

Condensed Interim Consolidated financial statements

**Environmental Waste International Inc.**

For the three months ended March 31, 2017

## **Notice to Reader**

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The accompanying unaudited condensed interim financial statements of Environmental Waster International Inc. (“EWI” or the “Company”) for the three months ended March 31, 2017 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.

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

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The accompanying unaudited condensed interim financial statements of Environmental Waster 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, 2016 financial statements.

### **Auditor Involvement**

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

Ajax, Ontario

May 25, 2017

**Environmental Waste International Inc.**

Incorporated under the laws of Ontario

**Unaudited Interim Consolidated Statements of Financial Position**

[Canadian dollars]

As at

	March 31 2017 \$	December 31 2016 \$
<b>Assets</b>		
<b>Current</b>		
Cash <i>[note 4]</i>	9,579	45,697
Accounts receivable	21,873	17,075
Loan receivable <i>[note 5]</i>	19,965	20,141
Prepaid expenses and sundry	69,095	66,760
<b>Total current assets</b>	<b>120,512</b>	<b>149,673</b>
Property and equipment, net <i>[note 6]</i>	1,314,406	1,336,406
	<b>1,434,918</b>	<b>1,486,079</b>
<b>Liabilities and shareholders' equity (deficiency)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,351,550	1,125,245
Provisions <i>[note 8]</i>	255,000	255,000
Current portion of loans payable <i>[note 9[a]]</i>	105,836	103,761
Current portion of term loan payable <i>[note 9[b]]</i>	2,329,728	2,315,700
Current portion of promissory note payable <i>[note 9[c] and [d]]</i>	—	615,339
Current portion of mortgages payable <i>[note 9[e]]</i>	752,130	752,130
Deferred revenue	41,908	65,698
<b>Total current liabilities</b>	<b>4,836,152</b>	<b>5,232,873</b>
Loans payable <i>[note 9[a]]</i>	51,262	50,501
Convertible loan payable <i>[note 9[d]]</i>	—	486,938
Mortgages payable <i>[note 9[e]]</i>	46,824	51,174
<b>Total liabilities</b>	<b>4,934,238</b>	<b>5,821,486</b>
<b>Shareholders' deficiency</b>		
Capital stock <i>[note 10]</i>	47,383,856	46,101,502
Shares to be issued <i>[note 10]</i>	662,938	563,805
Contributed surplus <i>[note 10]</i>	5,825,752	5,761,336
Warrants <i>[note 10]</i>	4,370	41,341
Equity portion of convertible debt <i>[note 9[d]]</i>	—	126,083
Deficit	<b>(57,274,876)</b>	<b>(56,828,114)</b>
Deficiency attributable to owners of the Parent	<b>(3,397,960)</b>	<b>(4,234,047)</b>
Non-controlling interests	<b>(101,360)</b>	<b>(101,360)</b>
<b>Total shareholders' deficiency</b>	<b>(3,499,320)</b>	<b>(4,335,407)</b>
	<b>1,434,918</b>	<b>1,486,079</b>
Going concern <i>[note 1]</i>		
Commitments and contingencies <i>[note 12]</i>		
Subsequent events <i>[note 14]</i>		

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 months ended March 31	3 months ended March 31 2017 \$	3 months ended March 31 2016 \$
<b>Revenue</b>		
Sales and other	41,296	38,323
<b>Expenses</b>		
Operating, labour and manufacturing	343,804	344,620
Stock-based compensation [notes 10 and 11[c]]	27,445	55,928
Amortization of property and equipment [note 6]	22,000	23,385
Amortization of intangible assets [note 7]	—	56,010
Finance expense – interest on loans payable	2,836	1,917
Finance expense – interest on term loan payable	14,028	18,856
Finance expense – interest on promissory note payable	12,443	23,262
Finance expense – interest on convertible loan payable	10,386	—
Finance expense – interest on mortgages payable	23,038	23,363
Accretion expense - convertible loan payable	76,143	—
Gain on settlement of debt [note 8[d]]	(44,977)	—
Foreign exchange loss	912	400
	<u>488,058</u>	<u>547,741</u>
<b>Net loss and comprehensive loss for the period</b>	<u>(446,762)</u>	<u>(509,418)</u>
<b>Net loss and comprehensive loss attributable to:</b>		
Shareholders	(446,762)	(509,418)
Non-controlling interests	—	—
	<u>(446,762)</u>	<u>(509,418)</u>
<b>Loss per share – basic and diluted [note 10]</b>	<u>(0.003)</u>	<u>(0.004)</u>
<b>Weighted average number of shares outstanding – basic and diluted [note 10]</b>	<u>141,090,527</u>	<u>139,592,914</u>

See accompanying notes

Environmental Waste International Inc.

Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency

[Canadian dollars]

	Capital stock	Shares to be issued	Contributed surplus	Warrants	Equity portion of convertible debt	Deficit	Total attributable to owners of the parent	Non- controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	45,851,502	40,000	5,356,570	275,213	—	(55,187,019)	(3,663,734)	(101,360)	(3,765,094)
Private placement [note 10]	250,000	—	—	—	—	—	250,000	—	250,000
Options issued [note 10]	—	—	55,928	—	—	—	55,928	—	55,928
Warrants expired [note 10]	—	—	103,906	(103,906)	—	—	—	—	—
Net loss and comprehensive loss for the period	—	—	—	—	—	(509,418)	(509,418)	—	(509,418)
<b>Balance, March 31, 2016</b>	<b>46,101,502</b>	<b>40,000</b>	<b>5,516,404</b>	<b>171,307</b>	<b>—</b>	<b>(55,696,437)</b>	<b>(3,867,224)</b>	<b>(101,360)</b>	<b>(3,968,584)</b>
<b>Balance, December 31, 2016</b>	<b>46,101,502</b>	<b>563,805</b>	<b>5,761,336</b>	<b>41,341</b>	<b>126,083</b>	<b>(56,828,114)</b>	<b>(4,234,047)</b>	<b>(101,360)</b>	<b>(4,335,407)</b>
Options issued [note 10]	—	—	27,445	—	—	—	27,445	—	27,445
Warrants cancelled or expired [note 10]	—	—	36,971	(36,971)	—	—	—	—	—
Share subscriptions issued [note 10]	—	99,133	—	—	—	—	99,133	—	99,133
Conversion of debt [note 8(c),(d)]	1,282,354	—	—	—	(126,083)	—	1,156,271	—	1,156,271
Net loss and comprehensive loss for the period	—	—	—	—	—	(446,762)	(446,762)	—	(446,762)
<b>Balance, March 31, 2017</b>	<b>47,383,856</b>	<b>662,938</b>	<b>5,825,752</b>	<b>4,370</b>	<b>—</b>	<b>(57,274,876)</b>	<b>(3,397,960)</b>	<b>(101,360)</b>	<b>(3,499,320)</b>

See accompanying notes

**Environmental Waste International Inc.**

**Unaudited Interim Consolidated Statements of Cash Flows**

[Canadian dollars]

Three months ended March 31

	<b>3 months ended March 31 2017</b>	<b>3 months ended March 31 2016</b>
	\$	\$
<b>Operating activities</b>		
Net loss for the period	<b>(446,762)</b>	(509,418)
Add items not involving cash		
Amortization of property and equipment	<b>22,000</b>	23,385
Amortization of intangible assets	<b>—</b>	56,010
Finance expense	<b>39,693</b>	44,036
Accretion expense	<b>76,143</b>	—
Stock-based compensation	<b>27,445</b>	55,928
Gain on settlement on debt	<b>(44,977)</b>	—
	<b>(326,458)</b>	(330,059)
Changes in non-cash working capital balances related to operations		
Accounts receivable	<b>(4,798)</b>	24,749
Loan receivable	<b>176</b>	1,304
Prepaid expenses and sundry	<b>(2,335)</b>	(3,118)
Deferred revenue	<b>(23,790)</b>	(20,080)
Accounts payable and accrued liabilities	<b>226,304</b>	96,988
<b>Cash used in operating activities</b>	<b>(130,901)</b>	(230,216)
<b>Financing activities</b>		
Proceeds from issuance of units on private placement	<b>—</b>	250,000
Proceeds from issuance of share subscriptions	<b>99,133</b>	—
Repayments of mortgages payable	<b>(4,350)</b>	(3,790)
<b>Cash provided by financing activities</b>	<b>94,783</b>	246,210
<b>Net increase (decrease) in cash during the period</b>	<b>(36,118)</b>	15,994
Cash, beginning of period	<b>45,697</b>	16,059
<b>Cash, end of period</b>	<b>9,579</b>	32,053

See accompanying notes

## **Environmental Waste International Inc.**

### **Notes to interim condensed consolidated financial statements**

March 31, 2017 and 2016

#### **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 and statement of compliance**

##### **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 May 25, 2017.

##### **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

March 31, 2017 and 2016

#### 3. Summary of 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, 2016 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, 2016.

##### **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*.

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

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.

#### 4. Cash and cash equivalents

Cash consists of the following:

	<b>March 31</b>	December 31
	<b>2017</b>	2016
	\$	\$
Cash	<b>9,579</b>	45,697

#### 5. Loan receivable

Loan receivable consists of the following:

	<b>March 31</b>	December 31
	<b>2017</b>	2016
	\$	\$
Loan receivable	<b>19,965</b>	20,141

The loan receivable has an annual interest rate of 12%. The loan was not repaid on its original maturity date of October 11, 2013, and is currently due on demand.

#### 6. Property and equipment

Property and equipment consist of the following:

	Land	Building	Fixtures	Computer equipment	Office equipment	Equipment – gas engine	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
<b>As at December 31, 2016</b>	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
<b>As at March 31, 2017</b>	<b>68,261</b>	<b>984,994</b>	<b>71,060</b>	<b>36,725</b>	<b>38,566</b>	<b>719,169</b>	<b>1,918,775</b>
<b>Accumulated amortization</b>							
<b>As at December 31, 2015</b>	—	180,075	23,685	32,208	19,592	238,182	493,742
Amortization charge	—	32,197	4,737	1,355	2,393	47,945	88,627
<b>As at December 31, 2016</b>	—	<b>212,272</b>	<b>28,422</b>	<b>33,563</b>	<b>21,985</b>	<b>286,127</b>	<b>582,369</b>
Amortization charge	—	8,049	1,184	339	442	11,986	22,000
<b>As at March 31, 2017</b>	—	<b>220,321</b>	<b>29,606</b>	<b>33,902</b>	<b>22,427</b>	<b>298,113</b>	<b>604,369</b>
<b>Net book value</b>							
<b>As at March 31, 2017</b>	<b>68,261</b>	<b>764,673</b>	<b>41,454</b>	<b>2,823</b>	<b>16,139</b>	<b>421,056</b>	<b>1,314,406</b>
<b>As at December 31, 2016</b>	<b>68,261</b>	<b>772,722</b>	<b>42,638</b>	<b>3,162</b>	<b>16,581</b>	<b>433,042</b>	<b>1,336,406</b>

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

March 31, 2017 and 2016

**7. Intangible assets**

Intangible assets consist of the following:

	<b>Technology rights</b>	<b>Acquired in- process development</b>	<b>Marketing rights</b>	<b>Total</b>
	\$	\$	\$	\$
<b>As at December 31, 2016</b>	500,000	2,750,000	610,610	3,860,610
<b>As at March 31, 2017</b>	<b>500,000</b>	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
<b>Accumulated amortization</b>				
<b>As at December 31, 2015</b>	500,000	2,704,167	610,610	3,132,478
Amortization charge	—	45,833	10,177	56,010
<b>As at December 31, 2016</b>	500,000	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
Amortization charge	—	—	—	—
<b>As at March 31, 2017</b>	<b>500,000</b>	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
<b>Net book value</b>				
<b>As at March 31, 2017</b>	—	—	—	—
<b>As at December 31, 2016</b>	—	—	—	—

There is one research and development project: the TR900 tire recycling prototype. Intangible assets were fully amortized during 2016.

**8. Provisions**

	<b>March 31 2017</b>	<b>December 31 2016</b>
	\$	\$
Balance, beginning of period	<b>255,000</b>	255,000
Balance, end of period	<b>255,000</b>	255,000

The provision balance consists of an accrual of one year's annual salary to a former CEO of the Company. The former CEO issued a claim for severance after being terminated on March 1, 2013, in the amount of \$1,020,000. On March 14, 2017, the claim was settled for \$255,000 payable over 25 months in equal installments of \$10,200 per month commencing in April 2017.

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

#### 9. Loans and borrowings

[a] Loans payable consist of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Fixed rate loans due to directors of the Company, with interest at 8% per annum, payable on April 30, 2017 [i]	<b>105,836</b>	103,761
Convertible loan payable, with interest at 6% per annum, repayable on November 2, 2018 [ii]	<b>51,262</b>	50,501
	<b>157,098</b>	154,262
Less current portion	<b>105,836</b>	103,761-
	<b>51,262</b>	50,501

[i] The loans are from current directors with interest accruing at 8% per annum calculated quarterly.

[ii] The loan is convertible at \$0.10 per common share with interest accruing at 6% per annum.

Subsequent to the period ended March 31, 2017 all of these loans were converted into common shares of the Company. [note 14(b)]

[b] Term loan payable consists of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum, payable by March 23, 2020	<b>2,329,728</b>	2,315,700
Less current portion	<b>2,329,728</b>	2,315,700
	—	—

During the period May 1, 2015 to April 30, 2017, interest-only payments were due 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. This amount of interest totaling \$329,728 is accrued at March 31, 2017 [December 31, 2016 - \$315,700].

Subsequent to the period ended, on May 8, 2017, the Company repaid the NOHFC \$339,762 representing all of accrued interest due at that date. [note 14(c)].

The loan is secured by a general security agreement covering all of the assets other than real property of Ellsin Environmental Ltd., a subsidiary of the Company and an assignment of all risks and fire insurance on the subject properties.

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

[c] Promissory note payable consists of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Promissory note payable, with interest at 8% per annum, payable on June 17, 2017	—	615,339
Less current portion	—	—
	<u>—</u>	<u>615,339</u>

In 2014, the Company received proceeds of \$500,000 through the issuance of a promissory note.

On March 3, 2017, the terms of this loan were amended to permit the lender to convert the outstanding principal and accrued interest into common shares of the Company. On March 24, 2017 this loan and accrued interest in the total amount of \$627,781 was converted into common shares of the Company at \$0.10 per common share [note 10]

[d] Convertible loan payable consists of the following:

	<b>March 31 2017</b>	<b>December 31 2016</b>
	\$	\$
Face value of loan payable upon issuance	—	500,000
Less: discount	—	(126,083)
Book value of loan payable on June 10, 2018	—	373,917
Accrued interest payable at 8%	—	63,081
Accrued accretion expense	—	49,940
	<u>—</u>	<u>486,938</u>
Less current portion	—	—
	<u>—</u>	<u>486,938</u>

In 2015, the Company received proceeds of \$500,000 through the issuance of a convertible loan.

The fair value of the promissory note was deemed to be \$373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%. Accretion expense for the three months ended March 31, 2017 was \$76,143 representing the interest that was fully accreted up to the full discount of \$126,083.

On March 24, 2017 this loan and accrued interest in the total amount of \$528,490 was converted into common shares of the Company at \$0.10 per common share. The Company recorded gain on settlement of debt in the amount of \$44,977, representing the difference between the fair value of the loan payable at the conversion date at the amount of \$528,490 that was converted into common shares. The discount of \$126,083 was transferred from equity portion of convertible debt to share capital.

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

March 31, 2017 and 2016

[e] Mortgages payable consist of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	<b>63,954</b>	68,304
Fixed-rate second mortgage, eight-year amortization period, with interest at 12% per annum, payable in full on April 15, 2017	<b>735,000</b>	735,000
	<b>798,954</b>	803,304
Less current portion	<b>752,130</b>	752,130
	<b>46,824</b>	51,174

Subsequent to the period ended March 31, 2017, the second mortgage of \$735,000 and deferred interest amounting to \$120,300 at April 12, 2017 were repaid for a total payment of \$855,300. [note 14(a)]

As at March 31, 2017, interest payable in the amount of \$116,625 [December 31, 2016 - \$94,575] to certain holders of the second mortgage was included in accounts payable and accrued liabilities.

The security for the above mortgages is as follows:

[i] First mortgage

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

[ii] Second mortgage

Second charge on the property, subordinate to the first charge of \$63,954 in favour of Community Development Corporation of Sault Ste. Marie.

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

	\$
2017	752,130
2018	18,187
2019	19,308
2020	9,329
	<b>798,954</b>

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

March 31, 2017 and 2016

**10. Share capital and reserves**

**Authorized**

Unlimited common shares

**Issued and outstanding**

	<b>Number of shares #</b>	<b>Amount \$</b>
<b>Balance, December 31, 2015</b>	138,268,128	45,851,502
Private placements <sup>[1]</sup>	1,923,077	250,000
<b>Balance, December 31, 2015</b>	<b>140,191,205</b>	<b>46,101,502</b>
Conversion of promissory note payable <sup>[2]</sup>	6,277,810	627,781
Conversion of loan payable <sup>[2]</sup>	5,284,900	528,490
Transfer of residual value of converted loan payable <sup>[2]</sup>	—	126,083
<b>Balance, March 31, 2017</b>	<b>151,753,915</b>	<b>47,383,856</b>

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

<sup>[1]</sup> On January 29, 2016, the Company closed a private placement for 1,923,077 common shares with gross proceeds of \$250,000, less agent's fees of nil.

<sup>[2]</sup> On March 24, 2017, the holder of both the promissory note payable and convertible loan payable *[note 9(c) and (d)]* exercised their right for conversion and elected to convert their debt and accrued and unpaid interest into 6,277,810 and 5,284,900 common shares of the Company respectively at \$0.10 per common share for a total value of \$1,156,271. The residual value of the converted loan payable of \$126,083 was transferred from equity component of convertible debt to share capital.

**Shares to be issued**

	<b>Number of shares #</b>	<b>Amount \$</b>
<b>Balance, December 31, 2015</b>	<b>381,818</b>	<b>40,000</b>
Share subscriptions <sup>[1]</sup>	4,761,863	523,805
<b>Balance, December 31, 2016</b>	<b>5,143,681</b>	<b>563,805</b>
Share subscriptions <sup>[2]</sup>	991,330	99,133
<b>Balance, March 31, 2017</b>	<b>6,135,011</b>	<b>662,938</b>

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

- [1] During 2016, the Company received proceeds of \$543,805 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at a price of \$0.11 per share. Subject to TSXV approval, The Company agreed to issue 160,000 share purchase warrants at \$0.10 to one of the holders of the subscription agreements, until November 12, 2017.
- [2] During the three months ended March 31, 2017, the Company received proceeds of \$99,133 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at \$0.10 per share.

Subsequent to the period ended March 31, 2017, all the shares pursuant to subscription agreements totaling 6,135,011 were issued. [note 14(b)]

#### 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.

The following options to purchase shares were outstanding on March 31, 2017 and December 31, 2016:

	2016		2015	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
<b>Balance, beginning of year</b>	<b>13,785,000</b>	<b>0.12</b>	13,065,000	0.12
Expirations	(40,000)	(0.25)	-	-
Cancellations	-	-	(355,000)	(0.10)
Granted	-	-	1,075,000	0.11
<b>Balance, end of year</b>	<b>13,745,000</b>	<b>0.12</b>	13,785,000	0.12

## Environmental Waste International Inc.

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A summary of stock options outstanding and exercisable as at March 31, 2017 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	10,865,000	2.61	0.10
0.11 to 0.20	2,360,000	1.50	0.17
0.25	520,000	0.21	0.25
	<b>13,745,000</b>	<b>2.26</b>	<b>0.12</b>

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% [2016 – 0%]; expected volatility of 169% [2016 – 158%]; risk-free interest rates of 0.68% [2016 – 0.53%]; and an average expected life of five years. This resulted in stock-based compensation expense for the three months ended of \$27,445 [2016 – \$55,928]. The weighted average fair value of options granted during the period was \$0.07 [2015 – \$0.05].

#### Warrants

During the year ended December 31, 2016, the following transactions occurred:

- [i] 4,920,833 share purchase warrants that entitled the holder to acquire an additional common share at a \$0.21 per share expired. The value of these warrants of \$233,872 was transferred from warrants to contributed surplus.

During the three months ended March 31, 2017, the following transactions occurred:

- [ii] On March 3, 2017, pursuant to the conversion right granted to the lender of the promissory note payable [[note 8(b)], lender agreed to the cancellation of 500,000 common share purchase warrants that were issued at the time the loan was made. The value of these warrants of \$16,471 was transferred from warrants to contributed surplus.
- [iii] On March 31, 2017, 427,500 share purchase warrants that entitled the holder to acquire an additional common share at \$0.10 per share expired. The value of these warrants of \$20,500 was transferred from warrants to contributed surplus.

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

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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 \$
<b>Balance, December 31, 2015</b>	5,932,333	275,213	0.16
Expired	(4,920,833)	(233,872)	(0.21)
<b>Balance, December 31, 2016</b>	1,011,500	41,341	0.16
Cancelled	(500,000)	(16,471)	(0.20)
Expired	(427,500)	(20,500)	(0.10)
<b>Balance, March 31, 2017</b>	<b>84,000</b>	<b>4,370</b>	<b>0.20</b>

A summary of warrants outstanding and exercisable as at March 31, 2017 is set out below:

<b>Outstanding and exercisable warrants</b>			
Range of exercise prices \$	Number of warrants #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
<b>0.20</b>	<b>84,000</b>	<b>0.08</b>	<b>0.20</b>

The fair values of all warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 169% [2016 – 157%]; risk-free interest rates of 0.68% [2016 – 0.53%] and an average expected life of two years. The weighted average fair value of warrants granted during the year was \$0.07 [2016 – \$0.05].

Subsequent to the end of the period for the three months ended March 31, 2017, 84,000 common share warrants at a \$0.20 were cancelled with the repayment of the associated directors loans. [note 9(a)]

**Contributed surplus**

	March 31 2017 \$	December 31 2016 \$
<b>Balance, beginning of period</b>	<b>5,761,336</b>	5,356,570
Stock options granted and/or vested during the period		
Stock options issued	<b>27,445</b>	55,928
Warrants expired during the period	<b>36,971</b>	103,906
<b>Balance, end of period</b>	<b>5,825,752</b>	5,516,404

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

#### Equity component of convertible loan

	March 31 2017 \$	December 31 2016 \$
<b>Balance, beginning of period</b>	<b>126,083</b>	—
Residual value of debt allocated to equity	—	126,083
Transfer of residual value on conversion of loan	<b>(126,083)</b>	—
<b>Balance, end of period</b>	<b>—</b>	126,083

In 2015, the Company received proceeds of \$500,000 through the issuance of a promissory note. The note was convertible into common shares of the Company at \$0.10 per common share [note 13d].

The fair value of the promissory note was deemed to be \$373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%.

On March 24, 2017 the loan payable was converted into common shares of the Company and the residual value of \$126,083 was transferred from equity component of convertible loan to share capital.

#### Per share amounts

For the three months ended March 31, 2017, the weighted average number of shares outstanding was 141,090,527 [2016 – 139,592,914]. As at March 31, 2017, the Company had 13,745,000 [December 31, 2016 – 13,785,000] stock options and 84,000 warrants [exercisable for 84,000 shares] December 31, 2016 – 1,011,500 warrants [exercisable for 1,011,500 shares] that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

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

The Company recognized an expense during the three months ended March 31, 2017 for interest on loans to the directors of \$15,575 [2016 – \$15,583] of which \$Nil was paid [2016 – \$Nil] and \$69,750 [December 31,

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

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2016 - \$56,250] was included in accounts payable and accrued liabilities and \$2,075 [December 31,2016 - \$7,901] included in loans payable as at March 31, 2017.

As at March 31, 2017, the Company has \$97,135 [December 31, 2016 – \$71,001] included in accounts payable and accrued liabilities owing to directors in addition to the interest included in accounts payable and accrued liabilities.

[c] Transactions with key management personnel

The Company recorded compensation expense during the three months ended March 31, 2017 in the amount of \$84,605 [2016 – \$72,792] and share-based compensation in the amount of \$8,262 [2016 – \$18,414] to key management personnel.

Accounts payable at March 31, 2017 includes \$417,892 [December 31,2016 – \$331,597] related to compensation of key management personnel.

#### 12. Commitments and contingencies

[a] Commitments

The Company is committed under a long-term lease for its 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:

2017	\$ <u>57,082</u>
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[b] Contingencies

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

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

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

During fiscal 2013, the former CEO whose employment was terminated on March 1, 2013 commenced an action against the Company wherein he was seeking four years of severance pay in the amount of \$1,020,000. On March 14, 2017, the Company settled its claim with a former CEO and agreed to make payments totaling \$255,000 payable over 25 equal installments of \$10,200 per month commencing on April 15, 2017. In addition, the Company agreed to grant 750,000 stock options to the former CEO at an exercise price of \$0.10 with a term of five years. Subsequent to the end of the period ended March 31, 2017, the TSXV did not approve these options.

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 is defending this action.

On June 16, 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, including Ontario Innovation Tax Credits received of \$57,726. Management believes that the opinion of CRA is without merit and has submitted a rebuttal in writing to defend their position.

On April 20, 2017, subsequent to period end, the Company received a claim in the amount of \$43,148 for unpaid accounts due for professional services provided. This amount is included in accounts payable and accrued liabilities at March 31, 2017.

### 13. 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

	<b>March 31 2017</b>	<b>March 31 2016</b>
	\$	\$
Canada	-	-
United States	<b>41,296</b>	38,323
	<b>41,296</b>	38,323

Revenue from one customer amounted to \$41,296 [2016 – \$38,323].

### Non-current assets

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

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

March 31, 2017 and 2016

#### 14. Subsequent Events

The following events took place subsequent to March 31, 2017:

- [a] On April 12, 2017, the Company received proceeds of \$938,000 in the form of a promissory note. The note bears interest at 6% per annum and is repayable on July 11, 2017. The Company has the option to extend the maturity for an additional 90 days. \$855,300 of proceeds from the promissory note were used to repay the second mortgage of \$735,000 and deferred and accrued interest totaling \$120,300. *[note 9(e)]*
- [b] On May 1, 2017 the Company completed a financing totaling \$1,721,250. The Company issued 3,712,500 common shares at a price of \$0.10 per common share for proceeds of \$371,250, and a 5 year 5% unsecured convertible note payable for \$1,350,000. The note payable is convertible at a conversion price of \$0.11 per common share. Accrued interest is required to be paid annually and, for the first five years, may be payable in common shares of the Company. In addition, the Company will issue 3,712,500 common share purchase warrants that will entitle the holder to receive one common share at a price of \$0.11 for a period of five years.

\$135,000 of proceeds from this financing were used to repay a portion of the promissory note issued, while the remainder will be used for working capital purposes.

The Company converted \$157,701 of debt into common shares. Of this debt, \$107,201 were loans due to directors of the Company and were converted at \$0.10 per common share for a total of 1,072,010 common shares. 84,000 warrants pertaining to these loans were cancelled. \$50,500 of the debt representing a convertible loan payable was also converted at \$0.10 per common share for a total of 505,000 common shares. *[note 9(a)]*.

In addition, 6,135,011 common shares of the Company were issued to holders of subscription agreements *[note 10]*.

At May 25, 2017, the issued and outstanding number of shares of the Company amounted to 163,178,436.

- [c] On May 8, 2017, the Company repaid the NOHFC \$339,762 representing all unpaid deferred and accrued interest up to that date. *[note 9(b)]*