

Consolidated financial statements

Environmental Waste International Inc.

December 31, 2015 and 2014



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, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2015 and 2014 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 \$2,746,120 during the year ended December 31, 2015 and, as at that date, the Company's current liabilities exceeded its current assets by \$3,824,958. 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.

Toronto, Canada
May 5, 2016

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Environmental Waste International Inc.

Incorporated under the laws of Ontario

Consolidated statements of financial position

[Canadian dollars]

As at December 31

	2015	2014
	\$	\$
Assets		
Current		
Cash and cash equivalents <i>[note 8]</i>	16,059	207,854
Accounts receivable	45,404	42,933
Loan receivable <i>[note 9]</i>	20,760	17,402
Prepaid expenses and sundry	65,248	98,715
Total current assets	147,471	366,904
Property and equipment, net <i>[note 10]</i>	1,425,033	1,515,686
Intangible assets, net <i>[note 11]</i>	56,010	728,132
	1,628,514	2,610,722
Liabilities and shareholders' equity (deficiency)		
Current		
Accounts payable and accrued liabilities	859,633	402,864
Provisions <i>[note 12]</i>	255,000	215,769
Current portion of term loan payable <i>[note 13[b]]</i>	2,225,048	41,381
Current portion of promissory notes payable <i>[note 13[c]]</i>	520,820	—
Current portion of mortgages payable <i>[note 13[d]]</i>	16,122	15,198
Subscriptions payable <i>[note 14]</i>	40,000	—
Deferred revenue	55,806	46,502
Total current liabilities	3,972,429	721,714
Loans payable <i>[note 13[a]]</i>	95,860	88,459
Term loan payable <i>[note 13[b]]</i>	—	2,022,315
Promissory notes payable <i>[note 13[c]]</i>	562,165	513,587
Mortgages payable <i>[note 13[d]]</i>	803,154	819,258
Total liabilities	5,433,608	4,165,333
Commitments and contingencies <i>[note 19]</i>		
Shareholders' equity (deficiency)		
Capital stock <i>[note 14]</i>	45,851,502	45,591,372
Contributed surplus <i>[note 14]</i>	5,356,570	4,501,298
Warrants <i>[note 14]</i>	275,213	894,978
Deficit	(55,187,019)	(52,440,899)
Deficiency attributable to owners of the Parent	(3,703,734)	(1,453,251)
Non-controlling interests	(101,360)	(101,360)
Total shareholders' equity (deficiency)	(3,805,094)	(1,554,611)
	1,628,514	2,610,722

Events after the reporting period *[note 21]*

See accompanying notes

Approved by the Board:

Director

Director

Environmental Waste International Inc.

Consolidated statements of loss and comprehensive loss

[Canadian dollars]

Years ended December 31

	2015	2014
	\$	\$
Revenue		
Sales and other <i>[note 20]</i>	156,273	132,980
Expenses		
Operating, labour and manufacturing <i>[notes 11 and 15]</i>	1,703,492	2,302,787
Stock-based compensation <i>[notes 14 and 18[c]]</i>	210,637	213,335
Amortization of property and equipment <i>[note 10]</i>	90,653	92,393
Amortization of intangible assets <i>[note 11]</i>	672,122	672,122
Finance expense – interest on loans payable	7,301	22,237
Finance expense – interest on term loan payable	161,352	63,696
Finance expense – interest on promissory notes payable	69,398	30,058
Finance expense – interest on mortgages payable	93,123	94,636
Government assistance <i>[note 15]</i>	(95,833)	(111,516)
Foreign exchange gain	(9,852)	(2,911)
	2,902,393	3,376,837
Net loss and comprehensive loss for the year	(2,746,120)	(3,243,857)
Net loss and comprehensive loss attributable to:		
Shareholders	(2,746,120)	(3,243,857)
Non-controlling interests	—	—
	(2,746,120)	(3,243,857)
Loss per share – basic and diluted <i>[note 14]</i>	(0.02)	(0.03)
Weighted average number of shares outstanding – basic and diluted <i>[note 14]</i>	137,721,553	124,862,421

See accompanying notes

Environmental Waste International Inc.

Consolidated statements of changes in shareholders' equity (deficiency)

[Canadian dollars]

	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, 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 exercised [note 14]	—	—	—	—	—	—	—	—
Options issued [note 14]	—	213,335	—	—	—	213,335	—	213,335
Warrants issued [note 14]	—	—	80,291	(63,820)	—	16,471	—	16,471
Warrants expired [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)
Private placement [note 14]	260,130	—	24,870	—	—	285,000	—	285,000
Options exercised [note 14]	—	—	—	—	—	—	—	—
Options issued [note 14]	—	210,637	—	—	—	210,637	—	210,637
Warrants expired [note 14]	—	644,635	(644,635)	—	—	—	—	—
Net loss and comprehensive loss for the year	—	—	—	—	(2,746,120)	(2,746,120)	—	(2,746,120)
Balance, December 31, 2015	45,851,502	5,356,570	275,213	—	(55,187,019)	(3,703,734)	(101,360)	(3,805,094)

See accompanying notes

Environmental Waste International Inc.

Consolidated statements of cash flows

[Canadian dollars]

Years ended December 31

	2015	2014
	\$	\$
Operating activities		
Net loss for the year	(2,746,120)	(3,243,857)
Add items not involving cash		
Amortization of property and equipment	90,653	92,393
Amortization of intangible assets	672,122	672,122
Finance expense	238,169	98,213
Stock-based compensation	210,637	213,335
	(1,534,539)	(2,167,794)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(2,471)	82,084
Loan receivable	(3,358)	(1,448)
Prepaid expenses and sundry	33,467	(31,175)
Deferred revenue	9,304	1,460
Accounts payable and accrued liabilities	456,769	16,061
Provisions	39,231	(39,231)
Subscriptions payable	40,000	—
Cash used in operating activities	(961,597)	(2,140,043)
Investing activities		
Purchase of property and equipment	—	(11,831)
Cash used in investing activities	—	(11,831)
Financing activities		
Proceeds from issuance of promissory notes payable	500,000	500,000
Proceeds from issuance of units on private placement	285,000	2,157,000
Repayment of loans payable	—	(413,000)
Repayments of mortgages payable	(15,198)	(14,316)
Cash provided by financing activities	769,802	2,229,684
Net increase (decrease) in cash and cash equivalents during the year	(191,795)	77,810
Cash and cash equivalents, beginning of year	207,854	130,044
Cash and cash equivalents, end of year	16,059	207,854

See accompanying notes

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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 May 4, 2016. 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 \$2,746,120 during the year ended December 31, 2015 [2014 – \$3,243,857] and, as at that date, has a working capital deficiency of \$3,824,958 [2014 – \$354,810] and a cumulative deficit of \$55,187,019 [2014 – \$52,440,899]. 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, 2015. 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:

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Notes to consolidated financial statements

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- 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.

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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.

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Impairment of financial assets

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

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

Environmental Waste International Inc.

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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.

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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.

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Research and development costs

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

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

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

Impairment of non-financial assets

The Company determines at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ["CGU's"] fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

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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 earnings per share.

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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 deducted from the cost of the related asset. If a grant becomes repayable, the inception-to-date impact of the assistance previously recognized in income is reversed immediately in the period that the assistance becomes repayable.

Foreign currency translation

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

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or

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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, 2015. The nature and the impact of each new standard and amendment is described below:

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Annual Improvements 2010 – 2012 Cycle

The following improvements are effective for accounting periods beginning on or after July 1, 2014. The Company has applied these improvements for the first time in these consolidated financial statements. They include:

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 IAS 39. This is consistent with the Company's current accounting policy and, thus, this amendment did not impact the Company's accounting policy.

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.

The Company has not applied the aggregation criteria in IFRS 8.12 as the Company is organized into one operating segment. Thus, these amendments did not impact the Company's consolidated financial statements or accounting policies.

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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Company during the current period.

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. This amendment is not relevant for the Company as it does not receive any management services from other entities.

Annual Improvements 2011 – 2013 Cycle

These improvements are effective for accounting periods beginning on or after July 1, 2014 and the Company has applied these amendments for the first time in these consolidated financial statements. They include:

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IFRS 3, *Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Company is not a joint arrangement, and thus this amendment is not relevant for the Company and its subsidiaries.

IFRS 13, *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

6. Significant accounting judgments, estimates and assumptions

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

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

[a] Consolidation of a structured entity

During fiscal 2007, Environmental Waste International Limited Partnership ["EWILP"], a limited partnership, was formed to hold the Company's intellectual property and to license certain intellectual property back to the Company by way of a license agreement. As EWILP was consolidated shortly after the transfer of intellectual property from the Company to EWILP, the measurement of the intellectual property was at book value. 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. EWILP 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

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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.

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7. Standards issued but not yet effective

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will 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.

IFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

IFRS 16, *Leases*

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

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

Annual Improvements 2012 – 2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include the following:

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

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

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IFRS 7, *Financial Instruments: Disclosures*

[i] Servicing contracts

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

[ii] Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19, *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34, *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report [e.g., in the management commentary or risk report]. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Company.

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8. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2015 \$	2014 \$
Cash	<u>16,059</u>	<u>207,854</u>

9. Loan receivable

Loan receivable consists of the following:

	2015 \$	2014 \$
Loan receivable, with interest at 12% per annum, was repayable on October 11, 2013	<u>20,760</u>	<u>17,402</u>

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, 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
As at December 31, 2015	<u>68,261</u>	<u>984,994</u>	<u>71,060</u>	<u>36,725</u>	<u>38,566</u>	<u>719,169</u>	<u>1,918,775</u>
Accumulated amortization							
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
Amortization charge	—	33,538	4,737	1,935	2,498	47,945	90,653
As at December 31, 2015	<u>—</u>	<u>180,075</u>	<u>23,685</u>	<u>32,208</u>	<u>19,592</u>	<u>238,182</u>	<u>493,742</u>
Net book value							
As at December 31, 2015	<u>68,261</u>	<u>804,919</u>	<u>47,375</u>	<u>4,517</u>	<u>18,974</u>	<u>480,987</u>	<u>1,425,033</u>
As at December 31, 2014	<u>68,261</u>	<u>838,457</u>	<u>52,112</u>	<u>6,452</u>	<u>21,472</u>	<u>528,932</u>	<u>1,515,686</u>

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11. Intangible assets

Intangible assets consist of the following:

	Technology rights \$	Acquired in- process development \$	Marketing rights \$	Total \$
Cost				
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
As at December 31, 2015	500,000	2,750,000	610,610	3,860,610
Accumulated amortization				
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
Amortization charge	—	550,000	122,122	672,122
As at December 31, 2015	500,000	2,704,167	600,433	3,804,600
Net book value				
As at December 31, 2015	—	45,833	10,177	56,010
As at December 31, 2014	—	595,833	132,299	728,132

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 \$125,798 [2014 – \$397,766] was recognized in operating, labour and manufacturing expenses related to development costs.

12. Provisions

	2015 \$	2014 \$
Balance, beginning of year	215,769	255,000
Accrued during the year	39,231	—
Amounts paid during the year	—	(39,231)
Balance, end of year	255,000	215,769

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 [see 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 as the Company believes the likelihood of payout of this amount is probable.

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13. Loans and borrowings

[a] Loans payable consist of the following:

	December 31, 2015 \$	December 31, 2014 \$
Fixed rate loans due to directors of the Company, with interest at 8% per annum, repayable on April 30, 2017	<u>95,860</u>	<u>88,459</u>

The loans represent remaining loans to current directors of \$84,000 plus interest accretion of \$11,860 [2014 – \$4,459]. The original amount of \$497,000 was borrowed by way of convertible loans from directors, former directors and a relative of a former director of the Company in 2010. In 2014, \$413,000 of proceeds from a new promissory note issued [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. In addition, the Company issued 798,000 share purchase warrants [see note 14] to these debtholders prior to repayment in consideration for relinquishing the convertible feature of the loans and extension of the maturity date to the date of repayment on April 30, 2014.

These loans were further 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.

[b] Term loan payable consists of the following:

	December 31, 2015 \$	December 31, 2014 \$
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	2,225,048	2,063,696
Less current portion	<u>2,225,048</u>	41,381
	<u>—</u>	<u>2,022,315</u>

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. 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 intended to make interest-only payments on the loan in the amount of \$13,334 per month, representing \$6,667 in respect of interest accrued during the period from April 1, 2013 to April 30, 2015 and \$6,667 in respect of regular interest payable.

Monthly interest payments of \$13,334 have not commenced in May 2015 as specified. The Company has been in negotiations with the NOHFC to amend the terms of the loan, including deferring these interest payments. Interest

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totaling \$225,048 is accrued at December 31, 2015. The loan, along with accrued interest, is presented as current in the consolidated statement of financial position at December 31, 2015 as it is in default.

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 notes payable consists of the following:

	December 31, 2015 \$	December 31, 2014 \$
Promissory note payable, with interest at 8% per annum, repayable on June 17, 2017 [i]	562,165	513,587
Promissory note payable, with interest at 8% per annum, repayable on demand [ii]	520,820	—
	1,082,985	513,587
Less current portion	520,820	—
	562,165	513,587

[i] 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.

[ii] On June 10, 2015, 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 at maturity.

Subsequent to year end, the Company entered into a credit arrangement with the lender. The credit arrangement provides new terms of the loan, which is convertible, maturing on June 10, 2018, with interest accruing on the principal balance at a rate of 8% per annum. The loan is convertible into common shares of the Company at a conversion price of \$0.10 per common share, provided that the lender together with its affiliates will, after conversion, hold less than 20% of the Company's issued and outstanding shares [see note 21[d]].

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[d] Mortgages payable consist of the following:

	December 31, 2015	December 31, 2014
	\$	\$
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2020	84,276	99,456
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
	819,276	834,456
Less current portion	16,122	15,198
	803,154	819,258

Interest payable in the amount of \$31,800 to certain holders of the second mortgage has been accrued and included in accounts payable and accrued liabilities at December 31, 2015. In consideration for deferring these interest payments, the holders will receive, subject to approval from the TSX Venture exchange ["TSXV"], 95,400 share purchase warrants at an exercise price of \$0.10 per share [see notes 14 and 21[g]].

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 \$84,276 of Community Development Corporation of Sault Ste. Marie.

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

	\$
2016	16,122
2017	752,130
2018	18,187
2019	19,308
2020 and thereafter	13,529
	819,276

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14. Share capital and reserves

Authorized

Unlimited common shares

Issued and outstanding

	Number of shares #	Amount \$
Balance, December 31, 2013	115,776,463	43,668,244
Private placements ^[1]	19,641,665	2,157,000
Warrants issued ^[1]	—	(233,872)
Balance, December 31, 2014	135,418,128	45,591,372
Private placements ^[2]	2,850,000	285,000
Warrants issued ^[2]	—	(24,870)
Balance, December 31, 2015	138,268,128	45,851,502

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

^[1] On January 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.

^[2] On March 11, 2015, the Company closed 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 in the private placement were subject to a hold period that expired on July 11, 2015.

^[3] The Company received \$40,000 during the year pursuant to a share subscription arrangement whereby the Company will issue common shares at a price to be determined at a future private placement.

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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 TSXV, 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 30, 2016.

The following options to purchase shares were outstanding on December 31, 2015 and 2014:

	2015		2014	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	10,415,000	0.15	6,835,000	0.22
Expired	(700,000)	(0.29)	(1,000,000)	(0.26)
Forfeited	(760,000)	(0.10)	(3,580,000)	(0.15)
Cancellations	(525,000)	(0.37)	—	—
Granted	4,635,000	0.10	8,160,000	0.10
Balance, end of year	13,065,000	0.12	10,415,000	0.15

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A summary of stock options outstanding and exercisable as at December 31, 2015 is set out below:

Range of exercise prices \$	Outstanding and exercisable stock options		
	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
0.10 and less	11,115,000	4.02	0.10
0.11 to 0.20	1,285,000	2.62	0.17
0.21 to 0.30	665,000	1.60	0.26
	13,065,000	3.76	0.11

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% [2014 – 0%]; expected volatility of 153% to 169% [2014 – 131% to 144%]; risk-free interest rates of 0.64% to 1.13% [2014 – 1.36% to 1.57%]; and an average expected life of five years. This resulted in stock-based compensation expense of \$210,637 [2014 – \$213,335]. The weighted average fair value of options granted during the year was \$0.05 [2014 – \$0.05].

Warrants

During the year ended December 31, 2014, the following transactions occurred:

- [i] 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 extended to January 31, 2016.
- [ii] On January 31, 2014, the Company issued 2,291,667 share purchase warrants. Each warrant entitled the holder to acquire an additional common share at \$0.21 per share and expires on January 31, 2016.
- [iii] On March 10, 2014, the Company issued 798,000 share purchase warrants to holders of previously issued convertible loans. Each warrant entitled the holder to acquire an additional common share at \$0.20 per share and expired 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.
- [iv] 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 13[c]]. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.20 per share and expires on April 30, 2017.

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- [v] 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.

During the year ended December 31, 2015, the following transactions occurred:

- [i] On March 11, 2015, the Company issued 427,500 share purchase warrants. Each warrant entitles the holder to acquire an additional common share at \$0.10 per share and expires on March 31, 2017.
- [ii] On March 14 2015, 2,212,500 share purchase warrants that entitled the holder to acquire an additional common share at \$0.35 per share expired. The value of these warrants of \$189,106 was transferred from warrants to contributed surplus.
- [iii] On April 30, 2015, 798,000 share purchase warrants that entitled the holder to acquire an additional common share at \$0.20 per share expired. The value of these warrants of \$63,820 was transferred from warrants to contributed surplus.
- [iv] On August 9, 2015, 1,800,000 share purchase warrants that entitled the holder to acquire an additional common share at \$0.175 per share expired. The value of these warrants of \$66,788 was transferred from warrants to contributed surplus.
- [v] On October 17, 2015, 2,603,333 share purchase warrants that entitled the holder to acquire an additional common share at \$0.21 per share expired. The value of these warrants of \$324,921 was transferred from warrants to contributed surplus.
- [vi] On December 1, 2015, 84,000 share purchase warrants were issued to Directors of the Company. Each warrant entitles the holder to acquire an additional common share at \$0.20 per share and expires on April 30, 2017.
- [vii] Subject to approval from the TSXV, the Company will issue 95,400 share purchase warrants to certain holders of a second mortgage on a building owned by the Company in consideration for deferring their interest payments totaling \$31,800 to January 15, 2016 [see note 13[d]]. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.10 per share and expires on April 15, 2017 [see note 21[f]].

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

	Number of warrants #	Amount \$	Weighted average exercise price \$
Balance, December 31, 2013	9,615,833	893,426	0.33
Expired	(3,000,000)	(312,611)	(0.50)
Issued	6,218,833	314,163	0.21
Balance, December 31, 2014	12,834,666	894,978	0.26
Expired	(7,413,833)	(644,635)	(0.24)
Issued	511,500	24,870	0.12
Balance, December 31, 2015	5,932,333	275,213	0.20

A summary of warrants outstanding and exercisable as at December 31, 2015 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices \$	Number of warrants #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
0.10 and less	427,500	1.25	0.10
0.11 to 0.20	584,000	1.33	0.20
0.21 to 0.30	4,920,833	0.25	0.21
	5,932,333	0.43	0.20

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 185% to 199% [2014 – 156% to 157%]; risk-free interest rates of 0.58% to 0.60% [2014 – 1.05% to 1.10%] and an average expected life of two years. The weighted average fair value of warrants granted during the year was \$0.04 [2014 – \$0.05]

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Contributed surplus

	2015	2014
	\$	\$
Balance, beginning of year	4,501,298	3,975,352
Stock options granted and/or vested during the year		
Stock options issued	210,637	213,335
Warrants expired during the year	644,635	312,611
Balance, end of year	5,356,570	4,501,298

Per share amounts

For the year ended December 31, 2015, the weighted average number of shares outstanding was 137,721,553 [2014 – 124,862,421]. As at December 31, 2015, the Company had 13,065,000 [2014 – 10,415,000] stock options and 5,932,333 warrants [exercisable for 5,932,333 shares] [2014 – 12,834,666 warrants [exercisable for 12,834,666 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 2014 inclusive. The tax credits will be recorded in the period when reasonable assurance of their realization exists. The Company has recognized \$95,833 [2014 – \$111,516] 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 nil in 2015 [2014 – \$69,162] 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.

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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:

	2015 \$	2014 \$
Combined Canadian statutory rates	26.50%	26.50%
Recovery at combined statutory rates	(727,722)	(859,622)
Losses and other temporary differences not benefited	670,381	801,658
Stock-based compensation	55,819	56,534
Other	1,522	1,430
Income tax expense	—	—

The difference between the effective rate of 26.5% as at December 31, 2015 [2014 – 26.5%] and the actual rate of nil as at December 31, 2015 [2014 – 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.

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

	2015	2014
	\$	\$
Deferred tax assets		
SR&ED expenditures	123,553	200,728
Unused tax losses carryforwards	4,340,007	3,724,657
Investment tax credits	1,545,505	1,401,501
Temporary differences		
Provisions	67,575	57,179
Property and equipment	525,886	484,676
Intangible assets	89,730	—
Imputed interest on loans and notes	133,381	70,299
Total deferred tax assets	6,825,637	5,939,040
Deferred tax liabilities		
Temporary difference – intangible assets	—	(88,383)
Total deferred tax liabilities	—	(88,383)
Total deferred tax assets	6,825,637	5,850,657
Losses and other temporary differences not benefited	(6,825,637)	(5,850,657)
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.

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As at December 31, 2015, subject to confirmation from the income tax authorities, the Company has a total of \$16,473,219 of non-capital losses and \$1,545,505 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	3,018,340	90,811
2035	1,490,524	—
Total	<u>16,473,219</u>	<u>1,545,505</u>

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:

	2015	2014
	\$	\$
Loans payable	95,860	88,459
Mortgages payable	819,276	834,456
Term loan payable	2,225,048	2,063,696
Promissory note payable	1,082,985	513,587
	<u>4,223,169</u>	<u>3,500,198</u>

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.

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[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, loan 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, 2015	Less than 1 year \$	2 – 3 years \$	4 – 5 years \$	Greater than 5 years \$	Total \$
Accounts payable and accrued liabilities and provisions	1,114,633	—	—	—	1,114,633
Loans payable	—	106,532	—	—	106,532
Term loan payable	2,225,048	—	—	—	2,225,048
Mortgages payable	108,952	805,905	34,603	—	949,460
Promissory notes payable	520,820	634,121	—	—	1,154,941
Total	3,969,453	1,546,558	34,603	—	5,550,614

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[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:

	2015	2014
	\$	\$
Interest-bearing loans and borrowings	4,223,169	3,500,198
Trade payables and other and provisions	1,114,633	618,633
Less cash and cash equivalents	(16,059)	(207,854)
Net debt	5,321,743	3,910,977
Shareholders' deficiency	(3,805,094)	(1,554,611)
Total capital	1,516,649	2,356,366

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, 2015. 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:

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The Company recognized an expense during the year ended December 31, 2015 for interest on loans to the directors of \$61,964 [2014 – \$61,359] of which \$27,000 was paid [2014 – \$56,800] and \$34,964 was included in accounts payable and accrued liabilities as at December 31, 2015 [2014 – \$4,559].

As at December 31, 2015, the Company has \$72,267 [2014 – nil] included in accounts payable and accrued liabilities owing to directors in addition to the interest included in accounts payable and accrued liabilities.

Proceeds from the directors as part of private placements in 2015 amounted to \$25,000 [2014 – \$100,000]. The directors were issued 250,000 shares [2014 – 833,333] and 37,500 warrants [2014 – 416,667].

[c] Transactions with key management personnel

The Company recognized as an expense during the year ended December 31, 2015 for salaries and benefits of \$341,605 [2014 – \$481,037] and share-based payment transactions of \$78,888 [2014 – \$102,862] with respect to key management personnel.

As at December 31, 2015, the Company has \$134,121 [2014 – nil] included in accounts payable and accrued liabilities to key management personnel.

Proceeds from key management personnel as part of private placements in 2015 amounted to \$10,000 [2014 – \$35,000]. Key management personnel were issued 100,000 shares [2014 – 308,333] and 15,000 warrants [2014 – 104,166].

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:

	\$
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

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officers' liability insurance. No amount has been accrued in these consolidated financial statements with respect to any indemnifications.

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

During fiscal 2013, 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's salary of \$255,000 as the Company believes the likelihood of payout of this amount is probable.

During fiscal 2014, the Company announced that EWILP commenced a lawsuit seeking injunctive relief to prevent the Company from interfering with certain intellectual property rights that EWILP purports belong to it. In 2007, the Company sold certain intellectual property rights to EWILP, which were immediately licensed back to the Company. 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.

On June 16, 2015 and July 15, 2015, the Company received a letter from Canada Revenue Agency ["CRA"] proposing that they adjust the claims for SR&ED for the fiscal years ended December 31, 2010 and 2011 including Ontario Innovation Tax Credits received of \$57,726 and \$227,607 respectively. Management believes that the opinion of CRA is without merit and has submitted a rebuttal in writing to defend their position.

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

	2015 \$	2014 \$
Canada	2,453	4,261
United States	153,820	128,719
	<u>156,273</u>	<u>132,980</u>

Revenue from one customer amounted to \$153,820 [2014 – \$128,719].

Non-current assets

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

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21. Events after the reporting period

The following events took place subsequent to December 31, 2015:

- [a] On January 29, 2016, the Company closed a private placement for 1,923,077 shares with gross proceeds of \$250,000, less agent's fees of nil.
- [b] On January 31, 2016, 2,391,667 share purchase warrants that entitled the holder to acquire an additional common share at \$0.21 per share expired.
- [c] On March 14, 2016, a director of the Company was issued 200,000 stock options to purchase common shares of the Company at an exercise price of \$0.11 per share. These stock options will vest over three years and expire on March 14, 2021.
- [d] On March 30, 2016, the Company entered into a credit arrangement with the holder of a \$500,000 promissory note payable [see note 13[c]]. The credit arrangement provides new terms of the loan, which is a convertible loan maturing on June 10, 2018, with interest accruing on the principal balance at a rate of 8% per annum. The loan is convertible into common shares of the Company at a conversion price of \$0.10 per common share, provided that the lender together with its affiliates will, after conversion, hold less than 20% of the Company's issued and outstanding shares.
- [e] On April 4, 2016, subject to TSXV approval, the Company closed a private placement for 885,482 shares with gross proceeds of \$97,403, less agent's fees of nil.
- [f] On April 15, 2016, subject to approval from the TSXV, the Company has agreed to issue 63,600 share purchase warrants to certain holders of a second mortgage on a building owned by the Company in consideration for further deferring their interest payments totaling \$21,200 from January 15, 2016 to May 15, 2016 [see note 14]. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.10 per share and expires on April 15, 2017.
- [g] On April 20, 2016, subject to TSXV approval, the Company closed a private placement for 3,149,109 shares with gross proceeds of \$346,402, less agent's fees of nil. The gross proceeds of \$346,402 were comprised of proceeds from two parties in the amounts of \$20,000 and USD\$250,000, respectively.

