

Condensed Interim Consolidated financial statements

**Environmental Waste International Inc.**

For the three and nine months ended September 30, 2017

**Notice to Reader**

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The accompanying unaudited condensed interim financial statements of Environmental Waster International Inc. (“EWI” or the “Company”) for the nine months ended September 30, 2017 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been audited, reviewed or verified by the Company’s external auditors or any other accounting firm.

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

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The accompanying unaudited condensed interim financial statements of Environmental Waster International Inc. have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) consistently applied. The most significant of these accounting principles have been set out in the December 31, 2016 financial statements.

### **Auditor Involvement**

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

Ajax, Ontario

November 27, 2017

**Environmental Waste International Inc.**

Incorporated under the laws of Ontario

**Unaudited Interim Consolidated Statements of Financial Position**

[Canadian dollars]

As at

	September 30 2017	December 31 2016
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash <i>[note 4]</i>	124,830	45,697
Accounts receivable	115,051	17,075
Loan receivable <i>[note 5]</i>	18,720	20,141
Prepaid expenses and sundry	70,324	66,760
<b>Total current assets</b>	<b>328,925</b>	<b>149,673</b>
Property and equipment, net <i>[note 6]</i>	1,271,269	1,336,406
	<b>1,600,194</b>	<b>1,486,079</b>
<b>Liabilities and shareholders' equity (deficiency)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	753,653	1,125,245
Provisions <i>[note 8]</i>	193,800	255,000
Current portion of loans payable <i>[note 9[a]]</i>	—	103,761
Current portion of term loan payable <i>[note 9[b]]</i>	—	2,315,700
Current portion of promissory note payable <i>[note 9[c] and [d]]</i>	825,889	615,339
Current portion of mortgages payable <i>[note 9[e]]</i>	17,130	752,130
Deferred revenue	84,589	65,698
<b>Total current liabilities</b>	<b>1,875,061</b>	<b>5,232,873</b>
Loans payable <i>[note 9[a]]</i>	—	50,501
Term loan payable	2,033,333	—
Convertible loan payable <i>[note 9[d]]</i>	796,958	486,938
Mortgages payable <i>[note 9[e]]</i>	38,429	51,174
<b>Total liabilities</b>	<b>4,743,781</b>	<b>5,821,486</b>
<b>Shareholders' deficiency</b>		
Capital stock <i>[note 10]</i>	48,443,440	46,101,502
Shares to be issued <i>[note 10]</i>	—	563,805
Contributed surplus <i>[note 10]</i>	5,875,641	5,761,336
Warrants <i>[note 10]</i>	142,777	41,341
Equity portion of convertible debt <i>[note 9[d]]</i>	459,891	126,083
Deficit	(57,963,976)	(56,828,114)
Deficiency attributable to owners of the Parent	(3,042,227)	(4,234,047)
Non-controlling interests	(101,360)	(101,360)
<b>Total shareholders' deficiency</b>	<b>(3,143,587)</b>	<b>(4,335,407)</b>
	<b>1,600,194</b>	<b>1,486,079</b>
Going concern <i>[note 1]</i>		
Commitments and contingencies <i>[note 12]</i>		

See accompanying notes

Approved by the Board:

**"Emanuel Gerard"**  
Director

**"Robert MacBean"**  
Director

Environmental Waste International Inc.

Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss

[Canadian dollars]

Three and nine months ended September 30

	3 months ended September 30 2017 \$	3 months ended September 30 2016 \$	9 months ended September 30 2017 \$	9 months ended September 30 2016 \$
<b>Revenue</b>				
Sales and other	57,541	59,358	140,912	130,833
<b>Expenses</b>				
Operating, labour and manufacturing	242,690	341,894	955,203	1,017,504
Stock-based compensation [notes 10 and 11(c)]	22,261	36,642	75,806	140,283
Amortization of property and equipment [note 6]	21,822	23,385	65,137	70,156
Amortization of intangible assets [note 7]	—	—	—	56,010
Finance expense – interest on loans payable	—	1,994	4,458	5,867
Finance expense – interest on term loan payable	30,034	19,706	57,395	58,459
Finance expense – interest on promissory note payable	12,035	13,503	35,322	39,489
Finance expense – interest on convertible loan payable	16,875	10,837	38,511	31,878
Finance expense – interest on mortgages payable	881	23,180	28,540	69,784
Accretion expense	11,468	—	94,803	—
Government assistance	(48,154)	(83,191)	(48,154)	(83,191)
Gain on settlement of debt [note 8(d)]	—	—	(44,977)	—
Foreign exchange loss	975	5,063	14,730	10,993
	310,887	393,013	1,276,774	1,417,232
<b>Net loss and comprehensive loss for the period</b>	<b>(253,346)</b>	<b>(333,655)</b>	<b>(1,135,862)</b>	<b>(1,286,399)</b>
<b>Net loss and comprehensive loss attributable to:</b>				
Shareholders	(253,346)	(333,655)	(1,135,862)	(1,286,399)
Non-controlling interests	—	—	—	—
	<b>(253,346)</b>	<b>(333,655)</b>	<b>(1,135,862)</b>	<b>(1,286,399)</b>
<b>Loss per share – basic and diluted [note 10]</b>	<b>(0.002)</b>	<b>(0.002)</b>	<b>(0.007)</b>	<b>(0.009)</b>
<b>Weighted average number of shares outstanding – basic and diluted [note 10]</b>	<b>163,178,436</b>	<b>140,191,205</b>	<b>154,833,222</b>	<b>139,902,743</b>

See accompanying notes

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

Environmental Waste International Inc.

#### Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency

[Canadian dollars]

	Capital stock	Shares to be issued	Contributed surplus	Warrants	Equity portion of convertible debt	Deficit	Total attributable to owners of the parent	Non- controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	45,851,502	—	5,356,570	275,213	—	(55,187,019)	(3,703,734)	(101,360)	(3,805,094)
Private placement [note 10]	250,000	—	—	—	—	—	250,000	—	250,000
Options issued [note 10]	—	—	140,283	—	—	—	140,283	—	140,283
Warrants expired [note 10]	—	—	233,872	(233,872)	—	—	—	—	—
Net loss and comprehensive loss for the period	—	—	—	—	—	(1,286,399)	(1,286,399)	—	(1,286,399)
<b>Balance, September 30 2016</b>	<b>46,101,502</b>	<b>—</b>	<b>5,730,725</b>	<b>41,341</b>	<b>—</b>	<b>(56,473,418)</b>	<b>(4,599,850)</b>	<b>(101,360)</b>	<b>(4,701,210)</b>
<b>Balance, December 31, 2016</b>	<b>46,101,502</b>	<b>563,805</b>	<b>5,761,336</b>	<b>41,341</b>	<b>126,083</b>	<b>(56,828,114)</b>	<b>(4,234,047)</b>	<b>(101,360)</b>	<b>(4,335,407)</b>
Private placement [note 10]	371,250	—	—	—	—	—	371,250	—	371,250
Options issued [note 10]	—	—	75,806	—	—	—	75,806	—	75,806
Warrants issued [note 10]	—	—	(2,842)	142,777	—	—	139,935	—	139,935
Warrants cancelled or expired [note 10]	—	—	41,341	(41,341)	—	—	—	—	—
Share subscriptions issued [note 10]	—	99,133	—	—	—	—	99,133	—	99,133
Shares issued for share subscriptions	662,938	(662,938)	—	—	—	—	—	—	—
Conversion of loans payable [note 9(a)]	157,701	—	—	—	—	—	157,701	—	157,701
Conversion of debt [note 9(c)(d)]	1,282,354	—	—	—	(126,083)	—	1,156,271	—	1,156,271
Issuance of convertible debt	—	—	—	—	459,891	—	459,891	—	459,891
Share issue costs	(132,305)	—	—	—	—	—	(132,305)	—	(132,305)
Net loss and comprehensive loss for the period	—	—	—	—	—	(1,135,862)	(1,135,862)	—	(1,135,862)
<b>Balance, September 30, 2017</b>	<b>48,443,440</b>	<b>—</b>	<b>5,875,641</b>	<b>142,777</b>	<b>459,891</b>	<b>(57,963,976)</b>	<b>(3,042,227)</b>	<b>(101,360)</b>	<b>(3,143,587)</b>

See accompanying notes

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

## Environmental Waste International Inc.

### Unaudited Interim Consolidated Statements of Cash Flows

[Canadian dollars]

Nine months ended September 30

	9 months ended September 30 2017 \$	9 months ended September 30 2016 \$
<b>Operating activities</b>		
Net loss for the period	(1,135,862)	(1,286,399)
Add items not involving cash		
Amortization of property and equipment	65,137	70,156
Amortization of intangible assets	—	56,010
Finance expense	122,671	135,631
Accretion expense	94,803	—
Stock-based compensation	75,806	140,283
Gain on settlement on debt	(44,977)	—
	(822,422)	(884,319)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(97,976)	28,825
Loan receivable	1,421	1,084
Prepaid expenses and sundry	(3,564)	17,183
Deferred revenue	18,891	33,681
Accounts payable and accrued liabilities	(371,593)	180,750
Provisions	(61,200)	—
<b>Cash used in operating activities</b>	(1,336,443)	(622,796)
<b>Financing activities</b>		
Proceeds from issuance of units on private placement	371,250	250,000
Proceeds from issuance of share subscriptions	99,133	423,805
Proceeds from the issuance of promissory note	938,000	—
Repayment of promissory note	(135,000)	—
Proceeds from the issuance of convertible debt	1,350,000	—
Repayments of mortgages payable	(747,745)	(11,843)
Repayment of accrued interest on mortgage and term loan payable	(460,062)	—
<b>Cash provided by financing activities</b>	1,415,576	661,962
<b>Net increase in cash during the period</b>	79,133	39,166
Cash, beginning of period	45,697	16,059
<b>Cash, end of period</b>	124,830	55,225

See accompanying notes

## **Environmental Waste International Inc.**

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

September 30, 2017 and 2016

#### **1. Nature of operations and Going Concern**

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

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

#### **2. Basis of preparation and statement of compliance**

##### **Statement of compliance`**

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

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved the interim condensed consolidated financial statements on November 27, 2017.

##### **Basis of Measurement**

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

##### **Functional and presentation currency**

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



## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

#### 3. Summary of significant accounting policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2016 and have been applied consistently to all periods presented in these unaudited interim consolidated financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016.

##### **Basis of consolidation**

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

##### **Standards issued but not yet effective**

###### **IFRS 9, *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

###### **IFRS 15, *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

###### **IFRS 16, *Leases***

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little changed to the existing accounting in IAS 17 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is in the process of assessing the impact of this standard on the Company's consolidated financial statements.

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

September 30, 2017 and 2016

**4. Cash and cash equivalents**

Cash consists of the following:

	<b>September 30</b>	December 31
	<b>2017</b>	2016
	\$	\$
Cash	<b>124,830</b>	45,697

**5. Loan receivable**

Loan receivable consists of the following:

	<b>September 30</b>	December 31
	<b>2017</b>	2016
	\$	\$
Loan receivable	<b>18,720</b>	20,141

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

**6. Property and equipment**

Property and equipment consist of the following:

	Land	Building	Fixtures	Computer equipment	Office equipment	Equipment – gas engine	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
<b>As at December 31, 2016</b>	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
<b>As at September 30, 2017</b>	<b>68,261</b>	<b>984,994</b>	<b>71,060</b>	<b>36,725</b>	<b>38,566</b>	<b>719,169</b>	<b>1,918,775</b>
<b>Accumulated amortization</b>							
<b>As at December 31, 2015</b>	—	180,075	23,685	32,208	19,592	238,182	493,742
Amortization charge	—	32,197	4,737	1,355	2,393	47,945	88,627
<b>As at December 31, 2016</b>	—	<b>212,272</b>	<b>28,422</b>	<b>33,563</b>	<b>21,985</b>	<b>286,127</b>	<b>582,369</b>
Amortization charge	—	23,182	3,553	1,181	1,263	35,958	65,137
<b>As at September 30, 2017</b>	<b>—</b>	<b>235,454</b>	<b>31,975</b>	<b>34,744</b>	<b>23248</b>	<b>322,085</b>	<b>647,506</b>
<b>Net book value</b>							
<b>As at September 30, 2017</b>	<b>68,261</b>	<b>749,540</b>	<b>39,085</b>	<b>1,981</b>	<b>15,318</b>	<b>397,084</b>	<b>1,271,269</b>
<b>As at December 31, 2016</b>	<b>68,261</b>	<b>772,722</b>	<b>42,638</b>	<b>3,162</b>	<b>16,581</b>	<b>433,042</b>	<b>1,336,406</b>

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

#### 7. Intangible assets

Intangible assets consist of the following:

	Technology rights \$	Acquired in- process development \$	Marketing rights \$	Total \$
<b>As at December 31, 2016</b>	500,000	2,750,000	610,610	3,860,610
<b>As at September 30, 2017</b>	<b>500,000</b>	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
<b>Accumulated amortization</b>				
<b>As at December 31, 2015</b>	500,000	2,704,167	610,610	3,132,478
Amortization charge	—	45,833	10,177	56,010
<b>As at December 31, 2016</b>	500,000	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
Amortization charge	—	—	—	—
<b>As at September 30, 2017</b>	<b>500,000</b>	<b>2,750,000</b>	<b>610,610</b>	<b>3,860,610</b>
<b>Net book value</b>				
<b>As at September 30, 2017</b>	—	—	—	—
<b>As at December 31, 2016</b>	—	—	—	—

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

#### 8. Provisions

	September 30 2017 \$	December 31 2016 \$
Balance, beginning of period	255,000	255,000
Payments made during the period	61,200	-
Balance, end of period	<b>193,800</b>	255,000

The provision balance consists of an accrual of one year's annual salary to a former CEO of the Company. The former CEO issued a claim for severance after being terminated on March 1, 2013, in the amount of \$1,020,000. On March 14, 2017, the claim was settled for \$255,000 payable over 25 months in equal installments of \$10,200 per month commencing in April 2017. During the nine months ended September 30 2017, six payments totaling \$61,200 were made.

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

#### 9. Loans and borrowings

[a] Loans payable consist of the following:

	September 30, 2017 \$	December 31, 2016 \$
Fixed rate loans due to directors of the Company, with interest at 8% per annum, payable on April 30, 2017	—	103,761
Convertible loan payable, with interest at 6% per annum, repayable on November 2, 2018	—	50,501
	—	154,262
Less current portion	—	103,761
	—	50,501

On May 1, 2017 The Company converted loans due to directors totaling to \$157,701 into common shares at \$0.10 per common share for a total of 1,072,010 common shares. 84,000 warrants pertaining to these loans were cancelled. In addition \$50,500 convertible loan payable was converted at \$0.10 per common share for a total of 505,000 common shares. *[note 10]*

[b] Term loan payable consists of the following:

	September 30, 2017 \$	December 31, 2016 \$
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum, payable by March 23, 2020	<b>2,033,333</b>	2,315,700
Less current portion	—	2,315,700
	<b>2,033,333</b>	—

During the period May 1, 2015 to April 30, 2017, interest-only payments were due on the loan in the amount of \$13,334 per month, representing \$6,667 in respect of interest accrued during the period from April 1, 2013 to April 30, 2015 and \$6,667 in respect of regular interest payable. This amount of interest totaling \$315,700 was accrued at December 31, 2016.

On May 8, 2017, the Company repaid the NOHFC \$339,762 representing all unpaid and accrued interest up to that date. On May 18, 2017, the Company and the NOHFC signed a third amendment to the loan agreement to further defer the interest and principal payments to April 30, 2018. Interest will continue to accrue on the outstanding principal of the loan and accrued interest, compounded monthly. In addition, the NOHFC agreed to waive \$500,000 of their first security interest on the land and building owned by Ellsin Environmental Ltd, but has a first security interest in all of the assets of the Company pursuant to a General Security agreement registered under PPSA.

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

[c] Promissory note payable consists of the following:

	September 30, 2017 \$	December 31, 2016 \$
Promissory note payable, with interest at 8% per annum, payable on June 17, 2017 [i]	—	615,339
Promissory note payable, with interest at 6% per annum, payable on July 11, 2017[ii]	<b>825,889</b>	—
Less current portion	—	—
	<b>825,889</b>	615,339

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

[ii] On April 12, 2017, the Company received proceeds of \$938,000 in the form of a promissory note. The note bears interest at 6%, repayable on July 11, 2017. The Company has the option to extend the maturity for an additional 90 days. \$855,300 of proceeds from the promissory note were used to repay the second mortgage of \$735,000 and deferred and accrued interest totaling \$120,300. [note 9(e)]. \$135,000 of this loan was repaid on May 1, 2017 from of proceeds of the private placement that closed on April 28, 2017. [note 10]. Accrued interest of \$22,889 for the period April 12, 2017 to September 30, 2017 was included in the nine month period ended September 30, 2017.

Subsequent to the end of the period the promissory note payable was increased by an additional \$100,000 [see note 14]

[d] Convertible loans payable consists of the following:

	September 30 2017 \$	December 31 2016 \$
Face value of loan payable upon issuance	—	500,000
Less: discount	—	(126,083)
Book value of loan payable on June 10, 2018	—	373,917
Accrued interest payable at 8%	—	63,081
Accrued accretion expense	—	49,940
	—	486,938
Less current portion	—	—
	—	486,938

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

September 30, 2017 and 2016

In 2015, the Company received proceeds of \$500,000 through the issuance of a convertible loan. The fair value of the promissory note was deemed to be \$373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%. Accretion expense for the nine months ended September 30, 2017 was \$76,143 representing the interest that was fully accreted up to the full discount of \$126,083.

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

	September 30 2017 \$	December 31 2016 \$
Face value of loan payable upon issuance	1,350,000	—
Less: discount	(459,892)	—
Book value of loan payable upon issuance	890,108	—
Less: value of warrants issued as consideration	(139,935)	—
Book value of loan payable on April 28, 2022	750,173	—
Accrued interest payable in kind at 5%	28,125	—
Accrued accretion expense	18,660	—
	796,958	—
Less current portion	—	—
	<b>796,958</b>	—

On April 28, 2017, the Company issued a 5 year 5% unsecured convertible note payable for \$1,350,000. The note payable is convertible at a price of \$0.11 per common share. Accrued interest is required to be paid annually and, may be payable in cash or common shares of the Company at the Company's discretion. In addition, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of \$0.11 for a period of five years. The value of these warrants of \$139,935 was reduced from the carrying value of the loan. [note 10]

The fair value of the convertible note was deemed to be \$ 890,108 based on the discounted cash flow using an estimated cost of borrowing of 15%. The residual amount of \$459,892 was recorded as the Equity Component of the Convertible Debt. [note10] Accretion expense for the nine months ended September 30, 2017 was \$18,660.

**Environmental Waste International Inc.**

**Notes to interim condensed consolidated financial statements**

September 30, 2017 and 2016

[e] Mortgages payable consist of the following:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	<b>55,559</b>	68,304
Fixed-rate second mortgage, eight-year amortization period, with interest at 12% per annum, payable in full on April 15, 2017	—	735,000
	<b>55,559</b>	803,304
Less current portion	<b>17,130</b>	752,130
	<b>38,429</b>	51,174

On April 15, 2017, the second mortgage of \$735,000 and deferred interest amounting to \$120,300 were repaid for a total payment of \$855,300. At December 31, 2016 interest of \$94,575 to certain holders of the second mortgage was included in accounts payable and accrued liabilities.

The security for the above mortgages is as follows:

[i] First mortgage

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

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

	\$
2017	17,130
2018	18,187
2019	19,308
2020	934
	<b>55,559</b>

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#### 10. Share capital and reserves

##### Authorized

Unlimited common shares

##### Issued and outstanding

	Number of shares #	Amount \$
<b>Balance, December 31, 2015</b>	138,268,128	45,851,502
Private placement <sup>[1]</sup>	1,923,077	250,000
<b>Balance, December 31, 2015</b>	<b>140,191,205</b>	<b>46,101,502</b>
Conversion of promissory note payable <sup>[2]</sup>	6,277,810	627,781
Conversion of convertible loan payable <sup>[2]</sup>	5,284,900	528,490
Transfer of residual value of converted loan payable <sup>[2]</sup>	—	126,083
Conversion of loans payable <sup>[3]</sup>	1,577,010	157,701
Issuance of shares pursuant to share subscriptions <sup>[3]</sup>	6,135,011	662,938
Private placements <sup>[3]</sup>	3,712,500	371,250
Share issuance costs		(132,305)
<b>Balance, September 30, 2017</b>	<b>163,178,436</b>	<b>48,443,440</b>

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

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

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

<sup>[3]</sup> On April 28, 2017 the Company completed a private placement totaling \$1,721,250. The Company issued 3,712,500 common shares at a price of \$0.10 per common share for proceeds of \$371,250, and a 5 year 5% unsecured convertible note payable for \$1,350,000. [note 9(d)]

\$135,000 of proceeds from this financing were used to repay a portion of the promissory note issued on April 12, 2017, while the remainder will be used for working capital purposes.

The Company converted \$157,701 of loans into common shares. Of this debt, \$107,201 were loans due to directors of the Company and were converted at \$0.10 per common share for a total of 1,072,010 common



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shares. 84,000 warrants pertaining to these loans were cancelled. \$50,500 convertible loan payable was also converted at \$0.10 per common share for a total of 505,000 common shares. [note 9(a)].

The Company incurred share issuance costs of \$12,305 relating the equity transactions during the nine months ended September 30 2017.

Shares to be issued	Number of shares subscribed	Amount
	#	\$
<b>Balance, December 31, 2015</b>	<b>381,818</b>	<b>40,000</b>
Share subscriptions signed <sup>[1]</sup>	4,761,863	523,805
<b>Balance, December 31, 2016</b>	<b>5,143,681</b>	<b>563,805</b>
Share subscriptions signed <sup>[2]</sup>	991,330	99,133
Common shares issued for shares subscriptions signed <sup>[2]</sup>	(6,135,011)	(662,938)
<b>Balance, September 30, 2017</b>	<b>—</b>	<b>—</b>

<sup>[1]</sup> During 2016, the Company received proceeds of \$523,805 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at a price of \$0.11 per share. On April 28, 2017 the Company issued 160,000 share purchase warrants at \$0.10 to one of the holders of the subscription agreements, until November 12, 2017.

<sup>[2]</sup> During the nine months ended September 30, 2017, the Company received proceeds of \$99,133 pursuant to share subscription arrangements whereby the Company agreed to issue common shares at \$0.10 per share. On April 28, 2017, all the common shares pursuant to subscription agreements totaling 6,135,011 were issued.

#### Share-based payment plans

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

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

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The following options to purchase shares were outstanding on September 30, 2017 and December 31, 2016:

	2017		2016	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
<b>Balance, beginning of period</b>	<b>13,785,000</b>	<b>0.12</b>	13,065,000	0.12
Expirations	(560,000)	(0.25)	-	-
Cancellations	-	-	(355,000)	(0.10)
Granted	<b>1,400,000</b>	<b>0.10</b>	1,075,000	0.11
<b>Balance, end of period</b>	<b>14,625,000</b>	<b>0.11</b>	13,785,000	0.12

A summary of stock options outstanding and exercisable as at September 30, 2017 is set out below:

Range of exercise prices \$	Outstanding and exercisable stock options		
	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
0.10	<b>12,265,000</b>	<b>2.08</b>	<b>0.10</b>
0.11 to 0.20	<b>2,360,000</b>	<b>1.40</b>	<b>0.16</b>
	<b>14,625,000</b>	<b>1.96</b>	<b>0.11</b>

The fair value of all options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2016 – 0%]; expected volatility of 186% [2016 – 158%]; risk-free interest rates of 1.0% [2016 – 0.53%]; and an average expected life of five years. This resulted in stock-based compensation expense for the nine months ended of \$75,806 [2016 – \$140,283]. The weighted average fair value of options granted during the period was \$0.07 [2016 – \$0.05].

**Warrants**

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

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

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During the nine months ended September 30, 2017, the following transactions occurred:

- [ii] On March 3, 2017, pursuant to the conversion right granted to the lender of the promissory note payable [[note 8(b)], lender agreed to the cancellation of 500,000 common share purchase warrants that were issued at the time the loan was made. The value of these warrants of \$16,471 was transferred from warrants to contributed surplus.
- [iii] On March 31, 2017, 427,500 share purchase warrants that entitled the holder to acquire an additional common share at \$0.10 per share expired. The value of these warrants of \$20,500 was transferred from warrants to contributed surplus.
- [iv] Pursuant to the financing that closed on April 28, 2017, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of \$0.11 for a period of five years. The value of these warrants of \$139,935 was recorded as warrants and reduced from the debt. [note 9[d]]
- [v] On April 28, 2017, 84,000 common share warrants at a \$0.20 were cancelled with the repayment of the associated director's loans. [note 9(a)]. The value of these warrants of \$4,370 was transferred from warrants to contributed surplus. In addition, 160,000 common share purchase warrants valued at \$2,842 were issued at \$0.10 and expire on November 12, 2017.

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

	Number of warrants #	Amount \$	Weighted average exercise price \$
<b>Balance, December 31, 2015</b>	5,932,333	275,213	0.16
Expired	(4,920,833)	(233,872)	(0.21)
<b>Balance, December 31, 2016</b>	1,011,500	41,341	0.16
Cancelled	(584,000)	(20,841)	(0.20)
Expired	(427,500)	(20,500)	(0.10)
Granted	3,872,500	142,777	0.11
<b>Balance, September 30, 2017</b>	<b>3,872,500</b>	<b>142,777</b>	<b>0.11</b>

A summary of warrants outstanding and exercisable as at September 30, 2017 is set out below:

Range of exercise prices \$	Outstanding and exercisable warrants		
	Number of warrants #	Weighted average remaining contractual life [years]	Weighted average exercise price \$
<b>0.10</b>	<b>160,000</b>	<b>0.02</b>	<b>0.10</b>
<b>0.11</b>	<b>3,712,500</b>	<b>4.50</b>	<b>0.11</b>

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The fair values of all warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 186% [2016 – 157%]; risk-free interest rates of 1.0% [2016 – 0.53%] and an average expected life of two years. The weighted average fair value of warrants granted during the year was \$0.04 [2016 – \$0.05].

#### Contributed surplus

	September 30 2017 \$	December 31 2016 \$
<b>Balance, beginning of period</b>	<b>5,761,336</b>	5,356,570
Stock options granted and/or vested during the period		
Stock options issued	<b>75,806</b>	55,928
Warrants issued during the period	<b>(2,842)</b>	-
Warrants cancelled or expired during the period	<b>41,341</b>	103,906
<b>Balance, end of period</b>	<b>5,875,641</b>	5,516,404

#### Equity component of convertible debt

	September 30 2017 \$	December 31 2016 \$
<b>Balance, beginning of period</b>	<b>126,083</b>	—
Residual value of debt allocated to equity	<b>459,891</b>	126,083
Transfer of residual value on conversion of loan	<b>(126,083)</b>	—
<b>Balance, end of period</b>	<b>459,891</b>	126,083

In 2015, the Company received proceeds of \$500,000 through the issuance of a promissory note. The note was convertible into common shares of the Company at \$0.10 per common share [note 13d]. The fair value of the promissory note was deemed to be \$373,917 based on the discounted cash flow using an estimated cost of borrowing of 18%. The residual value of \$126,083 was recorded as equity value of convertible debt. On March 24, 2017 the loan was converted into common shares of the Company and the value of \$126,083 was transferred to share capital.

On April 28, 2017, the Company received proceeds of \$1,350,000 through the issuance of a convertible note payable. The note is convertible into common shares of the Company at \$0.11 per common share [note 9d]. The fair value of the convertible note was deemed to be \$ 890,108 based on the discounted cash flow using an estimated cost of borrowing of 15%. The residual amount of \$459,892 was recorded as Equity Component of Convertible Debt. [note 10]

## Environmental Waste International Inc.

### Notes to interim condensed consolidated financial statements

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#### Per share amounts

For the nine months ended September 30, 2017, the weighted average number of shares outstanding was 154,833,222 [2016 – 139,902,743]. As at September 30, 2017, the Company had 14,625,000 [December 31, 2016 – 13,785,000] stock options and 3,872,500 warrants [exercisable for 3,872,500 shares] December 31, 2016 – 1,011,500 warrants [exercisable for 1,011,500 shares]] that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

#### 11. Related party disclosures

##### [a] Subsidiaries and ultimate parent

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

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

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

The Company recognized an expense during the nine months ended September 30, 2017 for interest on loans to the directors of \$19,539 [2016 – \$46,886]. At December 31, 2016 \$69,750 interest was included in accounts payable and accrued liabilities and \$7,901 included in loans payable.

As at September 30, 2017, the Company has \$51,215 [December 31, 2016 – \$71,001] included in accounts payable and accrued liabilities owing to directors in addition to the interest included in accounts payable and accrued liabilities.

##### [c] Transactions with key management personnel

The Company recorded compensation expense during the nine months ended September 30, 2017 in the amount of \$225,559 [2016 – \$231,674] and share-based compensation in the amount of \$23,879 [2016 – \$50,466] to key management personnel.

Accounts payable at September 30, 2017 includes \$307,322 [December 31, 2016 – \$331,597] related to compensation of key management personnel.

## Environmental Waste International Inc.

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#### 12. Commitments and contingencies

##### [a] Commitments

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

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

	\$
2018	72,939
2019	72,939
2020	72,939
2021	72,939
2022	48,626
	<u>340,381</u>

##### [b] Contingencies

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

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

During fiscal 2014, the Company announced that EWILP commenced a lawsuit seeking injunctive relief to prevent the Company from interfering with certain intellectual property rights that EWILP purports belong to it. In 2007, the Company sold certain intellectual property rights to EWILP, which were immediately licensed back to the Company. No specific amount was claimed as damages. This suit was dismissed by the Ontario Superior Court of Justice on September 28, 2017 with the consent of the parties.

On August 25, 2017, the Company received a notice of assessment from Canada Revenue Agency ["CRA"] proposing that they adjust the claims for SR&ED for the fiscal year ended December 31, 2010 including Ontario Innovation Tax Credits received of \$57,726 plus interest. Management believes that the opinion of CRA is without merit and intends to submit a notice of objection to CRA to defend their position.

## Environmental Waste International Inc.

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#### 13. Segment information

The Company is organized into one operating segment. Management monitors the operating results of the Company on this basis. The following represents geographic information:

Revenue from external customers

	September 30 2017 \$	September 30 2016 \$
Canada	-	-
United States	140,912	130,833
	<u>140,912</u>	<u>130,833</u>

Revenue from one customer amounted to \$140,912 [2016 – \$130,833].

#### Non-current assets

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

#### 14. Subsequent Events

On November 21, 2017 the promissory note payable for \$803,000 plus accrued interest [note 8c] was increased by additional \$100,000 to \$903,000, and the maturity date was deferred until December 31, 2017.