Condensed Interim Consolidated financial statements

Environmental Waste International Inc.

For the three months ended March 31, 2018

Notice to Reader

The accompanying unaudited condensed interim financial statements of Environmental Wa International Inc. ("EWI" or the "Company") for the three months ended March 31, 2018 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

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, 2017 audited financial statements.

Auditor Involvement

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

Ajax, Ontario

May 30, 2018

Environmental Waste International Inc.
Incorporated under the laws of Ontario

Interim condensed consolidated statements of financial position

[Expressed in Canadian dollars]

[Unaudited]

As at

	March 31 2018	December 31 2017
	$	$
Assets		
Current		
Cash	**45,657**	27,537
Accounts receivable	**45,474**	39,994
Prepaid expenses and sundry	**74,239**	74,726
Total current assets	**165,370**	142,257
Property and equipment, net *[note 5]*	**1,228,242**	1,249,557
	1,393,612	1,391,814
Liabilities and shareholders' equity (deficiency)		
Current		
Accounts payable and accrued liabilities	**711,924**	705,260
Provisions *[note 6]*	**132,600**	163,200
Current portion of term loan payable *[note 7[a]]*	**353,380**	271,367
Current portion of promissory note payable *[note 7[b]]*	**1,124,493**	938,427
Current portion of mortgages payable *[note 7[d]]*	**18,187**	18,187
Deferred revenue	**39,682**	62,136
Total current liabilities	**2,380,266**	2,158,577
Term loan payable *[note 7[a]]*	**1,719,953**	1,781,966
Convertible loan payable *[note 7[c]]*	**922,472**	882,917
Derivative liability *[note 7[c]]*	**834,841**	834,841
Mortgages payable *[note 7[d]]*	**28,538**	32,992
Total liabilities	**5,886,070**	5,691,293
Shareholders' deficiency		
Capital stock *[note 8]*	**48,658,125**	48,393,195
Shares to be issued *[note 8]*	**—**	114,000
Contributed surplus *[note 8]*	**5,918,988**	5,900,756
Deficit	**(58,968,211)**	(58,606,070)
Deficiency attributable to owners of the Parent	**(4,391,098)**	(4,198,119)
Non-controlling interests	**(101,360)**	(101,360)
Total shareholders' deficiency	**(4,492,458)**	(4,299,479)
	1,393,612	1,391,814

Going concern *[note 3]*
Commitments and contingencies *[note 10]*
Subsequent events *[note 12]*

See accompanying notes

Approved by the Board: ***"Emanuel Gerard"*** Director ***"Robert MacBean"*** Director

Environmental Waste International Inc.

Interim condensed consolidated statements of loss and comprehensive loss

[Expressed in Canadian dollars]

[Unaudited]

Three months ended March 31 2018 and 2017	**3 months ended March 31 2018**	3 months ended March 31 2017
	$	$
Revenue		
Sales	**61,663**	41,296
Expenses		
Operating, labour and manufacturing *[note 9]*	**306,577**	343,804
Stock-based compensation *[note 8]*	**18,232**	27,445
Depreciation of property and equipment *[note 5]*	**21,315**	22,000
Finance expense – interest on loans payable	**—**	2,836
Finance expense – interest on term loan payable *[note 7[a]]*	**20,000**	14,028
Finance expense – interest on promissory note payable *[note 7[b]]*	**14,066**	12,443
Finance expense – interest on convertible loan payable *[note 7[c]]*	**16,875**	10,386
Finance expense – interest on mortgages payable *[note 7[d]]*	**734**	23,038
Accretion expense - convertible loan payable *[note 7[d]]*	**22,680**	76,143
Gain on settlement of debt	**—**	(44,977)
Foreign exchange loss	**3,325**	912
	423,804	488,058
Net loss and comprehensive loss for the period	**(362,141)**	(446,762)
Net loss and comprehensive loss attributable to:		
Shareholders	**(362,141)**	(446,762)
Non-controlling interests	**—**	—
	(362,141)	(446,762)
Loss per share – basic and diluted *[note 8]*	**(0.002)**	(0.003)
Weighted average number of shares outstanding – basic and diluted *[note 8]*	**163,848,069**	141,090,527

See accompanying notes

Environmental Waste International Inc.

Interim condensed consolidated statements of changes in shareholders' deficiency

[Expressed in Canadian dollars]

[Unaudited]

Three months ended March 31, 2018 and 2017

	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, 2016	46,101,502	563,805	5,761,336	41,341	126,083	(56,828,114)	(4,234,047)	(101,360)	(4,335,407)
Options issued *[note 8]*	—	—	27,445	—	—	—	27,445	—	27,445
Warrants cancelled or expired *[note 8]*	—	—	36,971	(36,971)	—	—	—	—	—
Share subscriptions issued *[note 8]*	—	99,133	—	—	—	—	99,133	—	99,133
Conversion of debt *[note 7]*	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)
Balance, March 31, 2017	**47,383,856**	**662,938**	**5,825,752**	**4,370**	**—**	**(57,274,876)**	**(3,397,960)**	**(101,360)**	**(3,499,320)**
Balance, December 31, 2017	48,393,195	114,000	5,900,756	—	—	(58,606,070)	(4,198,119)	(101,360)	(4,299,479)
Options issued *[note 10]*	—	—	18,232	—	—	—	18,232	—	18,232
Share subscriptions issued *[note 10]*	—	(114,000)	—	—	—	—	(114,000)	—	(114,000)
Shares issued for share subscriptions	264,930	—	—	—	—	—	264,930	—	264,930
Net loss and comprehensive loss for the period	—	—	—	—	—	(362,141)	(362,141)	—	(362,141)
Balance, March 31, 2018	**48,658,125**	**—**	**5,918,988**	**—**	**—**	**(58,968,211)**	**(4,391,098)**	**(101,360)**	**(4,492,458)**

See accompanying notes

Environmental Waste International Inc.

Interim condensed consolidated statements of cash flows

[Expressed in Canadian dollars]

[Unaudited]

Three months ended March 31, 2018 and 2017

	3 months ended March 31 2018	3 months ended March 31 2017
	$	$
Operating activities		
Net loss for the period	**(362,141)**	(446,762)
Add items not involving cash		
Depreciation of property and equipment	**21,315**	22,000
Finance expense	**50,941**	39,693
Accretion expense	**22,680**	76,143
Stock-based compensation	**18,232**	27,445
Gain on settlement of debt	**—**	(44,977)
	(248,973)	(326,458)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(5,480)**	(4,622)
Prepaid expenses and sundry	**487**	(2,335)
Deferred revenue	**(22,454)**	(23,790)
Accounts payable and accrued liabilities	**6,664**	226,304
Provisions	**(30,600)**	—
Cash used in operating activities	**(300,356)**	(130,901)
Financing activities		
Proceeds from debt	**172,000**	—
Proceeds from issuance of share subscriptions	**150,930**	99,133
Repayments of mortgages payable	**(4,454)**	(4,350)
Cash provided by financing activities	**318,476**	94,783
Net increase (decrease) in cash during the period	**18,120**	(36,118)
Cash, beginning of period	**27,537**	45,697
Cash, end of period	**45,657**	9,579

See accompanying notes

-

Notes to interim condensed consolidated financial statements

March 31, 2018 and 2017

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 30, 2018.

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

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 $362,141 during the three months ended March 31, 2018 [2017 – $446,762] and, as at that date, had a working capital deficiency of $2,214,896 [2016 – $2,016,320] and a cumulative deficit of $58,968,211 [2017 – $56,606,070]. 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 yet 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.

4. 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, 2017 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, 2017.

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 not have a material effect on the classification and measurement of the Company's financial assets, and no impact on the classification and measurement of the Company's financial liabilities.

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.

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, 2016	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at December 31, 2017	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at March 31, 2018	**68,261**	**984,994**	**71,060**	**36,725**	**38,566**	**719,169**	**1,918,775**
Accumulated depreciation							
As at December 31, 2016	—	212,272	28,422	33,563	21,985	286,127	582,369
Depreciation charge	—	30,909	4,737	949	2,310	47,944	86,849
As at December 31, 2017	—	**243,181**	**33,159**	**34,512**	**24,295**	**334,071**	**669,218**
Depreciation charge	—	7,418	1,184	166	561	11,986	21,315
As at March 31, 2018	**—**	**250,599**	**34,343**	**34,678**	**24,856**	**346,057**	**690,533**
Net book value							
As at December 31, 2017	**68,261**	**741,813**	**37,901**	**2,213**	**14,271**	**385,098**	**1,249,557**
As at March 31, 2018	**68,261**	**734,395**	**36,717**	**2,047**	**13,710**	**373,112**	**1,228,242**

6. Provisions

	March 31 2018 $	**December 31 2017** $
Balance, beginning of period	**163,200**	255,000
Paid during the period	(30,600)	(91,800)
Balance, end of period	**132,600**	163,200

The provision balance consists of an accrual of one year's annual salary to a former CEO of the Company. In 2017 the claim was settled for $255,000 payable over 25 months in equal installments of $10,200 per month commencing April 2017.

7. Loans and borrowings

[a] Term loan payable consists of the following:

	March 31 2018 $	**December 31 2017** $
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	**2,073,333**	2,053,333
Less current portion	**353,380**	271,367
	1,719,953	1,781,966

On May 8, 2017, the Company repaid the NOHFC $339,762 representing all unpaid and accrued interest until that date. On May 18, 2017, the Company and the NOHFC signed a third amendment to the loan agreement to further defer the interest and principal payments to April 30, 2018. Interest will continue to accrue on the outstanding principal of the loan and accrued interest, compounded monthly. The amount of interest accrued at March 31, 2018 was $73,333 [December 31, 2017- $53,333].

Commencing June 1, 2018, monthly blended payments of principal and interest shall commence on the first day of each month until maturity.

The company is currently in discussions with the NOHFC regarding the terms of repayment for this loan.

In addition, the NOHFC agreed to waive $500,000 of their first security interest on the land and building owned by Ellsin Environmental Ltd, but has a first security interest in all of the assets of the Company pursuant to a General Security agreement registered under PPSA.

Total interest expense for the three months ended March 31, 2018 was $20,000 [2017 - $14,028].

7. Loans and borrowings - continued

[b] Promissory note payable consists of the following:

	March 31 2018 $	December 31 2017 $
Promissory note payable, with interest at 6% per annum, payable on June 30, 2018	**1,124,493**	938,427
Less current portion	**1,124,493**	938,427
Long term portion	—	—

In 2017, the Company received net proceeds of $903,000 in the form of a promissory note which bears interest at 6%. On March 6, 2018 the promissory note payable was increased by an additional $172,000 to $1,075,000 and the maturity date was deferred until June 30, 2018.

Accrued interest of $49,493 was included in the balance as at March 31, 2018. [December 31, 2017 - $35,427].

Subsequent to March 31, 2018, $254,325 was received increasing the principal of the note payable to $1,329,325. *[note 12].*

[c] Convertible loan payable consists of the following:

	March 31 2018 $	December 31 2017 $
Face value of convertible loan payable upon issuance	**1,350,000**	1,350,000
Less: conversion feature	**(423,433)**	(423,433)
Less: warrant liability	**(120,954)**	(120,954)
Less: debt issue costs	**(28,177)**	(28,177)
Carrying value of convertible loan on initial recognition	**777,436**	777,436
Accrued interest payable at 5%	**61,875**	45,000
Accretion expense	**83,161**	60,481
	922,472	882,917
Less current portion	—	—
	922,472	882,917

7. Loans and borrowings - continued

In 2017, the Company received proceeds of $1,350,000 through the issuance of a 5 year 5% unsecured convertible loan payable. The note payable is convertible at a price of $0.11 per common share. Accrued interest is required to be paid annually and, may be payable in cash or common shares of the Company at the Company's discretion. In addition, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years.

The conversion feature and the warrants have been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture and warrants. The fair value of the derivative liability upon issuance was $544,387 as valued using a Monte Carlo simulation with the following assumptions: risk free rate of return of 1%, expected share volatility of 152.9%, dividend yield of 0%, expected life of 5 years, the probability of a subsequent equity raise and expected issuance price. Debt issuance costs of $28,177 were reduced from the value of the loan at the time of issuance. The residual value of $777,436 was allocated to the convertible loan payable which has an effective interest rate of 19%.

Accretion expense for the three month period ended March 31, 2018 was $22,680 [2017 – Nil] and interest expense was $16,475 [2017 – Nil].

The derivative liability was re-valued at $834,841 at December 31, 2017, using a Monte Carlo simulation with the following assumptions: risk free rate of return of 1.86%, expected share volatility of 156.2%, dividend yield of 0%, expected life of 4.33 years, the probability of a subsequent equity raise and expected issuance price.

[d] Mortgages payable consist of the following:

	March 31 2018 $	**December 31 2017** $
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	**46,725**	51,179
Less current portion	**18,187**	18,187
	28,538	32,992

[i] First mortgage Security

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

	$
2018	18,187
2019	19,308
2020	9,230
	46,725

8. Share capital and reserves

Authorized - Unlimited common shares
Issued and outstanding

	Number of shares #	Amount $
Balance, December 31, 2016	**140,191,205**	**46,101,502**
Conversion of promissory note payable [1]	6,277,810	627,781
Conversion of convertible loan payable [1]	5,284,900	528,490
Transfer of residual value of converted loan payable [1]	—	126,083
Conversion of loans payable [2]	1,577,010	63,080
Issuance of shares pursuant to share subscriptions [2]	6,135,011	662,938
Issuance of warrants [2]	—	(2,842)
Private placements [2]	3,712,500	371,250
Share issuance costs	—	(85,087)
Balance, December 31, 2017	**163,178,436**	**48,393,195**
Issuance of shares pursuant to share subscriptions [3]	2,649,300	264,930
Balance, March 31, 2018	**165,827,736**	**48,658,125**

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 24, 2017, the holder of both a promissory note payable and a convertible loan payable 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.

In addition the Company recorded a gain on settlement of debt in the amount of $44,977 during the three months ended March 31, 2017, 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 based on the agreement terms.

[2] The Company converted $157,701 of loans into common shares. The fair value of the equity on the date of conversion of $63,080 was recorded as share capital. 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. $50,500 convertible loan payable was also converted at $0.10 per common share for a total of 505,000 common shares.

In 2017, 6,135,011 common shares pursuant to subscription agreements were issued.

In 2017, pursuant to a financing, the Company completed a private placement 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

The Company incurred share issuance costs of $85,087 relating the equity transactions during 2017.

8. Share capital and reserves – continued

[3] In the three months ended March 31, 2018, the Company completed a private placement and issued 2,649,300 common shares at a price of $0.10 per common share for gross proceeds of $264,930.

Shares to be issued	**Number of shares subscribed**	**Amount**
	#	$
Balance, December 31, 2016	**5,143,681**	**563,805**
Share subscriptions signed [1]	2,131,330	213,133
Common shares issued for shares subscriptions signed [1]	(6,135,011)	(662,938)
Balance, December 31, 2017	**1,140,000**	**114,000**
Share subscriptions signed [2]	1,509,300	150,930
Common shares issued for shares subscriptions signed [2]	(2,639,930)	(264,930)
Balance, March 31, 2018	—	—

[1] During 2017, the Company received proceeds for a total of $213,133 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at $0.10 per share. 6,135,011 common shares pursuant to subscription agreements were issued

.

In December 2017 the Company received additional proceeds of $114,000 pursuant to share subscription agreements whereby the company agreed to issue common shares at $0.10 per share.

[2] In January and February 2018, the Company received proceeds for a total of $150,930 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at $0.10 per share.

On March 8, 2018, 2,639,930 common shares pursuant to subscription agreements were issued.

.

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.

8. Share capital and reserves – continued

The following options to purchase shares were outstanding on March 31, 2018 and December 31, 2017:

	March 31, 2018		**December 31, 2017**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance, beginning of period	**14,625,000**	**0.11**	13,785,000	0.12
Expired	**-**	**-**	(560,000)	(0.25)
Granted	**-**	**-**	1,400,000	0.10
Balance, end of period	**14,625,000**	**0.11**	**14,625,000**	**0.11**

A summary of stock options outstanding and exercisable as at March 31, 2018 is set out below:

	Outstanding and exercisable stock options		
Range of exercise prices $	**Number of options** #	**Weighted average remaining contractual life** [years]	**Weighted average exercise price** $
0.10	**12,265,000**	**2.05**	**0.10**
0.11 to 0.20	**2,360,000**	**1.65**	**0.14**
	14,625,000	**1.99**	**0.11**

Effective June 27, 2017, the Company granted 1,400,000 stock options. These options have an exercise price of $0.10, annual vesting in three equal tranches over three years from grant date and expire on June 27, 2017 and June 27, 2022, respectively.

Stock-based compensation expense during the three months ended March 31, 2018 expense of $18,232 [2017 – $27,445].

8. Share capital and reserves – continued

Warrants

During fiscal 2017 the following transactions occurred:

[i] Pursuant to the financing that closed in 2017, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years. The value of these warrants has been accounted for as a derivative liability. *[note 7[c]]*. In addition, 160,000 common share purchase warrants valued at $2,842 were issued at $0.10.

[ii] 744,000 common share purchase warrants at an average price of $0.20 per share were cancelled.

[iii] 427,500 common share purchase warrants at a price of $0.10 per share expired.

A summary of the status of the Company's warrants at March 31, 2018 are as follows:

	Number of warrants	Amount	Weighted average exercise price
	#	$	$
Balance, December 31, 2016	1,011,500	41,341	0.16
Granted	3,872,500	2,842	0.11
Cancelled	(744,000)	(23,683)	(0.20)
Expired	(427,500)	(20,500)	(0.10)
Balance, December 31, 2017 and March 31, 2018	**3,712,500**	—	**0.11**

A summary of warrants outstanding and exercisable as at March 31, 2018 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.11	**3,712,500**	**4.17**	**0.11**

Contributed surplus

	March 31 2018	December 31 2017
	$	$
Balance, beginning of period	**5,900,756**	5,761,336
Stock options granted and/or vested during the period	**18,232**	95,237
Warrants expired or cancelled during the period	**-**	44,183
Balance, end of period	**5,918,988**	5,900,756

8. Share capital and reserves – continued

Per share amounts

For the three months ended March 31, 2018, the weighted average number of shares outstanding was 163,848,069 [2017 – 141,090,027]. As at March 31, 2018, the Company had 14,625,000 [December 31, 2017 – 14,625,000] stock options and 3,712,500 warrants [December 31, 2017 – 3,712,500 warrants] as well as convertible instruments that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

9. Related party disclosures

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

During the three months ended March 31, 2018, 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, 2018 for interest on loans to directors of $30,941 [2017 – $2,836]. At March 31, 2018, $49,493 was included in promissory note payable and $61,875 was included in convertible loan payable [December 31, 2017 - $35,427].

As at March 31, 2018, the Company has $51,215 [December 31, 2017 – $51,215] included in accounts payable and accrued liabilities owing to directors.

[b] Transactions with key management personnel

The Company recorded compensation expense during the three months ended March 31, 2018 in the amount of $74,556 [2017 – $84,605] and share-based compensation in the amount of $4,905 [2017 – $8,262] to key management personnel.

Accounts payable as at March 31, 2018, includes $364,805, [December 2017 – $339,042] related to compensation of key management personnel.

10. Commitments and contingencies

[a] Commitments

The Company is committed under a long-term lease for its premises, which expires on August 31, 2022.

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:

	$
2018	72,939
2019	72,939
2020	72,939
2021	72,939
2022	48,626
	340,382

[b] Contingencies

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

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

During 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. At the request of both parties, this claim was dismissed in court on September 28, 2017.

11. 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

	Three months ended March 31, 2018 $	Three months ended March 31, 2017 $
Canada	**5,100**	-
United States	**56,563**	41,296
	61,663	41,296

Revenue from one customer amounted to $56,563 [2017 – $41,296].

Non-current assets

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

12. Subsequent Events

On April 13, 2018 the promissory note payable held by the Company was increased by $94,500 and on May 22, 2018 by an additional $159,825, for a principal balance of $1,329,325.