596,200)	(101,360)	(697,560)
Private placement *[note 14]*	1,923,128	—	233,872	—	—	2,157,000	—	2,157,000
Options issued *[note 14]*	—	213,335	—	—	—	213,335	—	213,335
Warrants issued *[note 14]*	—	—	80,291	(63,820)	—	16,471	—	16,471
Warrants cancelled *[note 14]*	—	312,611	(312,611)	—	—	—	—	—
Net loss and comprehensive loss for the year	—	—	—	—	(3,243,857)	(3,243,857)	—	(3,243,857)
Balance, December 31, 2014	**45,591,372**	**4,501,298**	**894,978**	**—**	**(52,440,899)**	**(1,453,251)**	**(101,360)**	**(1,554,611)**

See accompanying notes

Environmental Waste International Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Canadian dollars]

Years ended December 31

	2014	2013
	$	$
OPERATING ACTIVITIES		
Net loss for the year	**(3,243,857)**	(3,223,082)
Add (deduct) items not involving cash		
Amortization of property and equipment	**92,393**	94,544
Amortization of intangible assets	**672,122**	672,122
Finance expense	**98,213**	18,465
Stock-based compensation	**213,335**	202,640
Finance income from non-controlling interest	**—**	(18,844)
	(2,167,794)	(2,254,155)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**82,084**	(109,078)
Loan receivable	**(1,448)**	(1,030)
Prepaid expenses and sundry	**(31,175)**	(24,589)
Deferred revenue	**1,460**	(284)
Accounts payable and accrued liabilities	**16,061**	34,795
Provisions	**(39,231)**	(39,758)
Cash used in operating activities	**(2,140,043)**	(2,394,099)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(11,831)**	(1,160)
Cash used in investing activities	**(11,831)**	(1,160)
FINANCING ACTIVITIES		
Proceeds from non-controlling interests	**—**	53,242
Proceeds from issuance of promissory note payable	**500,000**	—
Proceeds from issuance of common stock on private placement	**2,157,000**	1,783,763
Proceeds from issuance of common stock on exercise of options	**—**	28,200
Repayment of loans payable	**(413,000)**	—
Repayments of mortgages payable	**(14,316)**	(13,480)
Cash provided by financing activities	**2,229,684**	1,851,725
Net increase (decrease) in cash during the year	**77,810**	(543,534)
Cash and cash equivalents, beginning of year	**130,044**	673,578
Cash and cash equivalents, end of year	**207,854**	130,044

See accompanying notes

1. CORPORATE INFORMATION

Environmental Waste International Inc. ["EWI" or the "Company"] is incorporated under the Ontario Business Corporations Act. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization process and dealing with environmental waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world. The consolidated financial statements of EWI *[note 18[a]]* were authorized for issue in accordance with a resolution of the Board of Directors on April 24, 2015. The Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

3. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared on a basis that assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company incurred a net loss of $3,243,857 during the year ended December 31, 2014 [2013 – $3,223,082] and, as at that date, has a working capital deficiency of $354,810 [2013 – $2,859,606] and a cumulative deficit of $52,440,899 [2013 – $49,197,042]. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is at an early stage and the Company has not achieved a level of profitability and positive cash flows. The Company needs to obtain additional financing to enable it to continue operations. In the absence of additional financing, the Company is not expected to have sufficient funds to meet its obligations. Management continues to monitor cash needs and is considering various alternatives to raise additional financing *[note 21]*. There can be no assurances that the Company will be able to secure the necessary financing to enable it to continue as a going concern. The factors noted above indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

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

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

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

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

Revenue recognition

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

Construction contracts

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

Rendering services

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

Interest income

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

Financial instruments

[a] Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39, *Financial Instruments - Recognition and Measurement* ["IAS 39"] are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated in an effective hedge, as appropriate. The Company determines classification of its financial assets at initial recognition.

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

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

Subsequent measurement - loans and receivables

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

Derecognition

A financial asset is derecognized when:

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

Impairment of financial assets

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

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

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

[b] Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include accounts payable and accrued liabilities, loans payable, term loan payable, promissory note payable and mortgages payable. All of the Company's financial liabilities are classified as loans and borrowings.

Subsequent measurement - loans and borrowings

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

Debt component of convertible loans

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

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

Derecognition

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

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

[c] Offsetting of financial instruments

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

Cash and cash equivalents

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

Property and equipment

Property and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment. Repairs and maintenance are charged against income as incurred. Expenditures that extend the estimated life of an asset are capitalized.
Amortization is provided annually on property and equipment, other than land, at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

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

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

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

Intangible assets

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

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

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

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

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

Research and development costs

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

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

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

Impairment of non-financial assets

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

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

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

Provisions

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

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

Share-based payment transactions

Stock options

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

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

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

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

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

Warrants

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

Share issue costs

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

Leases

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

Investment tax credits ["ITCs"] and government grants

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

Foreign currency translation

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

Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information arises related to facts and circumstances that existed at the acquisition date. The adjustment would either be treated as a reduction to goodwill if it is incurred during the measurement period, with any excess amount recognized in profit or loss.

Sales tax

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

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Company applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014. The nature and the impact of each new standard and amendment is described below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, *Financial Instruments: Presentation*

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

IFRIC 21, *Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS

37, *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13, *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

[a] Leases

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

[b] Consolidation of a structured entity

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

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

[a] Impairment of non-financial assets

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

[b] Income taxes

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

[c] Share-based payment transactions

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

[d] Development costs

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

7. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 [2009, 2010 and 2013] is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: *Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 ***Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities [or assets] arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 [or IAS 39, as applicable].

IFRS 8 ***Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics [e.g., sales and gross margins] used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

IAS 16 ***Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 ***Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity [an entity that provides key management personnel services] is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2014	**2013**
	$	$
Cash	**207,854**	130,044

9. LOAN RECEIVABLE

Loan receivable consists of the following:

	2014 $	2013 $
Loan receivable, with interest at 12% per annum, was repayable on October 11, 2013	**17,402**	15,954

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Land $	Building $	Fixtures $	Computer equipment $	Office equipment $	Equipment - gas engine $	Total $
Cost							
As at December 31, 2012	68,261	984,994	71,060	35,565	26,735	719,169	1,905,784
Additions	—	—	—	1,160	—	—	1,160
As at December 31, 2013	68,261	984,994	71,060	36,725	26,735	719,169	1,906,944
Additions	—	—	—	—	11,831	—	11,831
As at December 31, 2014	**68,261**	**984,994**	**71,060**	**36,725**	**38,566**	**719,169**	**1,918,775**
Accumulated amortization							
As at December 31, 2012	—	75,210	9,474	24,053	13,069	94,346	216,152
Amortization charge	—	36,391	4,737	3,454	2,016	47,946	94,544
As at December 31, 2013	—	111,601	14,211	27,507	15,085	142,292	310,696
Amortization charge	—	34,936	4,737	2,766	2,009	47,945	92,393
As at December 31, 2014	**—**	**146,537**	**18,948**	**30,273**	**17,094**	**190,237**	**403,089**
Net book value							
As at December 31, 2014	**68,261**	**838,457**	**52,112**	**6,452**	**21,472**	**528,932**	**1,515,686**
As at December 31, 2013	68,261	873,393	56,849	9,218	11,650	576,877	1,596,248

11. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Technology rights $	Acquired in-process development $	Marketing rights $	Total $
Cost				
As at December 31, 2012	500,000	2,750,000	610,610	3,860,610
As at December 31, 2013	500,000	2,750,000	610,610	3,860,610
As at December 31, 2014	**500,000**	**2,750,000**	**610,610**	**3,860,610**
Accumulated amortization				
As at December 31, 2012	500,000	1,054,167	234,067	1,788,234
Amortization charge	—	550,000	122,122	672,122
As at December 31, 2013	500,000	1,604,167	356,189	2,460,356
Amortization charge	—	550,000	122,122	672,122
As at December 31, 2014	**500,000**	**2,154,167**	**478,311**	**3,132,478**
Net book value				
As at December 31, 2014	**—**	**595,833**	**132,299**	**728,132**
As 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 $397,766 [2013 – $348,870] was recognized in operating, labour and manufacturing expenses related to development costs.

12. PROVISIONS

	2014	2013
	$	$
Balance, beginning of year	**255,000**	255,000
Amounts paid during the year	**(39,231)**	—
Balance, end of year	**215,769**	255,000

The provision balance consists of an accrual of one year's annual salary to former senior management of the Company. The Company was party to a claim made by former senior management whose employment was terminated on March 1, 2013, who is seeking four years severance pay in the amount of $1,020,000 *[note 19[b]]*. Management believes that this claim for 48 months of pay is inflated and without merit and has provided for one year's salary of $255,000, less amounts already paid of $39,231, as the Company believes the likelihood of payout of this amount is probable.

13. LOANS AND BORROWINGS

[a] Loans payable consist of the following:

	December 31, 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	**88,459**	84,000
	88,459	497,000
Less current portion	—	497,000
	88,459	—

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 share purchase warrants *[see note 14]* to the debt holders who agreed to relinquish the convertible feature of the loans and extend the maturity of the loans [maturity of $413,000 of the loans extended to April 30, 2014 and maturity of $84,000 of the loans extended to April 30, 2017].

On April 30, 2014, $413,000 of proceeds from a new promissory note issued on that date *[see note 13(c)]* were used to repay loans outstanding to a relative of a former director in the amount of $301,000 and to 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 maturing on April 30, 2017, with interest accruing at 8% per annum quarterly in arrears calculated on outstanding principal, capitalized over the term of the loan and payable in cash at maturity. The original loans to directors totaling $84,000 had an interest rate of 10% per annum.

[b] Loan payable consists of the following:

	December 31, 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	**2,063,696**	2,000,000
Less current portion	**41,381**	2,000,000
	2,022,315	—

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.

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

[c] Promissory note payable consists of the following:

	December 31 2014 $	December 31 2013 $
Promissory note payable, with interest at 8% per annum, repayable on June 17, 2017	**513,587**	—
Less current portion	—	—
	513,587	—

On April 30, 2014, the Company received proceeds of $500,000 from issuance of a promissory note and granting of 500,000 share purchase warrants. The Company bifurcated the equity instrument [share purchase warrants] from the financial liability [the promissory note payable]. The promissory note payable amount was determined to be $483,529 using the effective interest rate method and the residual of the proceeds of $16,471 was allocated to warrants *[see note 14]*. 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.

[d] Mortgages payable consist of the following:

	2014	**2013**
	$	$
Fixed rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2020	**99,456**	113,772
Fixed rate second mortgage, eight-year amortization period, with interest at 12% per annum, repayable in full on April 15, 2017	**735,000**	735,000
	834,456	848,772
Less current portion	**15,198**	14,316
	819,258	834,456

The collateral for the above mortgages is as follows:

[i] First mortgage

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

[ii] Second mortgage

Second charge on the property, subordinate to the first charge of $99,460 of Community Development Corporation of Sault Ste. Marie.

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

	$
2015	15,198
2016	16,122
2017	752,130
2018	18,187
2019 and thereafter	32,819
	834,456

14. SHARE CAPITAL AND RESERVES

	Number of shares #	Amount $
Authorized		
Unlimited common shares		
Issued and outstanding		
Balance, December 31, 2012	102,344,797	42,353,325
Private placements [1]	13,231,666	1,869,800
Share issue costs [1]	—	(21,037)
Warrants issued [1]	—	(580,815)
Options exercised	235,000	46,971
Share exchange [2]	(35,000)	—
Balance, December 31, 2013	115,776,463	43,668,244
Private placements [3]	19,641,665	2,157,000
Warrants issued [3]	—	(233,872)
Balance, December 31, 2014	**135,418,128**	**45,591,372**

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

[1] On 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.

[2] During the year ended December 31, 2013, 1,000,000 shares held by a shareholder who was formerly involved in the business activities of the Company several years ago were cancelled. 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.

[3] On January 31, 2014, the Company closed a private placement for 4,583,333 Units with gross proceeds of $550,000, 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 $0.21 per share through to January 31, 2016. All shares issued in the private placement were subject to a hold period that expired on May 31, 2014.

On May 30, 2014, the Company closed a private placement for 5,058,332 Units with gross proceeds of $607,000, 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 $0.21 per share through to May 30, 2016. All shares issued in the private placement were subject to a hold period that expired on September 30, 2014.

On September 22, 2014, the Company closed a private placement for 10,000,000 Units with gross proceeds of $1,000,000, less agent's fees of nil. Each Unit consists of one common share. All shares issued in the private placement were subject to a hold period that expired on January 22, 2015.

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 [the “New 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. 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 29, 2015.

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

	2014		**2013**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance, beginning of year	**6,835,000**	**0.22**	6,560,000	0.27
Exercised	**—**	**—**	(235,000)	(0.12)
Expired	**(1,000,000)**	**(0.26)**	(625,000)	(0.17)
Forfeited	**(3,580,000)**	**(0.15)**	(3,000,000)	(0.26)
Granted	**8,160,000**	**0.10**	4,135,000	0.16
Balance, end of year	**10,415,000**	**0.15**	6,835,000	0.22

	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	8,025,000	4.49	0.11
0.20 - 0.29	1,515,000	2.19	0.23
0.30 - 0.40	875,000	1.29	0.36
	10,415,000	**3.89**	**0.12**

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 131% to 144% [2013 – 114% to 159%]; risk-free interest rates of 1.36% to 1.57% [2013 – 0.94% to 1.75%]; and an average expected life of five years. This resulted in stock-based compensation expense of $213,335 [2013 – $202,640].

Warrants

On March 14, 2013, the Company issued 2,212,500 share purchase 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 share purchase 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 share purchase 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 share purchase 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 30th day following such occurrence.

On January 31, 2014, the Company issued 2,291,667 share purchase 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 share purchase warrants to holders of previously issued convertible loans in the aggregate amount of $497,000 *[see note 13(a)]*. Each warrant entitles the holder to acquire an additional common share at $0.20 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 share purchase warrants to the holder of the promissory note in consideration for providing the new debt of $500,000 *[see note 13c]*. 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 share purchase 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 year 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	(3,000,000)	(0.50)
Issued	6,218,833	0.21
Outstanding, December 31, 2014	**12,834,666**	**0.26**

A summary of warrants outstanding and exercisable as at December 31, 2014 is set out below:

	Outstanding and exercisable warrants		
Exercise prices	**Number of warrants**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.35	2,212,500	0.20	0.35
0.21	7,524,166	1.09	0.21
0.20	1,298,000	1.10	0.20
0.175	1,800,000	0.61	0.18
	12,834,666	**0.87**	**0.23**

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% to 157% [2013 – 117% to 147%]; risk-free interest rates of 1.05% to 110% [2013 – 1.01% to 1.18%] and an average expected life of two years.

Reconciliation:

	Number #	Amount $
Balance, December 31, 2012	5,500,000	1,012,611
Expired during the year	(2,500,000)	(700,000)
Warrants granted	6,615,833	580,815
Balance, December 31, 2013	9,615,833	893,426
Expired during the year	(3,000,000)	(312,611)
Warrants granted	6,218,833	314,163
Balance, December 31, 2014	**12,834,666**	**894,978**

Contributed surplus

	2014 $	2013 $
Balance, beginning of year	**3,975,352**	3,091,483
Stock options granted and/or vested during the year		
Stock options issued	**213,335**	202,640
Stock options exercised during the year	**—**	(18,771)
Warrants expired during the year	**312,611**	700,000
Balance, end of year	**4,501,298**	3,975,352

Equity component of convertible loans

	2014 $	2013 $
Balance, beginning of period	**63,820**	63,820
Transfer to warrants	**(63,820)**	—
Balance, end of period	**—**	63,820

During fiscal 2010, the Company borrowed a total amount of $497,000 *[see note 13(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 share purchase warrants to the debt holders who agreed to relinquish the convertible feature of the loans. The Company transferred the $63,820 carrying value of the amount that was added to shareholders' equity from Equity Component of Convertible Loans to Warrants.

Per share amounts

For the year ended December 31, 2014, the weighted average number of shares outstanding was 124,862,421 [2013 – 108,505,632]. As at December 31, 2014, the Company had 10,415,000 [2013 – 6,835,000] stock options, 12,834,666 warrants [exercisable for 12,834,666 shares] [2013 – 9,615,833 warrants [exercisable for 9,615,833 shares]] and no convertible debt [2013 - $497,000 of convertible debt [exercisable for 1,644,000 common shares]] that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

15. GOVERNMENT ASSISTANCE

The Company has no outstanding claims for federal scientific research and experimental development tax credits ["SR&ED tax credits"] for the years 2004 through 2013 inclusive. 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 year for claims for which the tax credits have been realized.

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

During the year, the Company also received government grants from a program supporting small and medium-sized enterprises in Canada undertaking technology innovation. The Company recognized $69,162 in 2014 [2013 – $173,793] as a recovery of operating, labour and manufacturing expenses as the grant relates to expense items, there are no unfulfilled conditions or contingencies attached to these grants and there is reasonable assurance that the grants will be received. As at December 31, 2014, the accounts receivable balance contains nil [2013 – $80,218] relating to this government assistance.

16. INCOME TAXES

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

	2014 $	**2013** $
Combined Canadian statutory rates	**26.50%**	26.50%
Recovery at combined statutory rates	**(859,622)**	(854,117)
Losses and other temporary differences not benefited	**801,658**	799,185
Stock-based compensation	**56,534**	53,700
Other	**1,430**	1,232
Income tax expense	—	—

The difference between the effective rate of 26.5% as at December 31, 2014 [2013 – 26.50%] and the actual rate of nil as at December 31, 2014 [2013 – nil] is attributable to the fact that no deferred tax assets have been recorded for available loss carryforwards and other deductible temporary differences as their recoverability is not probable.

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

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

	2014 $	**2013** $
Deferred tax assets		
SR&ED expenditures	**200,728**	—
Unused tax losses carryforwards	**3,724,657**	3,618,555
Investment tax credits	**1,401,501**	1,210,613
Temporary differences		
Provisions	**57,179**	67,575
Property and equipment	**484,676**	460,192
Imputed interest on loans and notes	**70,299**	44,273
Total deferred tax assets	**5,939,040**	5,401,208
Deferred tax liabilities		
Temporary difference – Intangible assets	**(88,383)**	(266,495)
Total deferred tax liabilities	**(88,383)**	(266,495)
Total deferred tax assets	**5,850,657**	5,134,713
Losses and other temporary differences not benefited	**(5,850,657)**	(5,134,713)
Net deferred tax assets	—	—

No deferred tax assets are recognized in respect of losses and other temporary differences as it is not probable that these deferred tax assets will be realized.

As at December 31, 2014, subject to confirmation from the income tax authorities, the Company has a total of $14,166,826 of non-capital losses and $1,401,501 of investment tax credits that are available for carry forward to offset taxable income, expiring as follows:

	Non-capital losses $	**Investment tax credits** $
2024	—	118,627
2025	—	141,638
2026	536,460	106,215
2027	—	82,915
2028	519,673	61,309
2029	1,077,951	18,166
2030	2,513,251	111,066
2031	3,656,018	390,231
2032	2,216,230	223,799
2033	1,444,772	200,728
2034	2,202,471	(53,193)
Total	14,166,826	1,401,501

17. FINANCIAL INSTRUMENTS

[a] Fair value information

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

The fair values of loans and borrowings are as follows:

	2014 $	**2013** $
Loans payable	**88,459**	497,000
Mortgages payable	**834,456**	741,191
Term loan payable	**2,063,696**	2,000,000
Promissory note payable	**513,587**	—
	3,500,198	3,238,191

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

[b] Financial risk management objectives and policies

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

The Company is exposed to credit risk and liquidity risk.

Credit risk

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

Liquidity risk

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

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

As at December 31, 2014	**Less than 1 year** $	**2 - 3 years** $	**4 - 5 years** $	**Greater than 5 years** $	**Total** $
Accounts payable and accrued liabilities and provisions	**618,633**	**—**	**—**	**—**	**618,633**
Loans payable	**—**	**106,532**	**—**	**—**	**106,532**
Term loan payable	**106,667**	**432,034**	**656,103**	**1,315,988**	**2,510,792**
Mortgages payable	**108,952**	**894,105**	**41,505**	**13,833**	**1,058,395**
Promissory note payable	**—**	**634,121**	**—**	**—**	**634,121**
Total	**834,252**	**2,066,792**	**697,608**	**1,329,821**	**4,928,473**

[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:

	2014 $	**2013** $
Interest-bearing loans and borrowings	**3,500,198**	3,345,772
Trade payables and other and provisions	**618,633**	641,803
Less cash and cash equivalents	**(207,854)**	(130,044)
Net debt	**3,910,977**	3,857,531
Shareholders' deficiency	**(1,554,611)**	(697,560)
Total capital	**2,356,366**	3,159,971

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, 2014. The Company is not subject to externally imposed capital requirements.

18. RELATED PARTY DISCLOSURES

[a] Subsidiaries and ultimate parent

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

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

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

Interest paid to the directors totaled $2,800 [2013 – $8,400].

Proceeds from the directors as part of private placements in 2014 amounted to $100,000 [2013 – nil]. The directors were issued 833,333 shares [2013 – nil] and 416,667 warrants [2013 – nil].

[c] Transactions with key management personnel

The Company recognized as an expense during the year ended December 31, 2014 for salaries and benefits of $481,037 [2013 – $447,223] and share-based payment transactions of $102,862 [2013 – $162,887] with respect to key management personnel.

Proceeds from key management personnel as part of private placements in 2014 amounted to $35,000 [2013 – nil]. Key management personnel were issued 308,333 shares [2013 – nil] and 104,166 warrants [2013 – nil].

19. COMMITMENTS AND CONTINGENCIES

[a] Commitments

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

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

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

[b] Contingencies

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

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

During the year, the former president and CEO whose employment was terminated on March 1, 2013 commenced an action against the Company wherein he is seeking four years of severance pay in the amount of $1,020,000. Management believes that the claim for 48 months is without merit and has provided for $215,769, which represents one year's salary of $255,000 less amounts already paid of $39,231 *[see note 12]*, as the Company believes the likelihood of payout of this amount is probable.

On July 21, 2014, the Company announced that ["EWILP"] commenced a lawsuit seeking injunctive relief to prevent the Company from interfering with certain intellectual property rights which 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.

20. 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

	2014 $	2013 $
Canada	**4,261**	4,060
United States	**128,719**	119,225
	132,980	123,285

Revenue from one customer amounted to $128,719 [2013 – $119,225].

Non-current assets

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

21. EVENTS AFTER THE REPORTING PERIOD

On March 11, 2015, the Company closed in escrow a private placement for 2,850,000 Units with gross proceeds of $285,000, less agent's fees of nil. Each Unit consists of one common share and 0.15 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 $0.10 per share through to March 31, 2017. All shares issued in the private placement were subject to a hold period that expires on July 11, 2015.