Consolidated Financial Statements

# Environmental Waste International Inc.
December 31, 2011 and 2010

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
**Environmental Waste International Inc.**

We have audited the accompanying consolidated financial statements of **Environmental Waste International Inc.**, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Environmental Waste International Inc.** as at December 31, 2011 and 2010, and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2011 in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 3 to the financial statements which indicates that the Company incurred a net loss of $2,786,007 during the year ended December 31, 2011. This condition, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
April 30, 2012.

**Environmental Waste International Inc.**
Incorporated under the laws of Ontario

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| | $ | $ | $ |
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents *[note 8]* | **388,646** | 461,856 | 1,189,585 |
| Accounts receivable *[note 9]* | **13,272** | 1,695,822 | 318,505 |
| Prepaid expenses and sundry | **78,482** | 47,171 | 18,310 |
| **Total current assets** | **480,400** | 2,204,849 | 1,526,400 |
| Property and equipment *[note 10]* | **1,741,780** | 7,501 | 8,590 |
| Intangible assets *[note 11]* | **2,794,498** | 100,000 | 150,000 |
| Investment in associate *[note 12]* | **—** | — | 588,724 |
| | **5,016,678** | 2,312,350 | 2,273,714 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | **771,047** | 1,650,451 | 765,835 |
| Debt component of convertible loans *[note 13[a]]* | **481,851** | — | 489,047 |
| Deferred revenue | **41,902** | 895,755 | 522,324 |
| Current portion of mortgages payable *[note 13[c]]* | **22,749** | — | — |
| **Total current liabilities** | **1,317,549** | 2,546,206 | 1,777,206 |
| Loan payable *[note 13[b]]* | **1,902,558** | — | — |
| Mortgages payable *[note 13[c]]* | **852,202** | — | — |
| Debt component of convertible loans *[note 13[a]]* | **—** | 441,974 | — |
| **Total liabilities** | **4,072,309** | 2,988,180 | 1,777,206 |
| Commitments and contingencies *[note 19]* | | | |
| **Shareholders' equity (deficiency)** | | | |
| Capital stock *[note 14]* | **40,551,465** | 36,591,801 | 36,354,984 |
| Contributed surplus *[note 14]* | **2,851,515** | 2,605,897 | 2,161,631 |
| Warrants *[note 14]* | **700,000** | 413,514 | 413,514 |
| Equity component of convertible loans *[notes 13 and 14]* | **63,820** | 63,820 | 54,602 |
| Deficit | **(43,117,050)** | (40,331,043) | (39,048,843) |
| Equity attributable to owners of the Parent | **1,049,750** | (656,011) | (64,112) |
| Non-controlling interests | **(105,381)** | (19,819) | 560,620 |
| **Total shareholders' equity (deficiency)** | **944,369** | (675,830) | 496,508 |
| | **5,016,678** | 2,312,350 | 2,273,714 |

Events after the reporting period *[note 21]*

*See accompanying notes*

Approved by the Board:

"Stephen Simms"
Director

"William Bateman"
Director

**Environmental Waste International Inc.**

# CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Years ended December 31

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| **REVENUE** | | |
| Sales and other | **67,029** | 53,850 |
| Finance income | **191,243** | 13,605 |
| Management fees | **—** | 575,300 |
| Consulting fees | **297,595** | 2,426,569 |
| | **555,867** | 3,069,324 |
| **EXPENSES** | | |
| Operating, labour and manufacturing | **2,632,458** | 3,278,264 |
| Stock-based compensation *[note 14]* | **376,250** | 488,367 |
| Amortization of property and equipment *[note 10]* | **94,782** | 3,775 |
| Amortization of intangible assets *[note 11]* | **666,112** | 50,000 |
| Finance expense - interest on convertible loans | **89,619** | 93,537 |
| Finance expense - interest on mortgages payable | **98,474** | — |
| Finance expense - interest on loan payable | **69,627** | — |
| Government assistance *[note 15]* | **(64,795)** | (10,568) |
| Foreign exchange loss (gain) | **(4,142)** | 5,159 |
| | **3,958,385** | 3,908,534 |
| Loss before the undernoted | **(3,402,518)** | (839,210) |
| Other income (expense) | | |
| Gain on remeasurement of investment in associate *[note 7]* | **611,145** | — |
| Share of loss of investment in associate *[note 12]* | **—** | (588,724) |
| | **611,145** | (588,724) |
| Loss before non-controlling interests | **(2,791,373)** | (1,427,934) |
| Non-controlling interests | **5,366** | 145,734 |
| **Net loss and comprehensive loss for the year** | **(2,786,007)** | (1,282,200) |
| **Loss per share - basic and diluted** *[note 14]* | **(0.031)** | (0.016) |
| **Weighted average number of shares outstanding - basic** *[note 14]* | **89,404,091** | 78,443,809 |
| **Weighted average number of shares outstanding - diluted** *[note 14]* | **92,663,222** | 82,303,783 |

*See accompanying notes*

**Environmental Waste International Inc.**

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

Years ended December 31

| | Capital stock | Contributed surplus | Warrants | Equity portion of convertible loans | Deficit | Total attributable to owners of the parent | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance, January 1, 2010** | 36,354,984 | 2,161,631 | 413,514 | 54,602 | (39,048,843) | (64,112) | 560,620 | 496,508 |
| Options exercised *[note 14]* | 236,817 | (98,703) | — | — | — | 138,114 | — | 138,114 |
| Options issued *[note 14]* | — | 488,367 | — | | — | 488,367 | — | 488,367 |
| Equity component of convertible loans paid | — | 54,602 | — | (54,602) | — | — | — | — |
| Equity component of convertible loans issued | — | — | — | 63,820 | — | 63,820 | — | 63,820 |
| Management fee income from non-controlling interests | — | — | — | — | — | — | (575,300) | (575,300) |
| Proceeds from non-controlling interests | — | — | — | — | — | — | 140,595 | 140,595 |
| Net loss and comprehensive loss for the year | — | — | — | — | (1,282,200) | (1,282,200) | (145,734) | (1,427,934) |
| **Balance, December 31, 2010** | 36,591,801 | 2,605,897 | 413,514 | 63,820 | (40,331,043) | (656,011) | (19,819) | (675,830) |
| Private placement *[note 14]* | 1,006,798 | — | 700,000 | — | — | 1,706,798 | — | 1,706,798 |
| Shares issued on acquisition of Ellsin *[note 15]* | 1,018,575 | — | — | — | — | 1,018,575 | — | 1,018,575 |
| Warrants converted to common shares *[note 14]* | 1,716,514 | — | (413,514) | — | — | 1,303,000 | — | 1,303,000 |
| Options exercised *[note 14]* | 240,631 | (126,037) | — | — | — | 114,594 | — | 114,594 |
| Options issued *[note 14]* | — | 376,250 | — | — | — | 376,250 | — | 376,250 |
| Other | (22,854) | (4,595) | — | — | — | (27,449) | — | (27,449) |
| Finance income from non-controlling interests | — | — | — | — | — | — | (181,552) | (181,552) |
| Proceeds from non-controlling interests | — | — | — | — | — | — | 101,356 | 101,356 |
| Net loss and comprehensive loss for the year | — | — | — | — | (2,786,007) | (2,786,007) | (5,366) | (2,791,373) |
| **Balance, December 31, 2011** | **40,551,465** | **2,851,515** | **700,000** | **63,820** | **(43,117,050)** | **1,049,750** | **(105,381)** | **944,369** |

*See accompanying notes*

**Environmental Waste International Inc.**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | **(2,786,007)** | (1,282,200) |
| Add (deduct) items not involving cash | | |
| Amortization of property and equipment | **94,782** | 3,775 |
| Amortization of intangible assets | **666,112** | 50,000 |
| Finance expense | **257,720** | 93,537 |
| Stock-based compensation | **376,250** | 488,367 |
| Share of loss of investment in associate | — | 588,724 |
| Gain on remeasurement of equity investment in associate | **(611,145)** | — |
| Finance income from special purpose entity | **(181,552)** | — |
| Management fees from special purpose entity | — | (575,300) |
| Non-controlling interests | **(5,366)** | (145,734) |
| | **(2,189,206)** | (778,831) |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable [1] | **874,559** | (1,377,317) |
| Prepaid expenses and sundry [1] | **535,941** | (28,861) |
| Deferred revenue [1] | **(255,693)** | 373,431 |
| Accounts payable and accrued liabilities [1] | **(1,317,586)** | 884,616 |
| Interest paid | **(148,216)** | (58,790) |
| **Cash used in operating activities** | **(2,500,201)** | (985,752) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | **(808,050)** | (2,686) |
| Cash acquired on acquisition | **9,293** | — |
| **Cash used in investing activities** | **(798,757)** | (2,686) |
| **FINANCING ACTIVITIES** | | |
| Repayment of convertible loans | — | (515,000) |
| Proceeds from convertible loans | — | 497,000 |
| Proceeds from non-controlling interests | **101,356** | 140,595 |
| Proceeds from issuance of common stock on private placement | **1,706,798** | — |
| Proceeds from issuance of common stock on exercise of warrants | **1,303,000** | — |
| Proceeds from issuance of common stock on exercise of options | **114,594** | 138,114 |
| **Cash provided by financing activities** | **3,225,748** | 260,709 |
| **Net (decrease) in cash during the year** | **(73,210)** | (727,729) |
| Cash and cash equivalents, beginning of year | **461,856** | 1,189,585 |
| **Cash and cash equivalents, end of year** | **388,646** | 461,856 |
| **Supplemental cash flow information** | | |
| Interest paid | **148,216** | 58,790 |

[1] Changes in non-cash working capital balances as shown on the consolidated statement of financial position differ from the amounts shown above as a result of working capital acquired in the business combination during 2011 [see note 7].

[2] The business combination in 2011 was a significant non-cash investing activity. The Company issued $1,018,575 of shares as consideration for the investment, less $9,293 of cash acquired.

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

## 1. CORPORATE INFORMATION

Environmental Waste International Inc. ["EWI" or the "Company"] is incorporated under the Ontario Business Corporations Act. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization process and dealing with environmental waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world. The consolidated financial statements of EWI were authorized for issue in accordance with a resolution of the Board of Directors on April 30, 2012. The Company's registered office is located at 405 Fairall Street, Ajax, Ontario, L1S 1R8.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of EWI have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"] and IFRS 1, *First-Time Adoption* ["IFRS 1"].

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"]. These consolidated financial statements for the year ended December 31, 2011 are the first the Company has prepared in accordance with IFRS. Refer to note 22 for information on how the Company adopted IFRS.

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

## 3. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared on a basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company incurred a net loss of $2,786,007 during the year ended December 31, 2011 [2010 - $1,282,200] and, as of that date, has a working capital deficiency of $837,149 [2010 - $341,357] and a cumulative deficit of $43,117,050 [2010 - $40,331,043]. Recurring sources of revenue have not yet proven to be sufficient. The Company needs to obtain additional financing to enable it to continue operations. In the absence of additional financing, the Company may not have sufficient funds to meet its obligations. Management continues to monitor the cash needs and is considering various alternatives to raise additional financing [see note 21]. However, management is reasonably confident but can offer no guarantee that it will be able to secure the necessary financing to enable the Company 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 and the net loss for the year reported in its consolidated financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as at December 31, 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets. Acquisition costs incurred are expensed and included in operating, labour and manufacturing expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Company's cash-generating unit ["CGU"] that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## Investments in associates

Investments in associates are accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associates. Goodwill relating to the associates is included in the carrying amount of the investments and is neither amortized nor individually tested for impairment.

The consolidated statements of loss and comprehensive loss reflect the share of the results of operations of associates. Where there has been a change recognized directly in the equity of any associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and its associates are eliminated to the extent of the interests in the associates.

The share of income (loss) of associates is included in the consolidated statements of loss and comprehensive loss. This is the income (loss) attributable to equity holders of the associates and therefore represents profit after tax and non-controlling interests in the subsidiaries of the associates.

When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate.

The consolidated financial statements of associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in any associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of loss and comprehensive loss.

## Revenue recognition

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

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

**Rendering services**
Service revenues include maintenance contracts and extended warranty contracts. Revenues from services rendered are recognized when the stage of completion can be measured reliably.

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

## Financial instruments

**[a] Financial assets**

**Initial recognition and measurement**
Financial assets within the scope of IAS 39, *Financial Instruments – Recognition and Measurement* ["IAS 39"] are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as

derivatives designated in an effective hedge, as appropriate. The Company determines classification of its financial assets at initial recognition.

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

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

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

**Derecognition**
A financial asset is derecognized when:

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

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

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

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

**[b] Financial liabilities**

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

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

The Company's financial liabilities include accounts payable and accrued liabilities, debt component of convertible loans, mortgages payable and loan payable. All of the Company's financial liabilities are classified as loans and borrowings.

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

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

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

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

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

**[c] Offsetting of financial instruments**

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

## Cash and cash equivalents

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

## Property and equipment

Property and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment. Repairs and maintenance are charged against income as incurred.

Expenditures which extend the estimated life of an asset are capitalized.

Amortization is provided annually on property and equipment, other than land, at rates designed to charge the cost of the assets over their estimated useful lives, as follows:

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

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

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

## Intangible assets

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

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

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

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

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

## Research and development costs

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

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

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

## Impairment of non-financial assets

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

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

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

## Provisions

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

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

## Share-based payment transactions

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

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

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

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

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

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

## Share issue costs

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

## Leases

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

## Investment tax credits ["ITCs"] and government grants

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

## Foreign currency translation

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

## Taxes

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

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

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill [as long as it does not exceed goodwill], if it is incurred during the measurement period, or in income or loss.

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

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

**[a] Leases**

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

**[b] Identification of intangible assets acquired in a business combination**

On January 27, 2011, the Company acquired the remaining shares of Ellsin Environmental Ltd. ["Ellsin"] that the Company did not own. As part of identifying the net assets acquired, the Company determined that it had acquired intangible assets related to in-process development, relating to a tire recycling prototype under construction, and marketing rights. The identification of intangible assets acquired in a business combination is subject to considerable judgment when taking into account the facts and circumstances.

**[c] Consolidation of a special purpose entity**

During fiscal 2007, EWILP, a limited partnership, was formed to hold the Company's intellectual property, and to license certain intellectual property back to the Company by way of a license agreement. As EWILP was consolidated shortly after the transfer of intellectual property from the Company to EWILP the measurement of the intellectual property was at book value. The Company and EWILP also entered into a management services agreement where the Company was contracted to manage the remaining affairs of EWILP, including the intellectual property not licensed back to the Company through the license agreement. Amounts due from EWILP for management fees, interest and principal on notes are recorded on a cash basis as the Company does not have reasonable assurance as to the collectability. EWI has the right, but not the obligation, to re-acquire all assigned rights to the patents, proprietary software and system design portfolio through the purchase of all outstanding LP Units. This option can be exercised from January 10, 2010 through to December 1, 2014 by issuing up to $6,600,000 in EWI stock at its then fair market value, based on the 10-day average trading price, to be not less than $0.50 per share. Because the Company has the power to govern the financial and operating policies of EWILP by way of the management services agreement and because, in substance, the activities of EWILP are being conducted on behalf of the Company such that the Company primarily benefits from EWILP's operations, management concluded that the Company controls this entity and therefore has consolidated the entity in these consolidated financial statements.

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

**[a] Impairment of non-financial assets**

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

**[b] Income taxes**

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

**[c] Share-based payment transactions**

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

**[d] Fair value of intangible assets acquired in a business combination**

On January 27, 2011, the Company acquired the remaining shares of Ellsin. Management applied judgment in the valuation of the intangible assets acquired, including in-process development and marketing rights. Assumptions with respect to similar past transactions and the cost of development to date were considered in determining the values assigned to the intangible assets acquired in this transaction.\

**[e] Development costs**

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

## 6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

**IFRS 7, *Financial Instruments - Disclosures***
In October 2010, the IASB amended IFRS 7 to enhance the disclosure about transfers of financial assets. This amendment is designed to assist users in understanding the possible effects of any risks that remain in an entity after the asset has been transferred. In addition, if disproportionate amounts are transferred close to the year end, additional disclosures would be required. The effective date of the amendment is for annual periods beginning on or after July 1, 2011. The Company has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

**IFRS 9, *Financial Instrument - Classification and Measurement***
In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the IASB also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2015. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

In May 2011, the IASB issued the following standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is in the process of reviewing the standards below to determine the impact on the consolidated financial statements:

**IFRS 10, *Consolidated Financial Statements***
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC 12, *Consolidations - Special Purpose Entities* and replaces parts of IAS 27, *Consolidated and Separate Financial Statements*.

**IFRS 11, *Joint Arrangements***
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers* and IAS 31, *Joint Ventures*.

**IFRS 12, *Disclosures of Interests in Other Entities***
IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of and risks associated with an entity's interest in other entities. IFRS 12 replaces the previous disclosure requirements included in IAS 27, *Consolidated and Separate Financial Statements*, IAS 28, *Investment in Associates* and IAS 31, *Joint Ventures*.

**IFRS 13, *Fair Value Measurement***
IFRS 13 is a comprehensive standard for fair value measurements and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement.

**IAS 27,** ***Separate Financial Statements***
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 has been renamed IAS 27, *Separate Financial Statements* and is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not present separate financial statements.

**IAS 28,** ***Investments in Associates and Joint Ventures***
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28, *Investments in Associates and Joint Ventures* and describes the application of the equity method to investments in joint ventures in addition to associates.

In June 2011, the IASB amended the following standards which the Company is in the process of reviewing to determine the impact on the consolidated financial statements:

**IAS 1,** ***Presentation of Financial Statements***
The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income ["OCI"]. Items within OCI that may be reclassified to profit or loss will be separated from items that will not. The standard is effective for fiscal years beginning on or after July 1, 2012 with early adoption permitted. The amendment affects presentation only and has no impact on the Company's financial position or results of operations.

**IAS 19,** ***Employee Benefits***
The IASB made a number of amendments to IAS 19, none of which apply to the Company as the Company does not have any defined benefit pension plans.

In December 2011, the IASB amended both IAS 32, *Financial Instruments - Presentation* and IFRS 7, *Financial Instruments - Disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is January 1, 2015. Earlier adoption is permitted, but must be applied together with IFRS 9.

## 7. BUSINESS COMBINATION

On January 27, 2011, the Company announced that it had completed the acquisition of 62.5% of the voting shares of Ellsin, a private company based in Canada which is undertaking the construction of a tire recycling prototype in Sault Ste. Marie, Ontario. The Company has acquired Ellsin to ensure the continuation of the development of the prototype. The Company previously held a 37.5% interest in Ellsin. The acquisition date fair value of the equity interest in Ellsin held by the Company immediately before the acquisition was $611,145. A gain of $611,145 was recognized in the consolidated statements of loss and comprehensive loss as a result of remeasuring the Company's equity interest in Ellsin to fair value immediately before the acquisition. In consideration for the purchase, the Company issued 2,263,500 of its common shares for total proceeds of $1,018,575. Transaction costs of $6,910 were incurred and recorded as operating, labour and manufacturing expenses. The fair value of the identifiable assets and liabilities of Ellsin at the date of acquisition were as follows:

| | **Fair value recognized on acquisition** $ |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 9,293 |
| Accounts receivable | 279,606 |
| Prepaid expenses and sundry | 567,252 |
| Property and equipment *[note 10]* | 1,021,011 |
| Intangible assets *[note 11]* | 3,360,610 |
| | 5,237,772 |
| **Liabilities** | |
| Settlement of pre-existing relationship with acquiree | (598,160) |
| Accounts payable and accrued liabilities | 1,343,281 |
| Loan payable | 1,832,931 |
| Mortgages payable | 1,030,000 |
| | 3,608,052 |
| **Total identifiable net assets at fair value** | 1,629,720 |
| **Purchase consideration transferred** | 1,629,720 |

From the date of acquisition, Ellsin has contributed $1,754 of revenue and $147,685 to loss before income taxes of the Company. If the acquisition had taken place at the beginning of the year, revenue would have been $1,913 and loss from operations for the Company would have been $96,166.

The business combination in effect also settled a pre-existing relationship between the Company and Ellsin whereby the Company had previously recognized a deferred revenue liability with a balance of $598,160 at the acquisition date that was settled at in the acquisition.

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | **December 31, 2011** | **December 31, 2010** | **January 1, 2010** |
|---|---|---|---|
| | $ | $ | $ |
| Cash | **252,693** | 461,856 | 689,585 |
| Cash equivalents | **135,953** | — | 500,000 |
| | **388,646** | 461,856 | 1,189,585 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash equivalents are made for varying periods no greater than three months, depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

## 9. ACCOUNTS RECEIVABLE

As at December 31, 2011, accounts receivable are net of an allowance for credit losses of $24,647 [December 31, 2010 - nil; January 1, 2010 - nil].

## 10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | Land<br>$ | Building<br>$ | Fixtures<br>$ | Computer equipment<br>$ | Office equipment<br>$ | Equipment - gas engine<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At January 1, 2010** | — | — | — | 16,151 | 12,235 | — | 28,386 |
| Additions | — | — | — | 2,686 | — | — | 2,686 |
| **At December 31, 2010** | — | — | — | 18,837 | 12,235 | — | 31,072 |
| Additions | — | 29,152 | 71,060 | 3,105 | 1,000 | 703,733 | 808,050 |
| Acquisition of a subsidiary *[note 7]* | 68,261 | 952,750 | — | — | — | — | 1,021,011 |
| **At December 31, 2011** | **68,261** | **981,902** | **71,060** | **21,942** | **13,235** | **703,733** | **1,860,133** |
| **Accumulated amortization** | | | | | | | |
| **At January 1, 2010** | — | — | — | 12,951 | 6,845 | — | 19,796 |
| Amortization charge | — | — | — | 2,158 | 1,617 | — | 3,775 |
| **At December 31, 2010** | — | — | — | 15,109 | 8,462 | — | 23,571 |
| Amortization charge | — | 37,302 | 4,737 | 4,010 | 1,817 | 46,916 | 94,782 |
| **At December 31, 2011** | **—** | **37,302** | **4,737** | **19,119** | **10,279** | **46,916** | **118,353** |
| **Net book value** | | | | | | | |
| **At December 31, 2011** | **68,261** | **944,600** | **66,323** | **2,823** | **2,956** | **656,817** | **1,741,780** |
| **At December 31, 2010** | — | — | — | 3,728 | 3,773 | — | 7,501 |
| **At January 1, 2010** | — | — | — | 3,200 | 5,390 | — | 8,590 |

### 11. INTANGIBLE ASSETS

Intangible assets consist of the following:

| | Technology rights $ | Acquired in-process development $ | Marketing rights $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| **At January 1 and December 31, 2010** | 500,000 | — | — | 500,000 |
| Acquisition of a subsidiary *[note 7]* | — | 2,750,000 | 610,610 | 3,360,610 |
| **At December 31, 2011** | **500,000** | **2,750,000** | **610,610** | **3,860,610** |
| **Accumulated amortization** | | | | |
| **At January 1, 2010** | 350,000 | — | — | 350,000 |
| Amortization charge | 50,000 | — | — | 50,000 |
| **At December 31, 2010** | 400,000 | — | — | 400,000 |
| Amortization charge | 50,000 | 504,167 | 111,945 | 666,112 |
| **At December 31, 2011** | **450,000** | **504,167** | **111,945** | **1,066,112** |
| **Net book value** | | | | |
| **At December 31, 2011** | **50,000** | **2,245,833** | **498,665** | **2,794,498** |
| **At December 31, 2010** | 100,000 | — | — | 100,000 |
| **At January 1, 2010** | 150,000 | — | — | 150,000 |

There is one main research and development project: the TR900 tire recycling prototype. To date, management has determined that the related development costs that are not eligible for capitalization have been expensed and are recognized in operating, labour and manufacturing expenses. A total of $725,775 [2010 - nil] was recognized in operating, labour and manufacturing expenses related to development costs.

## 12. INVESTMENT IN ASSOCIATE

During fiscal 2009, the Company obtained a 37.5% interest in Ellsin, and determined that it had significant influence by considering such factors as representation on Ellsin's Board of Directors, and the ability to influence the activities of Ellsin. Until the acquisition of the remaining 62.5%, the Company has applied the equity method of accounting to its investment in Ellsin. Ellsin's fiscal year end is October 31. Prior to the Company's acquisition of the remaining shares of Ellsin *[note 7],* the share of the Company's losses in Ellsin exceeded the original amount invested. The excess of the share of the Company's losses over the original amount invested was not recognized since the Company did not have the legal obligation to fund Ellsin's ongoing losses. The unrecognized share of Ellsin's losses that were not recognized for the year ended December 31, 2011 was $11,152 [2010 - $273,923].

Summarized financial information regarding the Company's investment in Ellsin is as follows:

| | **December 31, 2011** | **December 31, 2010** | **January 1, 2010** |
|---|---|---|---|
| | $ | $ | $ |
| Total assets | — | 2,160,821 | 489,612 |
| Total liabilities | — | 4,966,316 | 42,007 |

| | **2011** | **2010** |
|---|---|---|
| | $ | $ |
| Total revenues | **289,812** | 30 |
| Profit and loss | **(117,916)** | (129,360) |

## 13. LOANS AND BORROWINGS

[a] Debt component of convertible loans consists of the following:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Fixed rate convertible loan due to a relative of the president of the Company, with interest at 10% per annum, repayable in full on April 9, 2012, convertible for common shares at the rate of $0.35 per share [see note 21] | **291,825** | 267,674 | — |
| Fixed rate convertible loan due to the directors of the Company, with interest at 10% per annum, repayable in full on April 9, 2012, convertible for common shares at the rate of $0.35 per share [see note 21] | **190,026** | 174,300 | — |
| Fixed rate convertible loan due to a relative of the president of the Company, with interest at 12% per annum, repayable in full on September 10, 2010, convertible for common shares at the rate of $0.25 per share | **—** | — | 284,881 |
| Fixed rate convertible loan due to the directors of the Company, with interest at 12% per annum, repaid in full on September 30, 2010, convertible for common shares at the rate of $0.25 per share | **—** | — | 94,961 |
| Fixed rate convertible loan due to the directors of the Company, with interest at 12% per annum, repaid in full on September 30, 2010, convertible for common shares at the rate of $0.13 per share | **—** | — | 109,205 |
| | **481,851** | 441,974 | 489,047 |
| Less current portion | **481,851** | — | 489,047 |
| | **—** | 441,974 | — |

During fiscal 2010, the Company borrowed a total amount of $497,000 from a relative of the president of the Company and from five directors of the Company by way of convertible loans. The Company bifurcated the equity component from the financial liability component. The value of the financial liability component was determined to be $433,180. As a result, an amount of $63,820 was added to shareholders' equity.

[b] Loan payable consists of the following:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation, with interest at 4% per annum compounded monthly, repayable by March 23, 2020 | **1,902,558** | — | — |
| | **1,902,558** | — | — |

Interest payments on the loan commence on the third anniversary date from the origination date of the loan. The loan is collateralized by a general security agreement covering all of the assets of Ellsin, except real property, and an assignment of all risks and fire insurance on the subject properties.

[c] Mortgages payable consist of the following:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Fixed rate first mortgage, two-year term, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable by August 1, 2020 | **139,951** | — | — |
| Fixed rate second mortgage, five-year term, eight-year amortization period, with interest at 12% per annum, repayable in full on April 15, 2015 | **735,000** | — | — |
| | **874,951** | — | — |
| Less current portion | **22,749** | — | — |
| | **852,202** | — | — |

The collateral for the above mortgages is as follows:

[a] First mortgage

[i] A promissory note in the amount of $150,000.
[ii] A fixed and floating charge on the business assets of Ellsin by way of a General Security Agreement subordinate to the Northern Ontario Heritage Fund Corporation, covering all assets other than real property.

[b] Second mortgage

Second charge on the property, subordinate to the first charge of $150,000 of Community Development Corporation of Sault Ste. Marie.

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

| | $ |
|---|---|
| 2012 | 22,749 |
| 2013 | 13,484 |
| 2014 | 14,315 |
| 2015 | 750,198 |
| 2016 and thereafter | 74,205 |
| | 874,951 |

## 14. SHARE CAPITAL AND RESERVES

| | Number of shares # | Amount $ |
|---|---|---|
| **Authorized** | | |
| Unlimited common shares | | |
| | | |
| **Issued and outstanding** | | |
| **Balance, January 1, 2010** | 78,008,324 | 36,354,984 |
| Options exercised | 950,000 | 236,817 |
| **Balance, December 31, 2010** | 78,958,324 | 36,591,801 |
| Private placement [1] | 5,000,000 | 1,750,000 |
| Share issue costs [1] | — | (43,202) |
| Warrants issued [1] | — | (700,000) |
| Shares issued on acquisition of Ellsin *[note 7]* | 2,263,500 | 1,018,575 |
| Warrants converted to common shares | | |
| March 31, 2011 | 150,000 | 38,994 |
| April 15, 2011 | 515,000 | 133,881 |
| June 30, 2011 | 300,000 | 77,989 |
| July 22, 2011 | 5,550,000 | 1,442,796 |
| Options exercised | 1,122,973 | 240,631 |
| **Balance, December 31, 2011** | **93,859,797** | **40,551,465** |

The Company has placed a stop-trade order on 1,560,000 of the issued and outstanding shares.

[1] On January 24, 2011, the Company closed a private placement for 5,000,000 Units with gross proceeds of $1,750,000, less agent's fees of $43,202 payable to arm's length parties. Each $0.35 Unit consists of one common share and one half of a Share Purchase Warrant. A whole Share Purchase Warrant allows for the purchase of one additional common share of EWI at a price of $0.50 per share through to January 23, 2013. All shares issued in the private placement are subject to a hold period that expires on May 24, 2011.

## Share-based payment plans

The Board of Directors have established a stock option 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. All the options issued to date vest over six months and generally expire from two [2] to five [5] years from the date of grant.

On June 16, 2011, at the Annual General and Special Shareholders' meeting, the shareholders approved the resolution to increase the number of common shares available for issue from 7,500,000 to 8,700,000 under the plan, representing less than 10% of the total number of shares in issue.

Previously, the Board of Directors also approved the addition of a six-month vesting period on all new options issued under the plan after June 27, 2007.

The following options to purchase shares were outstanding on December 31, 2011, December 31, 2010 and January 1, 2010:

| | **2011** | | **2010** | |
|---|---|---|---|---|
| | **Number of options** # | **Weighted average exercise price** $ | **Number of options** # | **Weighted average exercise price** $ |
| **Balance, beginning of year** | **6,610,000** | **0.21** | 6,430,000 | 0.19 |
| Exercised | **(1,122,973)** | **(0.10)** | (950,000) | (0.15) |
| Forfeited | **(107,027)** | **(0.27)** | (565,000) | (0.22) |
| Granted | **1,125,000** | **0.37** | 1,695,000 | 0.27 |
| **Balance, beginning of year** | **6,505,000** | **0.26** | 6,610,000 | 0.21 |

| | **Outstanding and exercisable stock options** | | |
|---|---|---|---|
| **Range of exercise prices** $ | **Number of options** # | **Weighted average remaining contractual life** [years] | **Weighted average exercise price** $ |
| Less than 0.25 | 2,345,000 | 1.62 | 0.16 |
| 0.25 - 0.30 | 2,635,000 | 2.43 | 0.28 |
| 0.35 - 0.40 | 1,525,000 | 3.89 | 0.36 |
| | 6,505,000 | 2.48 | 0.26 |

The fair value of these options was 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 173% to 193%; risk-free interest rates of 2.2%; and an average expected life of five years. This resulted in stock-based compensation expense of $376,250 [2010 - $488,367].

## Warrants

On April 17, 2009, the Company issued 515,000 warrants. Each warrant entitles the holder to acquire an additional common share at $0.20 per share and expires on April 16, 2011. These warrants were exercised on April 15, 2011.

On July 23, 2009, the Company issued 6,000,000 warrants. Each warrant entitles the holder to acquire an additional common share at $0.20 per share and expires on July 22, 2011. These warrants were exercised on July 22, 2011.

On January 24, 2011, the Company issued 5,000,000 half warrants or the equivalent of 2,500,000 warrants. Each full warrant entitles the holder to acquire an additional common share at $0.50 per share and expires on January 23, 2013.

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

| | **Number** | **Weighted average exercise price** |
|---|---|---|
| | # | $ |
| **Balance, January 1, 2010 and December 31, 2010** | 6,515,000 | 0.20 |
| Issued | 2,500,000 | 0.50 |
| Exercised | (6,515,000) | (0.20) |
| **Outstanding, December 31, 2011** | **2,500,000** | **0.50** |

A summary of warrants outstanding and exercisable at December 31, 2011 is set out below:

| | **Outstanding and exercisable warrants** | | |
|---|---|---|---|
| **Exercise price** | **Number of options** | **Weighted average remaining contractual life** | **Weighted average exercise price** |
| $ | # | [years] | $ |
| **0.50** | **2,500,000** | **1.07** | **0.50** |

The fair value of these warrants was 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 153%; risk-free interest rate of 1.70% and an average expected life of two years.

Reconciliation:

| | Number<br>#| Amount<br>$ |
|---|---|---|
| **Balance, January 1, 2010 and December 31, 2010** | 6,515,000 | 413,514 |
| Exercised during the year | (6,515,000) | (413,514) |
| Warrants granted | 2,500,000 | 700,000 |
| **Balance, December 31, 2011** | **2,500,000** | 700,000 |

## Contributed surplus

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Balance, beginning of year** | **2,605,897** | 2,161,631 |
| Stock options granted and/or vested during the year | | |
| Stock options issued | **376,250** | 488,367 |
| Stock options exercised during the year | **(126,037)** | (98,703) |
| Equity component of convertible debt paid during the year | — | 54,602 |
| Other transfers | **(4,595)** | — |
| **Balance, end of year** | **2,851,515** | 2,605,897 |

## Equity component of convertible loans

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Balance, beginning of year** | **63,820** | 54,602 |
| Equity component of convertible debt paid during the year | — | (54,602) |
| Equity component of convertible debt issued during the year | — | 63,820 |
| **Balance, end of year** | **63,820** | 63,820 |

## Per share amounts

For the year ended December 31, 2011, the weighted average number of shares outstanding were 89,404,091 [2010 - 78,443,809]. Diluted loss per share reflects the exercise of options, warrants and convertible debt as if they were issued at the later of the date of grant or beginning of the year.

## 15. GOVERNMENT ASSISTANCE

The Company has outstanding claims for federal scientific research and experimental development tax credits [SR&ED tax credits] for the years 2004 through 2010 inclusive, the value of which is approximately $528,870. Since these claims have not been formally approved, the benefit thereof has not been reflected in these consolidated financial statements. The tax credits will be recorded in the period when reasonable assurance of their realization exists. The Company has recognized $64,795 [2010 - $10,568] as a recovery of expenses during the year for claims for which the tax credits have been realized.

During 2010, the Company recognized SR&ED tax credits of $6,885 related to fiscal year 2010, for which no accounting benefit was previously recognized. These SR&ED tax credits have been recorded as a reduction of expenses in the period of receipt.

## 16. INCOME TAXES

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

| | **2011**<br>$ | **2010**<br>$ |
|---|---|---|
| Combined Canadian statutory rates | **28.25%** | 31.00% |
| Income tax (recovery) at combined statutory rates | **(787,048)** | (397,481) |
| Equity losses | **—** | 182,504 |
| Losses and other temporary differences not benefited | **746,011** | — |
| Prior year losses benefited | **—** | (127,846) |
| Stock-based compensation | **106,291** | 151,394 |
| Non-controlling interest | **33,357** | 173,661 |
| Effect of change in income tax rates | **(99,918)** | 16,666 |
| Other | **1,307** | 1,102 |
| **Income tax expense** | **—** | — |

The difference between the effective rate of 28.25% at December 31, 2011 [December 31, 2010 - 31.00%] and the actual rate of nil% at December 31, 2011 [December 31, 2010 - nil%] is attributable to the fact that no deferred tax assets have been recorded for available loss carry-forwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

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

The significant components of deferred income tax assets are as follows:

| | **December 31, 2011** $ | **December 31, 2010** $ | **January 1, 2010** $ |
|---|---|---|---|
| SR&ED expenditures | **1,413,068** | 584,369 | 558,625 |
| Unused tax losses carry-forwards | **1,010,380** | 369,286 | 556,764 |
| Investment tax credits | **639,936** | 639,936 | 528,870 |
| Property and equipment | **353,650** | 378,065 | 437,610 |
| Work in process in EWIR | **—** | 132,082 | — |
| **Total deferred income tax assets** | **3,417,034** | 2,103,738 | 2,081,869 |

The significant components of deferred income tax liabilities are as follows:

| | **December 31, 2011** $ | **December 31, 2010** $ | **January 1, 2010** $ |
|---|---|---|---|
| Intangible assets | **(747,308)** | (59,355) | — |
| Provincial tax credits | **(16,411)** | (18,253) | — |
| Amortization of deferred charges | **—** | (22,234) | — |
| Convertible debt | **(3,838)** | (14,341) | — |
| **Total deferred income tax liabilities** | **(767,557)** | (114,183) | — |
| Total deferred income tax assets | **2,649,477** | 1,989,547 | 2,081,869 |
| Losses and other temporary differences not benefited | **(2,649,477)** | (1,989,547) | (2,081,869) |
| **Net deferred income tax assets** | **—** | — | — |

No deferred tax assets are recognized in respect of losses and other temporary difference as it is not more likely than not that these losses will be utilized to recover the deferred income tax assets.

The acquisition of Ellsin was treated as a business combination for accounting purposes. The transaction resulted in a deferred tax liability of $851,243, which is fully offset by deferred tax assets of $999,302. The deferred tax assets offsetting the deferred tax liability on the Ellsin acquisition are available to be offset as long as the acquisition-of-control requirements in the Federal Income Tax Act are met going forward.

As at December 31, 2011, subject to confirmation from the income tax authorities, the Company has a total of $3,988,342 of non-capital losses and $639,936 of investment tax credits that are available for carry forward to offset deferred taxable income, expiring as follows:

| | **Non-capital losses** $ | **Investment tax credits** $ |
|---|---|---|
| 2024 | — | 118,627 |
| 2025 | — | 141,638 |
| 2026 | 471,421 | 106,215 |
| 2027 | — | 82,915 |
| 2028 | 519,673 | 61,309 |
| 2029 | 545,255 | 18,166 |
| 2030 | 224,787 | 111,066 |
| 2031 | 2,227,206 | — |
| **Total** | 3,988,342 | 639,936 |

## 17. FINANCIAL INSTRUMENTS

### [a] Fair value information

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

The fair values of loans and borrowings are as follows:

| | **December 31, 2011** $ | **December 31, 2010** $ | **January 1, 2010** $ |
|---|---|---|---|
| Convertible loans | **481,851** | 441,974 | 489,047 |
| Mortgages payable | **633,645** | — | — |
| Loan payable | **1,915,457** | — | — |
| | **3,030,953** | 441,974 | 489,047 |

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

## [b] Financial risk management objectives and policies

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

The Company is exposed to credit risk and liquidity risk.

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

**Liquidity risk**
Liquidity risk is the risk that the Company will not meet its obligations under its various loans and borrowings. The Company is exposed to liquidity risk from its financing activities, primarily for its various loans and borrowings and accounts payable and accrued liabilities. The Company monitors its risk to a shortage of funds regularly. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below. The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including expected interest payments:

| **As at December 31, 2011** | **Less than 1 year** $ | **2 - 3 years** $ | **3 - 5 years** $ | **Greater than 5 years** $ | **Total** $ |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | **771,047** | **—** | **—** | **—** | **771,047** |
| Convertible loans | **514,348** | **—** | **—** | **—** | **514,348** |
| Mortgages payable | **108,953** | **217,905** | **826,658** | **55,288** | **1,208,804** |
| Loan payable | **—** | **574,090** | **656,103** | **1,066,167** | **2,296,360** |
| **Total** | **1,394,348** | **791,995** | **1,482,761** | **1,121,455** | **4,790,559** |

| **As at December 31, 2010** | **Less than 1 year** $ | **2 - 3 years** $ | **3 - 5 years** $ | **Greater than 5 years** $ | **Total** $ |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 1,650,451 | — | — | — | 1,650,451 |
| Convertible loans | 52,042 | 514,348 | — | — | 566,390 |
| **Total** | 1,702,493 | 514,348 | — | — | 2,216,841 |

| **As at January 1, 2010** | **Less than 1 year** $ | **2 - 3 years** $ | **3 - 5 years** $ | **Greater than 5 years** $ | **Total** $ |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 765,835 | — | — | — | 765,835 |
| Convertible loans | 564,102 | — | — | — | 564,102 |
| **Total** | 1,329,937 | — | — | — | 1,329,937 |

## [c] Capital management

The Company's objectives when managing its capital are:

[i] to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
[ii] to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
[iii] to safeguard the Company's ability to obtain financing should the need arise; and
[iv] to maintain financial flexibility in order to have access to capital in the event of future acquisitions and to improve current and new research and development for new technologies.

The Company manages the following as capital:

| | December 31, 2011<br>$ | December 31, 2010<br>$ | January 1, 2010<br>$ |
|---|---|---|---|
| Interest-bearing loans and borrowings | **3,259,360** | 441,974 | 489,047 |
| Trade and other payables | **771,047** | 1,650,451 | 765,835 |
| Less cash and cash equivalents | **(388,646)** | (461,856) | (1,189,585) |
| Net debt | **3,641,761** | 1,630,569 | 65,297 |
| Equity | **944,369** | (675,830) | 496,508 |
| **Total capital** | **4,586,130** | 954,739 | 561,805 |

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responding to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to capital management during the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

## 18. RELATED PARTY DISCLOSURES

### [a] Subsidiaries and ultimate parent

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

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

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

During the year, the Company recovered $10,500 [2010 - $11,100] for use of office space and paid rent of nil [2010 - $2,000] from/to a company in which the President and the Chief Financial Officer of the Company are shareholders.

During the year, the Company incurred legal expenses of nil [2010 - $15,520] with a law firm, which has a partner who is also a member of the Company's Board of Directors.

For the year ended December 31, 2011, the Company recognized revenues of $297,595 [2010 - $2,426,569] and manufacturing costs of $210,544 [2010 - $1,995,776] related to services provided to Ellsin. As at December 31, 2010, the Company was owed $1,494,597 from Ellsin, which is included in accounts receivable.

The general partner and certain limited partners of EWILP are also shareholders of the Company. Operating, labour and manufacturing expenses include marketing fees of nil [2010 - $135,099] paid to a company owned by one of the general partners in EWILP.

### [c] Transactions with key management personnel

Interest and distributions paid to the directors totalled $19,642 [2010 - $24,265] and to a relative of the President totalled $30,100 [2010 - $34,525].

The Company recognized as an expense during the year ended December 31, 2011 short-term employee benefits of $326,997 [2010 - $304,891] and share-based payment transactions of $131,250 [2010 - $166,750].

## 19. COMMITMENTS AND CONTINGENCIES

### [a] Commitments

The Company is committed under a long-term lease for premises which expires on May 31, 2015. The Company has the right to terminate this lease upon giving the landlord 60 days written notice after the first year of the lease term of its intention to terminate. The Company has no plans to give such notice at the current time. Starting in the third year of the lease, in addition to basic rent and operating expenses, the Company will start paying its share of realty taxes as well.

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

| | $ |
|---|---|
| 2012 | 100,000 |
| 2013 | 96,000 |
| 2014 | 96,000 |
| 2015 | 40,000 |

## [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.

## 20. SEGMENT INFORMATION

The Company is organized into one operating segment. Management monitors the operating results of the Company on this basis.

## Geographic information

**Revenues from external customers**

| | **2011** | **2010** |
|---|---|---|
| | $ | $ |
| Canada | **490,750** | 3,015,481 |
| United States | **65,117** | 53,843 |
| | **555,867** | 3,069,324 |

**Non-current assets**

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

## 21. EVENTS AFTER THE REPORTING PERIOD

On January 30, 2012, the Company concluded a private placement of 8,000,000 units for $2,000,000 following approval by the TSX Venture Exchange ["TSXV"]. Each unit consists of one common share and 0.375 of a share purchase warrant. A whole share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 through January 30, 2014. The shares and share purchase warrants are subject to a TSXV four month hold that expires on May 30, 2012. The proceeds of the offering were received on January 30, 2012.

On April 4, 2012, the Company extended the maturity date of $497,000 of convertible loans. These loans, which were due April 9, 2012, are now due April 30, 2013.

## 22. FIRST-TIME ADOPTION OF IFRS

These consolidated financial statements for the year ended December 31, 2011 are the first the Company has prepared in accordance with IFRS. For all periods up to and including the year December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP.

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after December 31, 2011, together with the comparative period data as at and for the year ended December 31, 2010, as described in the accounting policies. In preparing these consolidated financial statements, the Company's opening consolidated statement of financial position was prepared as at January 1, 2010, the Company's date of transition to IFRS. Accounting changes resulting from the transition to IFRS will generally be reflected in the Company's opening consolidated statement of financial position on a retrospective basis. Where transition has been accounted for on a retrospective basis, the IFRS opening consolidated statement of financial position will be presented as if IFRS had always been applied and adjustments for any differences between Canadian GAAP and IFRS will affect the opening retained earnings in the opening consolidated statement of financial position.

This note explains the principal adjustments made by the Company in restating its Canadian GAAP consolidated statement of financial position as at January 1, 2010 and its previously published Canadian GAAP consolidated financial statements as at and for the year ended December 31, 2010.

## Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective applicable to certain IFRS. The Company has applied the following exemptions:

- IFRS 2, *Share-based Payment,* has not been applied to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.
- IFRS 3, *Business Combinations,* has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before January 1, 2010. Use of this exemption means that the Canadian GAAP carrying amounts of assets and liabilities, which are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS consolidated statement of financial position. The Company did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements.

## Estimates

IFRS 1 requires that the Company's estimates under IFRS at the date of transition to IFRS and at December 31, 2010 must be consistent with estimates made at that date under Canadian GAAP [after adjustments to reflect any difference in accounting policies], unless there is objective evidence that those estimates were in error. Certain estimates previously made by the Company under Canadian GAAP were revised for application of IFRS, as those previous estimates were found to be in error. The reconciliation below provides an explanation of any changes to previously reported Canadian GAAP figures as a result of the IFRS transition process.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

Reconciliation of equity as at January 1, 2010 [date of transition to IFRS]

| | Canadian GAAP $ | Notes | Restatements $ | Canadian GAAP restated $ | Notes | Remeasurements $ | IFRS $ |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current** | | | | | | | |
| Cash and cash equivalents | 1,189,585 | | — | 1,189,585 | | — | 1,189,585 |
| Accounts receivable | 318,505 | | — | 318,505 | | — | 318,505 |
| Prepaid expenses and sundry | 18,310 | | — | 18,310 | | — | 18,310 |
| **Total current assets** | 1,526,400 | | — | 1,526,400 | | — | 1,526,400 |
| Property and equipment | 8,590 | | — | 8,590 | | — | 8,590 |
| Technology rights | 150,000 | | — | 150,000 | | — | 150,000 |
| Long-term investments | 588,724 | | — | 588,724 | | — | 588,724 |
| | 2,273,714 | | — | 2,273,714 | | — | 2,273,714 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | | | | | |
| **Current** | | | | | | | |
| Accounts payable and accrued liabilities | 765,835 | | — | 765,835 | | — | 765,835 |
| Debt component of convertible loans | 345,873 | A | 143,174 | 489,047 | | — | 489,047 |
| Current portion of deferred income | 43,307 | | — | 43,307 | D | (43,307) | — |
| Deferred revenue | 522,324 | | — | 522,324 | | — | 522,324 |
| **Total current liabilities** | 1,677,339 | | 143,174 | 1,820,513 | | (43,307) | 1,777,206 |
| Deferred income | 42,001 | | — | 42,001 | D | (42,001) | — |
| **Total liabilities** | 1,719,340 | | 143,174 | 1,862,514 | | (85,308) | 1,777,206 |
| **Shareholders' equity (deficiency)** | | | | | | | |
| Capital stock | 36,178,266 | B | 176,718 | 36,354,984 | | — | 36,354,984 |
| Contributed surplus | 1,802,868 | C | 358,763 | 2,161,631 | | — | 2,161,631 |
| Warrants | 926,141 | B,C | (512,627) | 413,514 | | — | 413,514 |
| Equity component of convertible loans | 169,127 | A | (114,525) | 54,602 | | — | 54,602 |
| Deficit | (39,424,373) | A,B,E | 290,222 | (39,134,151) | D | 85,308 | (39,048,843) |
| **Total shareholders' equity (deficiency)** | (347,971) | | 198,551 | (149,420) | | 85,308 | (64,112) |
| Non-controlling interests | 902,345 | E | (341,725) | 560,620 | | — | 560,620 |
| | 2,273,714 | | — | 2,273,714 | | — | 2,273,714 |

**Notes to the reconciliation of equity as at January 1, 2010**

A The debt component of convertible loans, equity component of convertible loans, and deficit as at January 1, 2010 under Canadian GAAP were restated to reflect errors in the bifurcation of the loans and the accretion of interest. The errors resulted in a $143,174 understatement of debt component of convertible loans, $114,525 overstatement of equity component of convertible loans and $28,649 understatement of deficit. Convertible loans were bifurcated using the residual value approach by allocating the residual to the liability component. However, it was determined that the equity component was the less easily measurable component, and thus the residual should have been allocated to equity. Reallocating the residual to equity resulted in a $114,525 decrease to equity component of convertible loans and a $114,525 increase to debt component of convertible loans. Further, no interest had been accreted on the debt component of the convertible loans resulting in prior periods' interest expense and debt component of convertible loans both being understated by $28,649. As a result of the recalculation of the bifurcation of the convertible loans and the accretion of interest, the debt component of convertible loans increased by $143,174, equity component of convertible loans decreased by $114,525 and deficit increased by $28,649.

B The warrants, capital stock and deficit as at January 1, 2010 under Canadian GAAP were restated to reflect an error in the calculation of the fair value of the 6,515,000 outstanding warrants. The error resulted in a $153,864 overstatement of warrants, $176,718 understatement of capital stock and $22,854 understatement of deficit. The fair value of the warrants was estimated on their grant date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rates of 1.75% to 2.63%; and expected lives of 2-5 years. The assumption of 100% for expected volatility was incorrect as it was not reflective of the actual volatility of 187%. The fair value of the warrants was subsequently recalculated using the actual volatility of 187%, the fair value of the warrants. For the 6,000,000 warrants that were issued in conjunction with shares, the proceeds received for the shares and warrants are allocated to the shares and the warrants based on their relative fair values at the issuance date. For the 515,000 warrants that were issued in conjunction with convertible loans, the fair value was recorded as debt extension fee expense. As a result of the fair value adjustment to reflect actual volatility and the adjustment to correctly allocate proceeds from the shares and corresponding warrants using relative fair values, capital stock as at January 1, 2010 was increased by $176,718 for warrants issued in conjunction with shares, deficit as at January 1, 2010 was increased by $22,854 for warrants issued in conjunction with convertible loans and warrants were reduced by $153,864.

C The warrants and contributed surplus balances as at January 1, 2010 under Canadian GAAP were restated to reflect an error in the recording of expired warrants. Expired warrants with a value of $358,763 were incorrectly recorded as outstanding resulting in a $358,763 overstatement of warrants and a $358,763 understatement of contributed surplus. As a result of the restatement, warrants have decreased by $358,763 and contributed surplus has increased by $358,763.

D Under Canadian GAAP, the gain on the sale leaseback was deferred and amortized over the period of the lease. Under IFRS, the gain is recognized immediately and total deferred revenue of $85,308 was brought into income.

E Non-controlling interests (equity) and deficit were restated as at January 1, 2010 under Canadian GAAP to record an error in the consolidation of the Company's investment in EWILP. Non-controlling interests (equity) and deficit were restated to record the transfer of the intellectual property from EWI to EWILP at book value as EWILP was consolidated shortly after the transfer. Amounts due from EWILP for management fees, interest and principal on notes were restated to be recorded on a cash basis as EWI does not have reasonable assurance as to the collectability. As a result of the restatement, non-controlling interests (equity) decreased by $341,725 and deficit was reduced by $341,725.

Reconciliation of equity as at December 31, 2010 and comprehensive loss for the year ended December 31, 2010:

| | Canadian GAAP $ | Notes | Restatements $ | Canadian GAAP restated $ | Notes | Remeasurements $ | IFRS $ |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current** | | | | | | | |
| Cash and cash equivalents | 463,313 | G | (1,457) | 461,856 | | — | 461,856 |
| Accounts receivable | 21,942 | F, G | 1,673,880 | 1,695,822 | | — | 1,695,822 |
| Prepaid expenses and sundry | 616,523 | G | (569,352) | 47,171 | | — | 47,171 |
| **Total current assets** | 1,101,778 | | 1,103,071 | 2,204,849 | | — | 2,204,849 |
| Property and equipment | 1,312,908 | G | (1,305,407) | 7,501 | | — | 7,501 |
| Goodwill | 2,552,184 | G | (2,552,184) | — | | — | — |
| Technology rights | 100,000 | | — | 100,000 | | — | 100,000 |
| | 5,066,870 | | (2,754,520) | 2,312,350 | | — | 2,312,350 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | | | | | |
| **Current** | | | | | | | |
| Accounts payable and accrued liabilities | 1,773,282 | F, G | (122,831) | 1,650,451 | | — | 1,650,451 |
| Debt component of convertible loans | — | | — | — | | — | — |
| Deferred revenue | — | G | 895,755 | 895,755 | | — | 895,755 |
| Current portion of mortgages payable | 111,244 | G | (111,244) | — | | — | — |
| **Total current liabilities** | 1,884,526 | | 661,680 | 2,546,206 | | — | 2,546,206 |
| Loan payable - Northern Ontario Heritage Fund Corporation | 2,000,000 | G | (2,000,000) | — | | — | — |
| Mortgages payable | 773,756 | G | (773,756) | — | | — | — |
| Debt component of convertible loans | 377,162 | C | 64,812 | 441,974 | | — | 441,974 |
| **Total liabilities** | 5,035,444 | | (2,047,264) | 2,988,180 | | — | 2,988,180 |
| **Shareholders' deficiency** | | | | | | | |
| Capital stock | 36,316,380 | B, I | 275,421 | 36,591,801 | | — | 36,591,801 |
| Contributed surplus | 2,225,667 | A, D, E, I | 380,230 | 2,605,897 | | — | 2,605,897 |
| Warrants | 926,141 | A, B | (512,627) | 413,514 | | — | 413,514 |
| Equity component of convertible loans | 119,839 | C | (56,019) | 63,820 | | — | 63,820 |
| Deficit | (41,486,582) | B, C, D, E, G, H | 1,155,539 | (40,331,043) | | | (40,331,043) |
| **Total shareholders' deficiency** | (1,898,555) | | 1,242,544 | (656,011) | | — | (656,011) |
| Non-controlling interests | 1,929,981 | G, H | (1,949,800) | (19,819) | | — | (19,819) |
| | 5,066,870 | | (2,754,520) | 2,312,350 | | — | 2,312,350 |

| | Canadian GAAP $ | Notes | Restatements $ | Canadian GAAP restated $ | Notes | Remeasurements $ | IFRS $ |
|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | |
| Sales and other | 53,850 | | — | 53,850 | | — | 53,850 |
| Amortization of deferred income | 85,309 | | — | 85,309 | J | (85,309) | — |
| Management fees | — | H | 575,300 | 575,300 | | — | 575,300 |
| Consulting fees | 2,426,569 | | — | 2,426,569 | | — | 2,426,569 |
| Finance income | — | | — | — | K | 13,605 | 13,605 |
| Foreign exchange (loss) gain | (5,159) | | — | (5,159) | K | 5,159 | — |
| | 2,560,569 | | 575,300 | 3,135,869 | | (66,545) | 3,069,324 |
| **EXPENSES** | | | | | | | |
| Operating, labour and manufacturing | 3,392,950 | G | (114,686) | 3,278,264 | | — | 3,278,264 |
| Research and development costs | — | | — | — | | — | — |
| Stock-based compensation | 253,672 | E | 234,695 | 488,367 | | — | 488,367 |
| Amortization of property, equipment and technology rights | 53,775 | | — | 53,775 | | — | 53,775 |
| Finance expense - interest on convertible debt | 39,497 | C, D | 54,040 | 93,537 | | — | 93,537 |
| Finance expense - interest on mortgages payable | 14,705 | G | (14,705) | — | | — | — |
| Scientific research and investment tax credits | (10,568) | | — | (10,568) | | — | (10,568) |
| Foreign exchange loss (gain) | — | | — | — | K | 5,159 | 5,159 |
| | 3,744,031 | | 159,344 | 3,903,375 | | 5,159 | 3,908,534 |
| Loss before the undernoted | (1,183,462) | | 415,956 | (767,506) | | (71,704) | (839,210) |
| **Other income (expense)** | | | | | | | |
| Interest income | 13,635 | G | (30) | 13,605 | K | (13,605) | — |
| Gain on sale of partnership units | 74,994 | H | (74,994) | — | | — | — |
| Loss on equity investment | (835,494) | G | 246,770 | (588,724) | | — | (588,724) |
| Loss on repayment of convertible loans | (169,127) | D | 169,127 | — | | — | — |
| **Loss before income taxes and non-controlling interests** | (2,099,454) | | 756,829 | (1,342,625) | J | (85,309) | (1,427,934) |
| Provision for income taxes | — | | — | — | | — | — |
| Non-controlling interests | 56,540 | H | 89,194 | 145,734 | | — | 145,734 |
| **Net loss and comprehensive loss** | (2,042,914) | | 846,023 | (1,196,891) | | (85,309) | (1,282,200) |

### Notes to the reconciliation of equity as at December 31, 2010 and comprehensive loss for the year ended December 31, 2010

A The warrants and contributed surplus as at December 31, 2010 under Canadian GAAP were restated to reflect an error in the recording of expired warrants. Expired warrants with a value of $358,763 were incorrectly recorded as outstanding resulting in a $358,763 overstatement of warrants and a $358,763 understatement of contributed surplus. As a result of the restatement, warrants have decreased by $358,763 and contributed surplus has increased by $358,763.

B The warrants, capital stock and deficit as at December 31, 2010 under Canadian GAAP were restated to reflect an error in the calculation of the fair value of the 6,515,000 outstanding warrants. The error resulted in a $153,864 overstatement of warrants, $176,718 understatement of capital stock and $22,854 understatement of deficit. The fair value of the warrants was estimated on their grant date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rates of 1.75% to 2.63%; and expected lives of 2-5 years. The assumption of 100% for expected volatility was incorrect as it was not reflective of the actual volatility of 187%. The fair value of the warrants was subsequently recalculated using the actual volatility of 187%, increasing the fair value of the warrants. For the 6,000,000 warrants that were issued in conjunction with shares, the proceeds received for the shares and warrants are allocated to the shares and warrants based their relative fair values at the issuance date. For the 515,000 warrants that were issued in conjunction with convertible loans, the fair value was recorded as debt extension fee expense. As a result of the fair value adjustment to reflect actual volatility and the adjustment to correctly allocate proceeds from the shares and corresponding warrants using relative fair values, capital stock as at December 31, 2010 was increased by $176,718 for warrants issued in conjunction with shares, deficit at December 31, 2010 was increased by $22,854 for warrants issued in conjunction with convertible loans and warrants were reduced by $153,864.

C The debt component of convertible loans, equity component of convertible loans, and deficit as at December 31, 2010 under Canadian GAAP and the interest expense for the year ended December 31, 2010 under Canadian GAAP were restated to reflect errors in the bifurcation of the loans and the accretion of interest for convertible loans issued in 2010. The errors resulted in a $64,812 understatement of debt component of convertible loans, $56,019 overstatement of equity component of convertible loans and $8,793 understatement of deficit and interest expense. Convertible loans were bifurcated using the residual value approach by allocating the residual to the liability component. However, it was determined that the equity component was the less easily measurable component and thus the residual should have been allocated to equity. Reallocating the residual to equity resulted in a $56,019 decrease to equity component of convertible loans and a $56,019 increase to debt component of convertible loans. Further, no interest had been accreted on the debt component of the convertible loans resulting in interest expense and debt component of convertible loans both being understated by $8,793. As a result of the recalculation of the bifurcation of the convertible loans and the accretion of interest, the debt component of convertible loans increased by $64,812, equity component of convertible loans decreased by $56,019, and deficit and interest expense increased by $8,793.

D The contributed surplus and deficit as at December 31, 2010 under Canadian GAAP and the interest expense and loss on repayment of convertible loans for the year ended December 31, 2010 under Canadian GAAP were restated to reflect errors in the bifurcation of the loans, the accretion of interest for convertible loans issued in prior years and repaid in 2010, and the reclassification of interest from dividends to interest expense. The errors resulted in a $114,525 overstatement of contributed surplus, $114,525 overstatement of deficit, $45,247 understatement of 2010 interest expense and $169,127 overstatement of loss on repayment of convertible loans. Convertible loans were bifurcated using the residual value approach by allocating the residual to the liability component. However, it was determined that the equity component was the less easily measurable component and thus the residual should have been allocated to equity. Reallocating the residual to equity resulted in a $114,525 decrease to contributed surplus upon repayment of the loan in 2010 and a $114,125 decrease to loss on repayment of convertible loans. Further, no interest had been accreted on the debt component of the convertible loans resulting in 2010 interest expense to be understated by $45,247, opening deficit to be understated by $28,649 and loss on repayment of convertible loans to be overstated by $73,896. Further, $19,294 of interest expense had been incorrectly recorded as an increase in deficit [i.e., a dividend] resulting in deficit to be overstated by $19,294 and loss on repayment of convertible loans to be overstated by $19,294. As a result of the recalculation of the bifurcation of the convertible loans, the accretion of interest, and the reclassification of interest from dividends to interest expense, contributed surplus decreased by $114,525, deficit decreased by $114,525, interest expense increased by $45,247 and loss on repayment of convertible loans decreased by $169,127.

E The contributed surplus as at December 31, 2010 under Canadian GAAP and stock-based compensation expense for the year ended December 31, 2010 were restated to reflect an error in the calculation of the fair value of the stock options granted in 2010. The error resulted in a $234,695 understatement of contributed surplus and stock-based compensation expense. The fair value of the options was estimated on their grant date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rates of 1.75% to 2.63%; and expected lives of 2-5 years. The assumption of 100% for expected volatility was incorrect as it was not reflective of the actual volatilities of 182% to 193%. The fair value of the options was subsequently recalculated using the actual volatilities of 182% to 193%, increasing the fair value of the options by $234,695. As a result of the fair value adjustment to reflect actual volatility, contributed surplus as at December 31, 2010 was increased by $234,695 and stock-based compensation expense for the year ended December 31, 2010 was increased by $234,695.

F The accounts receivable and accounts payable as at December 31, 2010 under Canadian GAAP were restated to reflect an error in the classification of sales taxes receivable. Sales taxes receivable of $178,698 were incorrectly classified as a debit in accounts payable resulting in a $178,698 understatement of both accounts receivable and accounts payable. As a result of the restatement, accounts receivable and accounts payable have both increased by $178,698.

G Various accounts as at December 31, 2010 and for the year then ended under Canadian GAAP were restated to reflect an error in the consolidation of the Company's investment in Ellsin. The Company incorrectly recognized a reconsideration event at November 1, 2010 and thus incorrectly consolidated Ellsin as a variable interest entity between November 1, 2010 and December 31, 2010. In addition, during the period from January 1, 2010 to November 1, 2010, the Company also incorrectly recognized $246,770 of loss on its 37.5% equity investment in excess of its initial investment. As a result of the restatement, the following adjustments have taken place: cash has decreased by $1,457; accounts receivable has increased by $1,495,182; prepaid expenses and sundry has decreased by $569,352; property and equipment has decreased by $1,305,407; goodwill has decreased by $2,552,184; accounts payable and accrued liabilities has decreased by $301,529; deferred revenue has increased by $895,755; current portion of mortgages payable have decreased by $111,244; loan payable - Northern Ontario Heritage Fund Corporation has decreased by $2,000,000; mortgages payable have decreased by $773,756; non-controlling interest has decreased by $1,018,575; operating, labour and manufacturing expenses has decreased by $114,686; interest expense on mortgages payable has decreased by $14,704; interest income has decreased by $30; loss on equity investment has decreased by $246,770; and deficit decreased by $376,131.

H Various accounts were restated as at December 31, 2010 and for the year then ended under Canadian GAAP to record an error on the consolidation of the Company's investment in EWILP. The accounts were restated to record the transfer of the intellectual property from EWI to EWILP at book value as EWILP was consolidated shortly after the transfer. Amounts due from EWILP for management fees, interest and principal on notes were restated to be recorded on a cash basis as EWI does not have reasonable assurance as to the collectability. As a result of the restatements, management fee income increased by $575,300, gain on sale of partnership units decreased by $74,994, non-controlling interests (loss) decreased by $89,194, non-controlling interests (equity) decreased by $931,225 and deficit decreased by $931,225.

I The capital stock and contributed surplus at December 31, 2010 were restated to reflect an error in recording options exercised in 2010. The fair value of these options at grant date recognized in contributed surplus was incorrectly not transferred to capital stock upon the exercise of the options. As a result of the restatement, capital stock has increased by $98,703 and contributed surplus has decreased by $98,703.

J Under Canadian GAAP the gain on the sale leaseback of an asset was deferred and amortized over the period of the lease. Under IFRS, the gain is recognized immediately and total deferred revenue of $85,308 was brought into income at the time of the sale leaseback.

K These balances were reclassified between revenue and expenses upon transition to IFRS.