

Condensed Interim Consolidated Financial Statements

Environmental Waste International Inc.

For the three and six months ended June 30, 2016

(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim financial statements of Environmental Waste International Inc. ("EWI" or the "Company") for the three and six months ended June 30, 2016, have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company's external auditors or any other accounting firm.

INDEX

	<u>Page</u>
Responsibility for Financial Statements	3
 Interim Condensed Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Loss and Comprehensive Loss	5
Consolidated Statement of Changes in Shareholders' Equity (Deficiency)	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-22

Responsibility for unaudited interim consolidated financial statements

The accompanying unaudited interim condensed consolidated financial statements for Environmental Waste International Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. The most significant of these accounting principles have been set out in the December 31, 2015 audited financial statements.

Auditor involvement

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

Ajax, Ontario

August 25, 2016

Environmental Waste International Inc.

Incorporated under the laws of Ontario

Unaudited interim consolidated statements of financial position

[Canadian dollars]

As at

	June 30 2016	December 31 2015
	\$	\$
Assets		
Current		
Cash	53,829	16,059
Accounts receivable	33,139	45,404
Loan receivable <i>[note 4]</i>	19,513	20,760
Prepaid expenses and sundry	74,622	65,248
Total current assets	181,103	147,471
Property and equipment, net <i>[note 5]</i>	1,378,262	1,425,033
Intangible assets, net <i>[note 6]</i>	—	56,010
	1,559,365	1,628,514
Liabilities and shareholders' equity (deficiency)		
Current		
Accounts payable and accrued liabilities	924,076	859,633
Provisions <i>[note 7]</i>	255,000	255,000
Current portion of term loan payable <i>[note 8[b]]</i>	2,263,801	2,225,048
Current portion of promissory note payable <i>[note 8[c]]</i>	—	520,820
Current portion of mortgages payable <i>[note 8[e]]</i>	16,122	16,122
Subscriptions payable <i>[note 9]</i>	463,805	40,000
Deferred revenue	15,646	55,806
Total current liabilities	3,938,450	3,972,429
Loans payable <i>[note 8[a]]</i>	99,732	95,860
Promissory note payable <i>[note 8[c]]</i>	588,150	562,165
Convertible loan payable <i>[note 8[d]]</i>	541,862	—
Mortgages payable <i>[note 8[e]]</i>	795,368	803,154
Total liabilities	5,963,562	5,433,608
Commitments and contingencies <i>[note 11]</i>		
Shareholders' equity (deficiency)		
Capital stock <i>[note 9]</i>	46,101,502	45,851,502
Contributed surplus <i>[note 9]</i>	5,694,083	5,356,570
Warrants <i>[note 9]</i>	41,341	275,213
Deficit	(56,139,763)	(55,187,019)
Deficiency attributable to owners of the Parent	(4,302,837)	(3,703,734)
Non-controlling interests	(101,360)	(101,360)
Total shareholders' equity (deficiency)	(4,404,197)	(3,805,094)
	1,559,365	1,628,514

See accompanying notes

Approved by the Board:

"Emanuel Gerard"
Director

"Robert MacBean"
Director

Environmental Waste International Inc.

Unaudited interim consolidated statements of loss and comprehensive loss

[Canadian dollars]

Three and six months ended June 30

	3 months ended June 30 2016 \$	3 months ended June 30 2015 \$	6 months ended June 30 2016 \$	6 months ended June 30 2015 \$
Revenue				
Sales and other <i>[note 12]</i>	33,152	36,239	71,475	66,350
Expenses				
Operating, labour and manufacturing <i>[note 6]</i>	330,990	428,206	675,610	810,113
Stock-based compensation <i>[notes 9 and 10(c)]</i>	47,713	51,898	103,641	109,379
Amortization of property and equipment <i>[note 5]</i>	23,386	23,892	46,771	47,784
Amortization of intangible assets <i>[note 6]</i>	—	168,031	56,010	336,062
Finance expense – interest on loans payable	1,956	2,021	3,873	3,892
Finance expense – interest on term loan payable	19,897	24,642	38,753	49,047
Finance expense – interest on promissory notes and convertible loan payable	23,765	12,004	47,027	23,740
Finance expense – interest on mortgages payable	23,241	23,478	46,604	42,583
Foreign exchange loss	5,530	4,190	5,930	203
	<u>476,478</u>	<u>738,362</u>	<u>1,024,219</u>	<u>1,422,803</u>
Net loss and comprehensive loss for the period	(443,326)	(702,123)	(952,744)	(1,356,453)
Net loss and comprehensive loss attributable to:				
Shareholders	(443,326)	(702,123)	(952,744)	(1,356,453)
Non-controlling interests	—	—	—	—
	<u>(443,326)</u>	<u>(702,123)</u>	<u>(952,744)</u>	<u>(1,356,453)</u>
Loss per share – basic and diluted <i>[note 9]</i>	(0.003)	(0.005)	(0.007)	(0.010)
Weighted average number of shares outstanding – basic and diluted <i>[note 9]</i>	140,191,205	138,268,128	139,902,743	137,146,817

See accompanying notes

Environmental Waste International Inc.

Unaudited interim consolidated statements of changes in shareholders' equity (deficiency)

[Canadian dollars]

	Capital stock	Contributed surplus	Warrants	Deficit	Total attributable to owners of the parent	Non- controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	45,851,502	5,356,570	275,213	(55,187,019)	(3,703,734)	(101,360)	(3,805,094)
Private placement <i>[note 9]</i>	250,000	—	—	—	250,000	—	250,000
Options issued <i>[note 9]</i>	—	103,641	—	—	103,641	—	103,641
Warrants expired <i>[note 9]</i>	—	233,872	(233,872)	—	—	—	—
Net loss and comprehensive loss for the period	—	—	—	(952,744)	(952,744)	—	(952,744)
Balance, June 30, 2016	46,101,502	5,694,083	41,341	(56,139,763)	(4,302,837)	(101,360)	(4,404,197)
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 <i>[note 9]</i>	285,000	—	—	—	285,000	—	285,000
Options issued <i>[note 9]</i>	—	109,379	—	—	109,379	—	109,379
Warrants issued <i>[note 9]</i>	(20,500)	—	20,500	—	—	—	—
Warrants expired <i>[note 9]</i>	—	252,926	(252,926)	—	—	—	—
Net loss and comprehensive loss for the period	—	—	—	(1,356,453)	(1,356,453)	—	(1,356,453)
Balance, June 30, 2015	45,855,872	4,863,603	662,552	(53,797,352)	(2,415,325)	(101,360)	(2,516,685)

See accompanying notes

Environmental Waste International Inc.

Unaudited interim consolidated statements of cash flows

[Canadian dollars]

Six months ended June 30

	6 months ended June 30 2016 \$	6 months ended June 30 2015 \$
Operating activities		
Net loss for the period	(952,744)	(1,356,453)
Add items not involving cash		
Amortization of property and equipment	46,771	47,784
Amortization of intangible assets	56,010	336,062
Finance expense	89,653	76,365
Stock-based compensation	103,641	109,379
	(656,669)	(786,863)
Changes in non-cash working capital balances related to operations		
Accounts receivable	12,265	11,837
Loan receivable	1,247	(1,309)
Prepaid expenses and sundry	(9,374)	35,284
Deferred revenue	(40,160)	(33,182)
Accounts payable and accrued liabilities	64,442	151,793
Subscriptions payable	423,805	20,000
Cash used in operating activities	(204,444)	(602,440)
Investing activities		
Purchase of property and equipment	—	(73,721)
Cash used in investing activities	—	(73,721)
Financing activities		
Proceeds from issuance of units on private placement	250,000	285,000
Issuance of promissory notes payable	—	500,000
Repayments of mortgages payable	(7,786)	(7,487)
Cash provided by financing activities	242,214	777,513
Net increase in cash during the period	37,770	101,352
Cash, beginning of period	16,059	207,854
Cash, end of period	53,829	309,206

See accompanying notes

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

1. Nature of Operations and Going Concern

Environmental Waste International Inc. ["EWI" or the "Company"] is incorporated under the *Ontario Business Corporations Act*. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization process and dealing with environmental waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world. The Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

The Company's success depends on the commercialization of its Reverse Polymerization technology. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is at an early stage and the Company has not achieved a level of profitability and positive cash flows. The Company needs to obtain additional financing to enable it to continue operations. In the absence of additional financing, the Company is not expected to have sufficient funds to meet its obligations. Management continues to monitor cash needs and is considering various alternatives to raise additional financing. There can be no assurances that the Company will be able to secure the necessary financing to enable it to continue as a going concern. The factors noted above indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

2. Basis of Preparation

Statement of compliance

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

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved the interim condensed consolidated financial statements on August 25, 2016.

Basis of Measurement

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

Functional and presentation currency

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

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

3. Significant accounting policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2015 and have been applied consistently to all periods presented in these unaudited interim consolidated financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2015.

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and the following subsidiaries: Environmental Waste Management Corporation [100% equity interest], Jaguar Carbon Sales Limited [100% equity interest], Ellsin [100-% equity interest], EWI Rubber Inc. [100% equity interest], 2228641 Ontario Limited [100% equity interest] and EWILP [Company is primary beneficiary]. Environmental Waste International Inc. is the parent company.

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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

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.

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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

4. Loan receivable

Loan receivable consists of the following:

	June 30 2016 \$	December 2015 \$
Loan receivable, with interest at 12% per annum, was repayable on October 11, 2013	<u>19,513</u>	<u>20,760</u>

5. Property and equipment

Property and equipment consist of the following:

	Land \$	Building \$	Fixtures \$	Computer equipment \$	Office equipment \$	Equipment – gas engine \$	Total \$
Cost							
As at December 31, 2015	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at June 30, 2016	<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, 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	—	180,075	23,685	32,208	19,592	238,182	493,742
Amortization charge	—	16,098	2,369	678	3,654	23,972	46,771
As at June 30, 2016	—	<u>196,173</u>	<u>26,054</u>	<u>32,886</u>	<u>23,246</u>	<u>262,154</u>	<u>540,513</u>
Net book value							
As at June 30, 2016	<u>68,261</u>	<u>788,821</u>	<u>45,006</u>	<u>3,839</u>	<u>15,320</u>	<u>457,015</u>	<u>1,378,262</u>
As at December 31, 2015	68,261	804,919	47,375	4,517	18,974	480,987	1,425,033

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

6. Intangible assets

Intangible assets consist of the following:

	Technology rights \$	Acquired in- process development \$	Marketing rights \$	Total \$
Cost				
As at December 31, 2015	500,000	2,750,000	610,610	3,860,610
As at June 30, 2016	500,000	2,750,000	610,610	3,860,610
Accumulated amortization				
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
Amortization charge	—	45,833	10,177	56,010
As at June 30, 2016	500,000	2,750,000	610,610	3,860,610
Net book value				
As at June 30, 2016	—	—	—	—
As at December 31, 2015	—	45,833	10,177	56,010

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. During the six months ended June 30, 2016 a total of \$ 23,752 [2015 – \$46,750] was recognized in operating, labour and manufacturing expenses related to development costs.

7. Provisions

	June 30 2016 \$	December 31, 2015 \$
Balance, beginning of period	255,000	215,769
Accrued during the period	—	39,231
Balance, end of period	255,000	255,000

The provision balance consists of an accrual of one year's annual salary to former senior management of the Company. The Company was party to a claim made by former senior management whose employment was terminated on March 1, 2013, who is seeking four years severance pay in the amount of \$1,020,000 [see note 11[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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

8. Loans and borrowings

[a] Loans payable consist of the following:

	June 30, 2016 \$	December 31, 2015 \$
Fixed rate loans due to directors of the Company, with interest at 8% per annum, repayable on April 30, 2017	99,732	95,860

The loans represent remaining loans to current directors of \$84,000 plus interest accretion of \$15,732 [2015 – \$11,860.

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:

	June 30, 2016 \$	December 31, 2015 \$
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	2,263,801	2,225,048
Less current portion	2,263,801	2,225,048
	—	—

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 totaling \$263,801 is accrued at June 30, 2016. The loan, along with accrued interest, is presented as current in the consolidated statement of financial position at June 30, 2016 and 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

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

[c] Promissory note payable consists of the following:

	June 30, 2016 \$	December 31, 2015 \$
Promissory note payable, with interest at 8% per annum, repayable on June 17, 2017	588,150	562,165
Promissory note payable, with interest at 8% per annum, repayable on demand [note 8(d)]	-	520,820
	588,150	1,082,985
Less current portion	-	520,820
	588,150	562,165

During 2015, the Company received proceeds of \$500,000 from issuance of a promissory note with interest accruing at a rate of 8% per annum quarterly in arrears, calculated on outstanding principal and capitalized over the term of the loan. At December 31, 2015 this loan was payable on demand and reported as current.

[d] Convertible loan payable consists of the following:

	June 30, 2016 \$	December 31, 2015 \$
Convertible loan, with interest at 8% per annum, repayable on June 10, 2018	541,862	-
	541,862	-
Less current portion	-	-
	541,862	-

On March 30, 2016, the Company entered into a credit arrangement with the lender of the promissory note issued in 2015 [note 8(c)]. The credit arrangement provided 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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

[e] Mortgages payable consist of the following:

	June 30, 2016	December 31, 2015
	\$	\$
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2020	76,490	84,276
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
	811,490	819,276
Less current portion	16,122	16,122
	795,368	803,154

Interest payable in the amount of \$60,600 to certain holders of the second mortgage has been accrued and included in accounts payable and accrued liabilities at June 30, 2016 [December 31, 2015 - \$31,800]. 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, and 63,600 share purchase warrants at an exercise price of \$0.10 per share.

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 \$76,490 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	5,743
	811,490

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

9. Share capital and reserves

Authorized

Unlimited common shares

Issued and outstanding

	Number of shares #	Amount \$
Balance, December 31, 2014	135,418,128	45,591,372
Private placements ^[1]	2,850,000	285,000
Warrants issued ^[1]	—	(24,870)
Balance, December 31, 2015	138,268,128	45,851,502
Private placements ^[2]	1,923,077	250,000
Balance, June 30, 2016	140,191,205	46,101,502

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 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 EW1 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.

^[2] On January 29, 2016, the Company closed a private placement for 1,923,077 units with gross proceeds of \$250,000, less agent's fees of nil. Each unit consists of one common share at a price of \$0.13. All shares in the private placement are subject to a hold period that expired on May 29, 2016.

Subscriptions payable

During 2015 the Company received \$40,000 pursuant to a share subscription arrangement whereby the Company agreed to issue common shares at a price to be determined at a future private placement.

On April 4, 2016, the Company received proceeds of \$97,403 pursuant to a share subscription arrangement whereby the Company will issue 885,482 common shares at a price of \$0.11.

On April 20, 2016, the Company received proceeds of \$326,402 pursuant to a share subscription arrangement whereby the Company will issue 2,967,291 common shares at a price of \$0.11. At that date, the Company also agreed to issue 181,818 common shares pursuant to a share subscription agreement at a price of \$0.11 for \$20,000 proceeds included in the \$40,000 received in 2015.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

Share-based payment plans

The Board of Directors has established a stock option plan [the "Plan"] under which options to purchase shares are granted to directors, employees, officers and consultants of the Company. The number of options and exercise price thereof is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than the market price of the common shares on the day immediately preceding the date of grant of the options, on the stock exchange on which such shares are then traded.

Subject to the guidelines contained in the Plan, the Company has adopted a 10% rolling stock option plan 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. The shareholders confirmed and ratified the Plan at the Annual General and Special Meeting of the shareholders held on June 30, 2016.

The following options to purchase shares were outstanding on June 30, 2016 and December 31, 2015:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Balance, beginning of period	13,065,000	0.12	10,415,000	0.15
Expired	-	-	(700,000)	(0.29)
Forfeited	(5,000)	(0.25)	(760,000)	(0.10)
Cancellations	(250,000)	-	(525,000)	(0.37)
Granted	1,075,000	0.11	4,635,000	0.10
Balance, end of period	13,885,000	0.11	13,065,000	0.12

A summary of stock options outstanding and exercisable as at June 30, 2016 is set out below:

Range of exercise prices	Outstanding and exercisable stock options		
	Number of options	Weighted average remaining contractual life	Weighted average exercise price
\$	#	[years]	\$
0.10 and less	10,865,000	3.44	0.10
0.11 to 0.20	2,360,000	2.31	0.14
0.21 to 0.30	660,000	0.86	0.25
	13,885,000	3.31	0.11

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

During the six months ended June 30, 2016, the Company granted 1,075,000 stock options with an exercise price of \$0.11. These options vest over three years and have a five year term. 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% [2015 – 0%]; expected volatility of 169% [2015 – 149%]; risk-free interest rates of 0.70% [2015 – 0.76%]; and an average expected life of five years. This resulted in stock-based compensation expense for the six months ended June 30, 2016 of \$103,641 [2015 – \$109,379]. The weighted average fair value of options granted during the period was \$0.04 [2015 – \$0.05].

Warrants

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

- [i] 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] 7,413,833 share purchase warrants that entitled the holder to acquire an additional common share ranging between \$0.175 and \$0.35 per share expired. The total value of these warrants of \$644,635 was transferred from warrants to contributed surplus.
- [iii] 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.
- [iv] 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 8[e]]. 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.

During the six months ended June 30, 2016, the following transactions occurred:

- [i] 4,920,833 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 \$233,872 was transferred from warrants to contributed surplus.
- [ii] 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 the consideration for further deferring their interest payments totaling \$21,200 from January 15, 2016 to May 15, 2016 [see note 8e)]. 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.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

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

	Number of warrants #	Amount \$	Weighted average exercise price \$
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
Expired	(4,920,833)	(233,872)	(0.21)
Balance, June 30, 2016	1,011,500	41,341	0.16

A summary of warrants outstanding and exercisable as at June 30, 2016 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	0.32	0.04
0.11 to 0.20	584,000	0.48	0.12
	1,011,500	0.80	0.16

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 0.00% [2015 – 0%]; expected volatility of 158% [2015 – 189%]; risk-free interest rates of 0.53% [2015 – 0.46%]; and an average expected life of five years. The weighted average fair value of options granted during the year was \$0.05 [2015 – \$0.05].

Contributed surplus

	June 30, 2016 \$	June 30, 2015 \$
Balance, beginning of period	5,356,570	4,501,298
Stock options granted and/or vested during the year		
Stock options issued	103,641	109,379
Warrants expired during the period	233,872	252,926
Balance, end of period	5,694,083	4,863,603

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

Per share amounts

For the six months ended June 30, 2016, the weighted average number of shares outstanding was 139,902,743 [2015 – 137,146,817]. As at June 30, 2016, the Company had 13,885,000 [December 31, 2015 – 13,065,000] stock options and 1,011,500 warrants [exercisable for 1,011,500 shares] [December 31, 2015 – 5,932,333 warrants [exercisable for 5,932,333 shares]] that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

10. Related party disclosures

[a] Subsidiaries and ultimate parent

The unaudited condensed interim 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 six months ended June 30, 2016 the Company engaged in transactions in the normal course of operations with the following related parties. All of these transactions have been accounted for at the exchange amount agreed to by the transacting parties as follows:

The Company recognized an expense during the six months ended June 30, 2016 for interest on loans to the directors of \$31,210 [2015 – \$28,597] of which \$4,210 was paid [2015 – \$13,160] and \$27,000 was included in accounts payable and accrued liabilities as at June 30, 2016 [2015 – \$Nil]. At June 30, 2016 the Company has a total of \$54,000 interest accrued to Directors included in accounts payable and accrued liabilities [December 31, 2015 - \$34,964].

As at June 30, 2016, the Company has \$69,287 [December 31, 2015 – \$72,267] included in accounts payable and accrued liabilities owing to directors in addition to the interest on loans included in accounts payable and accrued liabilities.

Proceeds from the directors as part of private placements in the six months ended June 30, 2016 amounted to \$Nil [2015 – \$25,000]. The directors were issued no shares [2015 – 250,000] and no warrants [2015 – 37,500] during the period.

[c] Transactions with key management personnel

The Company recognized as an expense during the six months ended June 30, 2016 for salaries and benefits of \$150,392 [2015 – \$163,131] and share-based payment transactions of \$35,669 [2015 – \$39,757] with respect to key management personnel.

As at June 30, 2016, the Company has \$230,206 [December 31, 2015 – \$134,121] included in accounts payable and accrued liabilities to key management personnel.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

Proceeds from key management personnel as part of private placements in the six months ended June 30, 2016 amounted to \$Nil [2015 – \$10,000]. Key management personnel were issued no shares [2015 – 100,000] and no warrants [2015 – 15,000] during the period.

11. 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	42,812
2017	57,082

[b] Contingencies

Under its by-laws, the Company indemnifies its directors/officers, former directors/officers and individuals who have acted at the Company's request to be a director/officer of an entity in which the Company is a shareholder, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. Indemnification claims will be subject to any statutory or other legal limitation period. There are no indemnification claims known to the Company at this time. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in these interim condensed 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 This lawsuit has remained dormant for over a year. Management denies all allegations and believes that this claim is without merit and plans to defend this action.

Environmental Waste International Inc.

Notes to interim condensed consolidated financial statements

June 30, 2016 and 2015

During fiscal 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.

On June 20, 2016, the Company received a claim for unpaid accounts rendered for professional services relating to scientific research and development income tax work. \$25,000 was claimed as damages. Management is defending this claim as it believes that it is without merit and has not provided for this amount at this time.

12. 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 for the six months ended June 30, 2016 and 2015:

	June 30 2016 \$	June 30 2015 \$
Canada	-	-
United States	71,475	66,350
	71,475	66,350

Revenue from one customer amounted to \$71,475 [2015 – \$66,350].

Non-current assets

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