Interim condensed consolidated financial statements

Environmental Waste International Inc.

For the three and nine months ended September 30, 2020 and 2019

Notice to Reader

The accompanying unaudited interim condensed consolidated financial statements of Environmental Waste International Inc. ("EWI" or the "Company") for the nine months ended September 30, 2020 and 2019 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company's external auditors or any other accounting firm.

Responsibility for unaudited interim condensed consolidated financial statements

The accompanying unaudited interim condensed consolidated financial statements of Environmental Waste International Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. The most significant of these accounting principles have been set out in the December 31, 2019 audited financial statements.

Auditor Involvement

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

Ajax, Ontario

November 24, 2020

Environmental Waste International Inc.

Interim condensed consolidated statements of financial position

[Expressed in Canadian dollars]

[Unaudited]

As at	**September 30, 2020**	December 31, 2019
	$	$
Assets		
Current		
Cash	**764,979**	885,591
Trade receivables	**96,841**	18,692
Government remittances recoverable	**58,150**	102,840
Prepaid expenses and sundry	**39,702**	49,312
Total current assets	**959,672**	1,056,435
Property and equipment, net *[note 5]*	**1,018,599**	1,080,474
Right of use asset *[note 6]*	**65,829**	91,587
	2,044,100	2,228,496
Liabilities and shareholders' deficiency		
Current		
Accounts payable and accrued liabilities *[note 10b]*	**469,465**	473,151
Provisions *[note 7]*	**50,100**	81,600
Current portion of lease liability *[note 6]*	**15,553**	30,192
Current portion of term loan payable *[note 8c]*	**245,794**	223,077
Current portion of mortgages payable *[note 8f]*	**2,253**	13,684
Contract liability	**87,333**	65,921
Derivative liability *[note 8e]*	**537,739**	2,023,793
Total current liabilities	**1,408,237**	2,911,418
Lease liability *[note 6]*	**46,679**	54,513
Bank loans *[note 8b*]	**80,000**	—
Term loan payable *[note 8c]*	**2,000,000**	2,000,000
Promissory note payable *[note 8d]*	**1,062,904**	1,017,333
Convertible loan payable *[note 8e]*	**—**	1,356,852
Mortgage payable *[note 8f]*	**488,077**	—
Deferred compensation *[note 8g]*	**424,000**	406,000
Total liabilities	**5,509,897**	7,746,116
Shareholders' deficiency		
Capital stock *[note 9a]*	**54,386,361**	50,611,761
Contributed surplus *[note 9d]*	**6,828,213**	6,492,500
Deficit	**(64,680,371)**	(62,621,881)
Total shareholders' deficiency	**(3,465,797)**	(5,517,620)
	2,044,100	2,228,496

Going concern *[note 3]*
Contingencies *[note 11]*

The accompanying notes are an integral part of these interim condensed consolidated financial statements

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

Environmental Waste International Inc.

Interim condensed consolidated statements of loss and comprehensive loss

[Expressed in Canadian dollars]

[Unaudited]

Three and nine months ended September 30, 2020 and 2019

	Three months ended September 30, 2020	Three months ended September 30, 2019	**Nine months ended September 30, 2020**	Nine months ended September 30, 2019
	$	$	$	$
Revenue	**23,855**	59,302	**89,550**	142,977
Expenses				
Operating, labour and manufacturing	**383,826**	415,099	**1,106,991**	923,219
Stock-based compensation *[note 9b]*	**46,060**	17,327	**122,767**	71,191
Depreciation of property and equipment *[note 5]*	**20,625**	20,955	**61,875**	62,866
Amortization of right of use asset *[note 6]*	**8,586**	7,676	**25,758**	23,028
Foreign exchange loss (gain)	**5,266**	2,718	**(23,279)**	6,677
	464,363	463,775	**1,294,112**	1,086,981
Operating loss	**(440,508)**	(404,473)	**(1,204,562)**	(944,004)
Other expenses				
Finance costs *[note 8h]*	**(93,533)**	(83,726)	**(299,982)**	(262,524)
Change in fair value of derivative *[note 8e]*	**(1,557,236)**	—	**(553,946)**	—
	(1,650,769)	(83,726)	**(853,928)**	(262,524)
Net loss and comprehensive loss for the period	**(2,091,277)**	(488,199)	**(2,058,490)**	(1,206,528)
Loss per share – basic and diluted	**(0.009)**	(0.003)	**(0.009)**	(0.007)
Weighted average number of shares outstanding *[note 9e]*				
basic	**225,986,806**	173,293,723	**218,284,125**	168,344,050
diluted	**225,986,806**	173,293,723	**218,284,125**	168,344,050

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Environmental Waste International Inc.

Interim condensed consolidated statements of changes in shareholders' deficiency

[Expressed in Canadian dollars]

[Unaudited]

Nine months ended September 30, 2020 and 2019

	Capital Stock	Contributed surplus	Deficit	Total attributable to owners of the parent	Non-controlling interests	Total
	$	$	$	$	$	$
Balance, December 31, 2018	48,658,125	5,971,088	(59,748,975)	(5,119,762)	(101,360)	(5,221,122)
Stock compensation expense *[note 9b]*	—	71,191	—	71,191	—	71,191
Issuance of shares pursuant to private placements *[note 9a]*	1,231,460	—	—	1,231,460	—	1,231,460
Issuance of warrants pursuant to private placements *[note 9a]*	—	428,540	—	428,540	—	428,540
issuance of shares pursuant to settlement of promissory note *[note 9a]*	710,000	—	—	710,000	—	710,000
issuance of shares pursuant to settlement of payables *[note 9a]*	56,446	—	—	56,446	—	56,446
Share and warrant issue costs	(44,270)	(13,725)	—	(57,995)	—	(57,995)
Net loss and comprehensive loss for the period	—	—	(1,206,528)	(1,206,528)	—	(1,206,528)
Balance, September 30, 2019	**50,611,761**	**6,457,094**	**(60,955,503)**	**(3,886,648)**	**(101,360)**	**(3,988,008)**
Stock compensation expense	—	35,406	—	35,406	—	35,406
Net loss and comprehensive loss for the period	—	—	(1,565,018)	(1,565,018)	—	(1,565,018)
De-consolidation of variable interest entity *[note 13]*	—	—	(101,360)	(101,360)	101,360	—
Balance, December 31, 2019	**50,611,761**	**6,492,500**	**(62,621,881)**	**(5,517,620)**	**—**	**(5,517,620)**
Stock compensation expense *[note 9b]*	—	122,767	—	122,767	—	122,767
Issuance of shares pursuant to private placement *[note 9a]*	176,244	—	—	176,244	—	176,244
Issuance of warrants pursuant to private placement *[note 9a]*	—	223,756	—	223,756	—	223,756
Issuance of shares on conversion of convertible loan *[note 8d]*	3,595,114	—	—	3,595,114	—	3,595,114
Stock options exercised *[note 9b]*	18,114	(7,514)	—	10,600	—	10,600
Share issue costs *[note 9a]*	(14,872)	(3,296)	—	(18,168)	—	(18,168)
Net loss and comprehensive loss for the period	—	—	(2,058,490)	(2,058,490)	—	(2,058,490)
Balance, September 30, 2020	**54,386,361**	**6,828,213**	**(64,680,371)**	**(3,465,797)**	**—**	**(3,465,797)**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Environmental Waste International Inc.

Interim condensed consolidated statements of cash flows

[Expressed in Canadian dollars]

[Unaudited]

Nine months ended September 30, 2020 and 2019

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	$	$
Operating activities		
Net loss for the period	**(2,058,490)**	(1,206,528)
Add items not involving cash		
Stock-based compensation *[note 9b]*	**122,767**	71,191
Depreciation of property and equipment *[note 5]*	**61,875**	62,866
Amortization of right of use asset *[note 6]*	**25,758**	23,028
Finance costs	**166,300**	175,777
Accretion expense - convertible loan *[note 8d]*	**126,782**	80,906
Change in fair value of derivative *[note 8d]*	**553,946**	—
	(1,001,062)	(792,760)
Changes in non-cash working capital balances related to operations		
Trade receivables	**(78,149)**	(65,950)
Government remittances recoverable	**44,690**	(49,143)
Prepaid expenses and sundry	**9,610**	(1,903)
Accounts payable and accrued liabilities	**(3,686)**	53,668
Provisions	**(31,500)**	—
Contract liability	**21,412**	23,732
Cash used in operating activities	**(1,038,685)**	(832,356)
Financing activities		
Proceeds from bank loans *[note 8a]*	**80,000**	—
Proceeds from issuances of private placements, net of costs *[note 9a]*	**394,107**	1,606,887
Share issuance costs on settlement of promissory note *[note 9a]*	**—**	—
Share issuance costs on conversion of convertible loan *[note 8d]*	**(12,275)**	(4,882)
Proceeds from issuance of convertible loan	**—**	500,000
Proceeds from exercise of stock options *[note 9b]*	**10,600**	—
Proceeds from mortgage payable, net of issuance costs *[note 8e]*	**483,383**	—
Repayments of mortgage payable *[note 8e]*	**(18,506)**	(14,363)
Repayments of lease obligations *[note 6]*	**(19,236)**	(21,062)
Cash provided by financing activities	**918,073**	2,066,580
Net increase (decrease) in cash during the period	**(120,612)**	1,234,224
Cash, beginning of period	**885,591**	13,382
Cash, end of period	**764,979**	1,247,606

The accompanying notes are an integral part of these interim condensed consolidated financial statements

1. Corporate information

Environmental Waste International Inc. ["EWI" or the "Company"] was incorporated under the *Ontario Business Corporations Act* on October 31, 1987. 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 interim condensed consolidated financial statements of EWI *[note 4]* were authorized for issue in accordance with a resolution of the Board of Directors on November 24, 2020. The Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

2. Basis of preparation and statement of compliance

Statement of compliance`

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

Basis of Measurement

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

Functional and Presentation Currency

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

3. Going concern assumption

These unaudited interim condensed consolidated financial statements have been prepared on a basis that assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These unaudited interim condensed consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern. During the nine months ended September 30, 2020, the Company incurred a net loss of $2,058,490 [2019 – net loss of $1,206,528] which included a non-cash loss of $553,946 [2019 – $nil] representing the change in fair value of derivative liability. Without this non-cash loss, the Company incurred a net loss of $1,504,544 during the nine months ended September 30, 2020 compared to a net loss of $1,206,528 in the same period in 2019. At September 30, 2020, the Company had working capital deficiency for accounting purposes of $448,565 [December 31, 2019 – $1,854,983] and a cumulative deficit of $64,680,371 [December 31, 2019 – $62,621,881].

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

4. Summary of significant accounting policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2019 and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019.

Basis of consolidation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and the following 100%-owned subsidiaries: Environmental Waste Management Corporation, Jaguar Carbon Sales Limited, Ellsin Environmental Ltd., EWI Rubber Inc. and 2228641 Ontario Limited.

New and amended standards and interpretations

Amendments to IFRS 3 – Business Combinations: The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination of an asset acquisition. The amendments to IFRS 3 – Business Combination may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill. The Company does not expect there to be any impact to its consolidated financial statements on the adoption of the amendments to IFRS 3.

5. Property and equipment

Property and equipment consist of the following:

	Land $	Building $	Fixtures $	Computer equipment $	Office equipment $	Equipment – gas engine $	Total $
Cost							
As at December 31, 2018	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at December 31, 2019	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
As at September 30, 2020	**68,261**	**984,994**	**71,060**	**36,725**	**38,566**	**719,169**	**1,918,775**
Accumulated depreciation							
As at December 31, 2018	—	272,854	37,896	35,176	26,538	382,015	754,479
Depreciation charge	—	28,485	4,737	591	2,157	47,852	83,822
As at December 31, 2019	—	301,339	42,633	35,767	28,695	429,867	838,301
Depreciation charge	—	20,510	3,553	244	1,610	35,958	61,875
As at September 30, 2020	**—**	**321,849**	**46,186**	**36,011**	**30,305**	**465,825**	**900,176**
Net book value							
As at December 31, 2019	68,261	683,655	28,427	958	9,871	289,302	1,080,474
As at September 30, 2020	**68,261**	**663,145**	**24,874**	**714**	**8,261**	**253,344**	**1,018,599**

6. Lease assets and liabilities

The Company leases its head office premises in Ajax, Ontario. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019 as follows:

	September 30, 2020 $	December 31, 2019 $
Right of use asset		
Cost	**125,933**	125,933
Accumulated amortization	**60,104**	34,346
Net book value	**65,829**	91,587

Lease liability	**September 30, 2020** $	December 31, 2019 $
Current		
Lease liability	**15,553**	30,192
Non-current		
Lease liability	**46,679**	54,513
Total lease liability	**62,232**	84,705

The Company has applied IFRS 16 using the modified retrospective method as of January 1, 2019 adoption date. On initial application, the Company has elected to record the right-of-use assets based on the corresponding lease liability. Right of use assets and lease obligations of $125,933 were recorded as of January 1, 2019, with no impact to retained earnings (deficit). When measuring lease liabilities, the Company discounted lease payments using its borrowing rate at January 1, 2019. The rate applied is approximately 6%.

Amortization of right of use asset is calculated using the straight-line method to allocate their cost over their estimated useful lives being the term of the lease.

During the nine months ended September 30, 2020 the Company recorded amortization of $25,758 (2019 – $23,028) and finance expense of $3,237 (2019 – $4,648).

7. Provisions

	September 30, 2020 $	December 31, 2019 $
Balance, beginning of period	**81,600**	81,600
Paid during the period	**(31,500)**	—
Balance, end of period	**50,100**	81,600

The provision balance consists of an accrual of one year's annual salary to a former CEO of the Company. In March 2017, the claim was settled for $255,000 payable over 25 months in equal installments of $10,200 per month. Throughout 2017 and 2018 there were a total of 17 monthly installments made. No payments were made in 2019 based on a verbal agreement between the parties. In December 2019, the parties signed an agreement to reduce the monthly installments to $3,500 per month during an interim period until the Company receives a down payment from a customer to build its first commercial plant. At that time, the Company will resume original installments and any monies paid during the interim period will reduce the number of remaining payments or final payment amount. During the nine months ended September 30, 2020, the Company paid $31,500 representing $3,500 per month (2019 – $nil).

8. Loans and borrowings

[a] Advances from director

During the year ended December 31, 2019, a director of the Company advanced a total of $500,000 to the Company, of which $126,563 was advanced during the six months ended June 30, 2019, for working capital purposes. On September 16, 2019, it was agreed that these funds would be applied to the convertible loan payable outstanding and a loan amendment agreement was signed increasing the face value of the convertible loan from $1,350,000 to $1,850,000 *[note 8d].*

[b] Bank loans consists of the following:

	September 30, 2020 $	December 31, 2019 $
Bank loans, interest free with no principal repayments due until December 31, 2022.	**80,000**	—
Less current portion	—	—
	80,000	—

On April 30, 2020, the Company received proceeds of $80,000 pursuant to the Government sponsored Canada Emergency Business Account (CEBA) program offered during the COVID-19 pandemic. Environmental Waste International Inc. and its subsidiary EWI Rubber Inc. each received a $40,000 loan. These loans provide 0% interest with no principal repayments due until December 31, 2022. Loan forgiveness of $10,000 per loan is available provided that the remaining $30,000 balance per loan is repaid in full on or before December 31, 2022. If the balance is not repaid or forgiven on or before December 31, 2022, the remaining balance thereafter will be converted to a 3-year term loan at 5% annual interest, with a maturity date no later than December 31, 2025.

[c] Term loan payable consists of the following:

	September 30, 2020 $	December 31, 2019 $
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum.	**2,245,794**	2,223,077
Less current portion	**245,794**	223,077
	2,000,000	2,000,000

In May 2017, the Company repaid the NOHFC $339,762 representing all unpaid and accrued interest at that date and agreed to defer interest and principal payments to April 30, 2018. During 2018 and 2019 no principal payments were made and the Company continued to accrue interest on the outstanding principal of the loan, compounded monthly. In December 2019, the Company and the NOHFC negotiated a fourth amendment to the loan agreement whereby all interest and principal payments be deferred to March 31, 2020. According to the agreement, on April 1, 2020 the Company is required to make an interest catch up payment for interest accrued to that date. Commencing May 1, 2020, the Company is required to make interest only payments until June 30, 2021, after which time blended principal and interest payments of $27,338 will begin until maturity.

8. Loans and borrowings – continued

In March 2020, the Company obtained approval from the lender to delay the April 1, 2020 interest catch up payment and principal payments for three months from April 1 to June 30, 2020. Further, the lender agreed to waive interest for the three months ended June 30, 2020 and to extend the maturity date of the loan by three months.

In June 2020, the Company obtained additional approval from the lender to delay the previously deferred payments and principal payments for an additional three months from July 1 to September 30, 2020. Further, the lender agreed to waive interest for the three months ended September 30, 2020 and to extend the maturity date of the loan by three months.

Payments are scheduled to resume October 1, 2020 and the maturity dates have been extended by six months as described above.

The amount of interest accrued at September 30, 2020 was $245,794 [December 31, 2019 – $223,077], and interest expense during the nine months ended September 30, 2020 was $22,717 (2019 – $60,000).

[d] Promissory note payable consists of the following:

	September 30, 2020 $	December 31, 2019 $
Promissory note payable, with interest at 6% per annum, principal and accrued interest payments payable on July 15, 2021	**1,062,904**	1,017,333
Less current portion	—	—
	1,062,904	1,017,333

In April 2017, the Company received net proceeds of $903,000 from a director in the form of a promissory note which bears interest at 6%. The principal balance of this note was increased to $1,537,209 by December 31, 2018. As at August 31, 2019, the total amount including principal and interest owing was $1,710,000. Pursuant to an agreement signed on September 16, 2019, the parties agreed to settle $710,000 of the total amount owing by issuing 14,200,000 common shares of the Company at $0.05 *[note 9a]* and amending the promissory note agreement to decrease the principal amount to $1,000,000 and to defer the maturity date from September 30, 2019 to July 15, 2021. All other terms of the note remain unchanged. There was no gain or loss on settlement of this debt as the fair value of the equity issued was the same as the fair value of the debt on the settlement date.

Interest expense for the nine months ended September 30, 2020 was $45,571 (2019 – $64,110).

8. Loans and borrowings – continued

[e] Convertible loan payable consists of the following:

	Convertible debt $	Conversion feature derivative liability $	Warrant derivative liability $	Total derivative liability $	Total debt and derivative liability $
As at December 31, 2018	1,048,195	431,773	125,281	557,054	1,605,249
New issuance during the year	52,952	447,048	—	447,048	500,000
Interest	84,541	—	—	—	84,541
Accretion expense	171,164	—	—	—	171,164
Loss on revaluation of derivatives	—	956,178	63,513	1,019,691	1,019,691
As at December 31, 2019	1,356,852	1,834,999	188,794	2,023,793	3,380,645
Interest	71,480	—	—	—	71,480
Accretion expense	126,782	—	—	—	126,782
Loss on revaluation of derivatives	—	205,001	348,945	553,946	553,946
Conversion to share capital	(1,555,114)	(2,040,000)	—	(2,040,000)	(3,595,114)
As at September 30, 2020	—	—	**537,739**	**537,739**	**537,739**

On April 12, 2017, the Company received proceeds of $1,350,000 through the issuance of a 5-year, 5% unsecured convertible loan payable which was convertible at a price of $0.11 per common share. In addition, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years.

On September 16, 2019, the face value of the convertible loan was increased from $1,350,000 to $1,850,000 *[see note 9a]*. In addition, the conversion feature was reduced to a price of $0.08 for a period of 12 months and then increases to $0.10 until maturity. All other terms remain unchanged.

On September 11, 2020, the debtholder converted the principal of $1,850,0000 at a price of $0.08 per share pursuant to the terms of the agreement, and the accrued interest of $268,520 owing at $0.135 per share per TSXV regulations, resulting in the issuance of an aggregate of 25,114,037 common shares. The associated conversion feature derivative liability was revalued at September 10, 2020. This value as well as the carrying value of the convertible debt, which amounted to $3,595,114 in aggregate, was transferred to share capital upon conversion *[note 9a].* Costs of $12,275 relating to the conversion of debt were deducted from share capital. The residual balance that remains at September 30, 2020 represents the fair value of the derivative liability associated with 3,712,500 warrants that were issued with the debt on April 12, 2017.

8. Loans and borrowings – continued

The following is a summary of the cash value and accounting value for this financial instrument:

	As at September 30, 2020		As at December 31, 2019	
	Cash liability $	**Accounting liability $**	Cash liability $	Accounting liability $
Convertible loan	**1,850,000**	**830,388**	1,850,000	830,388
Accrued interest	**268,521**	**268,521**	197,041	197,041
Accrued accretion expense	**—**	**456,205**	—	329,423
Conversion to share capital	**(2,118,521)**	**(1,555,114)**	—	—
Convertible loan liability	**—**	**—**	2,047,041	1,356,852
Derivative liability	**—**	**2,577,739**	—	2,023,793
Conversion to share capital	**—**	**(2,040,000)**	—	—
Derivative liability	**—**	**537,739**	—	2,023,793
Total liability	**—**	**537,739**	2,047,041	3,380,645

The difference between the cash liability and accounting liability of $537,739 (December 31, 2019 – $1,333,604) is a non-cash liability as it will be settled by the issuance of common shares of the Company if the conversion is exercised. It represents the fair value of the benefit conferred on the debtholder based on the exercise at period-end and does not represent a cash liability.

The derivative liability is calculated at September 30, 2020 and December 31, 2019 using the Monte Carlo simulation model using the following assumptions, as well as the probability of subsequent equity raises and expected issuance price. The terms for valuing the derivatives at September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
Volatility	**191.9%**	158.5%
Dividend yield	**0%**	0%
Risk-free rate	**0.26%**	1.69%
Expected life	**1.6 years**	2.3 years

Accretion expense for the nine months ended September 30, 2020 was $126,782 (2019 – $80,906), and interest expense was $71,480 (2019 – $51,667).

8. Loans and borrowings – continued

[f] Mortgage payable consists of the following:

	September 30, 2020 $	December 31, 2019 $
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	—	13,684
Fixed-rate mortgage, with principal due upon maturity on July 3, 2025, with interest at 6% per annum payable monthly and interest of 4% per annum due upon maturity	**500,000**	—
Accrued interest	**7,192**	—
Cumulative discount amortization	**(988)**	—
Debt issue costs	**16,687**	—
Cumulative amortization of debt issue costs	**(813)**	—
	490,330	—
Less current portion	**2,253**	13,684
	488,077	—

On July 3, 2020, the Company's subsidiary Ellsin Environmental Ltd. ["Ellsin Environmental"] received proceeds of $500,000 from the issuance of a five-year mortgage with a third party, secured by land and a building owned by Ellsin Environmental in Sault Ste. Marie. The fair value of the mortgage was deemed to equal $500,000 based on the discounted cash flow using an estimated cost of borrowing of 9.16%. The loan matures on July 3, 2025 and bears interest at a rate of 10% per annum, 6% of which is paid monthly starting August 3, 2020 and 4% which is accrued and paid on maturity along with the principal. The 4% accrued interest can be paid in cash or common shares at the Company's option. Debt issue costs totaling $16,687 have been deducted from the face value of the mortgage. The remaining $8,684 balance on the previous mortgage was paid with proceeds from this mortgage on July 3, 2020.

Total interest expense on mortgages of $12,195 was recorded for the nine months ended September 30, 2020 (2019 – $1,193.

The security for previous mortgage was a fixed and floating charge on the business assets of Ellsin Environmental Ltd. by way of a General Security Agreement subordinate to the NOHFC, covering all assets other than real property. In March 2020, the Company obtained approval from the lender to delay the principal and interest payments from April 1, 2020 to June 30, 2020. The balance was repaid in full on July 3, 2020 full.

[g] Deferred compensation

	September 30, 2020 $	December 31, 2019 $
Deferred compensation with interest at 6% per annum, calculated monthly in arrears, payable January 15, 2022	**400,000**	400,000
Accrued interest	**24,000**	6,000
	424,000	406,000

8. Loans and borrowings – continued

On September 16, 2019, pursuant to a salary deferral agreement between the Company and a director and key member of management, $400,000 of salary and expenses owing was deferred. Interest will accrue on this amount at 6% per annum calculated monthly in arrears and is payable at maturity.

Total interest of $12,000 was recorded for the nine months ended September 30, 2020 (2019 – $nil).

[h] Finance costs

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	$	$
Interest on lease liability *[note 6]*	**3,237**	4,648
Interest on term loan payable	**22,717**	60,000
Interest on promissory note payable	**45,571**	64,110
Interest on convertible loan payable	**71,480**	51,667
Interest on mortgage payable	**12,195**	1,193
Interest on deferred compensation	**18,000**	—
Accretion expense on convertible loan payable	**126,782**	80,906
	299,982	262,524

9. Share capital and reserves

[a] Share Capital

Authorized – Unlimited common shares
Issued and outstanding

	Number of shares	Amount
	#	$
Balance December 31, 2018	**165,827,736**	**48,658,125**
Issuance of shares pursuant to private placements [1]	33,200,000	1,231,460
Issuance of shares pursuant to settlement of promissory note [2]	14,200,000	710,000
Issuance of shares pursuant to settlement of debt [3]	1,128,913	56,446
Share issue costs [4]	—	(44,270)
Balance December 31, 2019	**214,356,649**	**50,611,761**
Issuance of shares pursuant to private placement [5]	6,153,846	176,244
Issuance of shares pursuant to conversion of loan payable (6)	25,114,037	3,595,114
Stock options exercised [7]	139,992	18,114
Share issue costs [8]	—	(14,872)
Balance September 30, 2020	**245,764,524**	**54,386,361**

[1] On April 30, 2019, the Company received proceeds of $475,000 pursuant to share subscription arrangements whereby the Company agreed to issue 9,500,000 common shares at a price of $0.05 per share, and one-half of a warrant at $0.20 per warrant. The fair value of these warrants of $133,475 less issue costs of $4,386 or $129,089 was transferred from share capital to contributed surplus. On September 16, 2019 share certificates were issued for these shares.

9. Share capital and reserves – continued

On September 16, 2019, the Company closed a private placement and issued 23,700,000 common shares at a price of $0.05 per common share and one-half warrant at $0.20 per warrant for gross proceeds of $1,185,000. The fair value of these warrants of $295,065 less issue costs of $9,339 or $285,726 was transferred from share capital to contributed surplus.

[2] On September 16, 2019, the Company and holder of the promissory note outstanding, agreed to settle $710,000 of the total amount owing by issuing 14,200,000 common shares of the Company at $0.05 *[note 8d]*. There was no gain or loss on settlement of this debt as the fair value of the equity issued was the same as the fair value of the debt on the settlement date. Share issue costs incurred on settlement of $4,882 were adjusted against share capital.

[3] On September 16, 2019, the Company agreed to settle two advances from directors totaling $56,446 by issuing 1,128,913 common shares of the Company at $0.05. These advances were previously included in accounts payable and accrued liabilities. There was no gain or loss on settlement of this debt as the fair value of the equity issued was the same as the fair value of the debt on the settlement date.

[4] Issuance costs for the year ended December 31, 2019 allocated to share capital totaled $44,270.

[5] On June 30, 2020 the Company closed a private placement and issued 6,153,846 common shares at a price of $0.65 per common share and one warrant at $0.18 per warrant for gross proceeds of $400,000. The fair value of these warrants of $223,756 was transferred from share capital to contributed surplus. Associated share issue costs of $2,597 attributable to share capital were adjusted against share capital. The counterparty to the partnership to enter the European Market described in note 11, participated in this private placement.

[6] On September 11, 2020, the loan payable $1,850,0000 and accrued interest of $268,521 was converted into common shares of the Company. The principal amount of the loan was converted at a price of $0.08 per share and the accrued interest was convertible at $0.135 per share, resulting in the issuance of an aggregate of 25,114,037 common shares. The amount of $3,595,114 representing the principal, accrued interest and value of the derivative liability at the date of conversion was transferred to share capital *[note 8e].* Associated share issue costs of $12,275 were adjusted against share capital.

[7] On September 29, 2020 the Company received total proceeds of $10,600 for the issuance of a total of 139,992 common shares as a result of the following stock options exercises: 55,000 stock options were exercised at a price of $0.10 for $5,500; and, 84,992 stock options were exercised at a price of $0.06 for proceeds of $5,100. An amount of $7,514 related to the options exercised was transferred from contributed surplus to share capital.

[8] Issuance costs for the nine months ended September 30, 2020 allocated to share capital totaled $18,168.

[b] Share-based payment plans

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

9. Share capital and reserves – continued

Subject to the guidelines contained in the Plan, the Company has adopted a 10% rolling stock option plan dated May 6, 2013 and approved by the Board of Directors on May 9, 2013 and by the shareholders of the Company on June 11, 2013, pursuant to which the Board of Directors may, from time to time, authorize the issuance of options to directors, employees, officers and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding common shares at the time of the grant.

The following options to purchase shares were outstanding on September 30, 2020 and December 31, 2019:

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	$	#	$
Outstanding, beginning of period	**12,788,750**	**0.10**	14,505,000	0.10
Granted	**3,905,000**	**0.05**	4,293,750	0.08
Expired	**(3,935,000)**	**(0.10)**	(6,010,000)	(0.10)
Exercised	**(139,992)**	**(0.08)**	—	—
Outstanding, end of period	**12,618,758**	**0.08**	12,788,750	0.10
Exercisable, end of period	**5,907,388**	**0.10**	7,569,483	0.10

On June 30, 2020, the Company granted 3,905,000 stock options to directors, officers, employees and consultants with an exercise price of $0.05 which vest over three years and expire in five years.

During the nine months ended September 30, 2020, 3,935,000 options with an exercise price of $0.10 expired.

On September 25, 2020, a total of 139,992 stock options were exercised including 55,000 stock options exercised at a price of $0.10 for $5,500 and 84,992 stock options exercised at a price of $0.06 for proceeds of $5,100.

During 2019, 6,010,000 stock options with an exercise price of $0.10 expired. In addition, the Company granted a total of 4,293,750 stock options including 3,300,000 at $0.06 which vest over three years and expire in five years. 331,250 options were granted at $0.10 and 662,500 at $0.18 which vest on the grant date and have a term of five years.

A summary of stock options outstanding and exercisable as at September 30, 2020 is set out below:

	Outstanding and exercisable stock options		
As at September 30, 2020 Range of exercise prices	Number of options	Remaining contractual life	Weighted average exercise price
$	#	[years]	$
0.05	**3,905,000**	**4.67**	**0.05**
0.06	**3,215,008**	**3.89**	**0.06**
0.10	**3,761,250**	**1.97**	**0.10**
0.11	**1,075,000**	**0.59**	**0.11**
0.18	**662,500**	**3.52**	**0.18**
	12,618,758	**3.26**	**0.08**

9. Share capital and reserves – continued

During the nine months ended September 30, 2020, the fair value of all options was estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2019 – 0%]; expected volatility of 219% [2019 – 188%]; risk-free interest rates of 0.35% [2019 – 1.74%]; and an average expected life of five years [2019 – five years]. This resulted in stock-based compensation expense of $122,767 during the nine months ended September 30, 2020 [2019 – $71,191].

[c] Warrants

In 2017, pursuant to the issuance of the convertible loan, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years. The value of these warrants has been accounted for as a derivative liability *[note 8e]*.

Pursuant to the financings on April 30, 2019 and September 16, 2019, the Company issued 4,750,000 and 11,850,000 common share purchase warrants that entitle the holder to receive one common share at a price of $0.20 for a period of three years. The value of these warrants are $129,089 and $285,726 respectively, for a total value of $414,815 which has been transferred from share capital to contributed surplus.

On June 30, 2020, pursuant to a financing completed, the Company issued 6,153,846 common share purchase warrants that entitle the holder to receive one common share at a price of $0.18 for a period of five years. The value of these warrants of $223,756 has been transferred from share capital to contributed surplus, less $3,296 of associated share issuance costs attributable to the warrants.

A summary of the status of the Company's warrants at September 30, 2020 are as follows:

	Number of warrants	**Weighted average remaining contractual life**	**Weighted average exercise price**
	#	[years]	$
Balance, December 31, 2018	3,712,500	1.59	0.11
Issued April 30, 2019	4,750,000	1.58	0.20
Issued September 16, 2019	11,850,000	1.96	0.20
Balance, December 31, 2019	20,312,500	1.80	0.17
Issued June 30, 2020	6,153,846	4.75	0.18
Balance, September, 30, 2020	**26,466,346**	**2.49**	**0.18**

A summary of warrants outstanding and exercisable as at September 30, 2020 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Weighted average Remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.11	**3,712,500**	**1.59**	**0.11**
0.18 – 0.20	**22,753,846**	**2.64**	**0.19**

9. Share capital and reserves – continued

[d] Contributed surplus

	September 30, 2020 $	December 31, 2019 $
Balance, beginning of period	**6,492,500**	5,971,088
Stock-based compensation	**122,767**	106,597
Issuance of warrants	**223,756**	428,540
Stock options exercised	**(7,514)**	—
Warrant issue costs	**(3,296)**	(13,725)
Balance, end of period	**6,828,213**	6,492,500

[e] Per share amounts

For the nine months ended September 30, 2020, the weighted average number of shares outstanding was 218,284,125 [2019 – 168,344,050]. As at September 30, 2020, the Company had 12,618,758 stock options [December 31, 2019 – 12,788,750] and 26,466,346 warrants [December 31,2019 – 20,312,500] outstanding.

10. Related party disclosures

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

During the nine months ended September 30, 2020, the Company engaged in transactions in the normal course of operations with the following related parties. All of these transactions have been accounted for at the exchange amount agreed to by the transacting parties as follows.

The Company recognized an expense during the nine months ended September 30, 2020 for interest on loans to a director of $116,480 [2019 – $115,777]. At September 30, 2020, $62,333 was included in loans payable [December 31, 2019 – $214,374] relating to unpaid interest on loans from a director *[note 8d].*

[b] Transactions with key management personnel

The Company recorded compensation expense during the nine months ended September 30, 2020 in the amount of $200,950 [2019 – $191,750] and share-based compensation in the amount of $47,922 [2019 – $16,865] to key management personnel.

The Company recognized an expense of $18,000 [2019 – $nil] during the nine months ended September 30, 2020 for interest on deferred compensation to a key management person who is also a director.

Accounts payable as at September 30, 2020, includes $147,090 [December 31, 2019 – $129,601] related to compensation of a key member of management who is also a director.

11. Commitments and 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 unaudited interim condensed consolidated financial statements with respect to any indemnifications.

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

12. Segment information

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

During the nine months ended September 30, 2020 and 2019, 100% of the revenue is attributable to the United States region. During the nine months ended September 30, 2020 and 2019, 100% of the revenue is attributable to one customer. All of the Company's non-current assets are located in Canada.

13. De-consolidation of a structured entity

During fiscal 2007, Environmental Waste International Limited Partnership ["EWILP"], a limited partnership, was formed to hold the Company's intellectual property and to license certain intellectual property back to the Company by way of a license agreement. As EWILP was consolidated shortly after the transfer of intellectual property from the Company to EWILP, the measurement of the intellectual property was at book value. EWI had 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 limited partnership units by issuing up to $5,000,000 in EWI stock at its then fair market value, based on the 10-day average trading price, to be not less than $0.50 per share. This right expired unexercised on November 1, 2017. Based on the contractual terms of the agreements in place, the Company previously assessed that the voting rights in EWILP were not the dominant factor in deciding who controls the entity. Therefore, the Company previously concluded that EWILP is a structured entity under IFRS 10 and that it controlled EWILP with 100% non-controlling interests.

During 2019 it was deemed that there was a loss of control as the Company de-consolidated EWILP as a variable interest entity from its consolidated statements of shareholders' deficiency. There was no impact to the consolidated statements of loss and comprehensive loss as a result of this change.

14. COVID-19

In March 2020, there was a global outbreak of the coronavirus COVID-19 which has had impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments. Given that measures taken to address the COVID-19 pandemic only started in the latter part of the first quarter, such measures primarily had an impact on the Company during the second and third quarters of 2020 resulting in a decrease in maintenance revenues due to the inability to travel to the US. Depending on the severity and duration of COVID-19 disruptions, our maintenance revenues and associated collections of trade receivables may continue to be negatively impacted in future periods.

The Company qualified for the Canada Emergency Wage Subsidy (CEWS) government program that provides the Company with a subsidy of up to 75% of remuneration to eligible employees. During the nine months ended September 30, 2020 the Company received $49,934 which is recorded as a reduction to payroll costs when received.

In addition, as described in note 8b, on April 30, 2020 the Company received proceeds of $80,000 pursuant to the Government sponsored Canada Emergency Business Account (CEBA) program. Environmental Waste Inc. and one of its subsidiaries each received a $40,000 loan.

15. Subsequent Events

[a] Exercise of stock options

On October 5, 2020, 141,658 stock options were exercised for proceeds of $10,899.

On November 16, 2020, 666,558 stock options were exercised for proceeds of $66,327 by a director of the Company.

On November 19, 2020, 500,000 stock options were exercised for proceeds of $50,000 by a key management person who is also a director.

[b] New lease agreement

On October 6, 2020, the Company entered into a new lease agreement for its head office, which replaces the current lease for space in Ajax. The lease is for the term commencing November 1, 2020 and the Company is committed until October 31, 2025, at a similar rate to its current lease.