Consolidated financial statements

Environmental Waste International Inc.

December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Environmental Waste International Inc.:

Opinion

We have audited the consolidated financial statements of Environmental Waste International Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Company incurred a net loss of $2,771,546 during the year ended December 31, 2019 and, as at that date, had a cumulative deficit of $62,621,881. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Muffolini.

MNP LLP

Toronto, Ontario
April 23, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

Environmental Waste International Inc.

Consolidated statements of financial position

[Expressed in Canadian dollars]

As at December 31

	2019	2018
	$	$
Assets		
Current		
Cash	**885,591**	13,382
Trade receivables	**18,692**	29,221
Government remittances recoverable	**102,840**	21,834
Prepaid expenses and sundry	**49,312**	64,900
Total current assets	**1,056,435**	129,337
Property and equipment, net *[note 7]*	**1,080,474**	1,164,296
Right of use asset *[note 14]*	**91,587**	—
	2,228,496	1,293,633
Liabilities and shareholders' deficiency		
Current		
Accounts payable and accrued liabilities *[note 13[a][b]]*	**473,151**	946,726
Provisions *[note 8]*	**81,600**	81,600
Current portion of lease liability *[note 14]*	**30,192**	—
Current portion of term loan payable *[note 9[b]]*	**223,077**	2,133,333
Promissory note payable *[note 9[c]]*	**—**	1,648,794
Current portion of mortgages payable *[note 9[e]]*	**13,684**	19,308
Contract liability	**65,921**	66,061
Derivative liability *[note 9[d]]*	**2,023,793**	557,054
Total current liabilities	**2,911,418**	**5,452,876**
Lease liability *[note 14]*	**54,513**	—
Term loan payable *[note 9[b]]*	**2,000,000**	—
Promissory note payable *[note 9[c]]*	**1,017,333**	—
Convertible loan payable *[note 9[d]]*	**1,356,852**	1,048,195
Mortgages payable *[note 9[e]]*	**—**	13,684
Deferred compensation *[note 9[f]]*	**406,000**	—
Total liabilities	**7,746,116**	6,514,755
Shareholders' deficiency		
Capital stock *[note 10]*	**50,611,761**	48,658,125
Contributed surplus *[note 10]*	**6,492,500**	5,971,088
Deficit	**(62,621,881)**	(59,748,975)
Deficiency attributable to owners of the parent	**(5,517,620)**	(5,119,762)
Non-controlling interests *[note 17]*	**—**	(101,360)
Total shareholders' deficiency	**(5,517,620)**	(5,221,122)
	2,228,496	1,293,633

Going concern *[note 3]*
Commitments and contingencies *[note 15]*
Subsequent events *[note 18]*

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

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

Environmental Waste International Inc.

Consolidated Statements of Loss and Comprehensive Loss

[Expressed in Canadian dollars]

Years Ended December 31

	2019	2018
	$	$
Revenue		
Sales and other	**222,322**	221,089
Expenses		
Operating, labour and manufacturing	**1,298,742**	1,156,894
Stock-based compensation *[note 10]*	**106,597**	70,332
Depreciation of property and equipment *[note 7]*	**83,822**	85,261
Amortization of right of use asset *[note 14]*	**34,346**	—
Finance expense – interest on lease liability *[note 14]*	**5,983**	—
Finance expense – interest on term loan payable *[note 9b]*	**89,744**	80,000
Finance expense – interest on promissory note payable *[note 9c]*	**78,539**	75,587
Finance expense – interest on convertible loan payable *[note 9d]*	**84,541**	67,500
Finance expense – interest on mortgages payable *[note 9e]*	**1,444**	2,565
Finance expense – interest on deferred compensation *[note 9f]*	**6,000**	—
Accretion expense - convertible loan payable *[note 9d]*	**171,164**	97,778
Foreign exchange loss	**13,255**	5,864
Change in fair value of derivative *[note 9d]*	**1,019,691**	(277,787)
	2,993,868	1,363,994
Net loss and comprehensive loss for the year	**(2,771,546)**	(1,142,905)
Net loss and comprehensive loss attributable to:		
Shareholders	**(2,771,546)**	(1,142,905)
Non-controlling interests	**—**	—
	(2,771,546)	(1,142,905)
Loss per share – basic and diluted *[note 10]*	**(0.02)**	(0.01)
Weighted average number of shares outstanding – basic and diluted *[note 10]*	**183,538,872**	165,341,426

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

Environmental Waste International Inc.

Consolidated statements of changes in shareholders' deficiency

[Expressed in Canadian dollars]

	Capital stock	Shares to be issued	Contributed surplus	Deficit	Total attributable to owners of the parent	Non-controlling interests	Total
	$	$	$	$	$	$	$
Balance, December 31, 2017	48,393,195	114,000	5,900,756	(58,606,070)	(4,198,119)	(101,360)	(4,299,479)
Stock compensation expense *[note 10]*	—	—	70,332	—	70,332	—	70,332
Share subscriptions issued *[note 10]*	114,000	(114,000)	—	—	—	—	—
Shares issued for share subscriptions *[note 10]*	150,930	—	—	—	150,930	—	150,930
Net loss and comprehensive loss for the year	—	—	—	(1,142,905)	(1,142,905)	—	(1,142,905)
Balance, December 31, 2018	**48,658,125**	**—**	**5,971,088**	**(59,748,975)**	**(5,119,762)**	**(101,360)**	**(5,221,122)**
Stock compensation expense	—	—	106,597	—	106,597	—	106,597
Issuance of shares pursuant to private placements *[note 10]*	1,231,460	—	—	—	1,231,460	—	1,231,460
Issuance of warrants pursuant to private placements *[note 10]*	—	—	428,540	—	428,540		428,540
Issuance of shares pursuant to settlement of promissory note *[note 10]*	710,000	—	—	—	710,000	—	710,000
Issuance of shares pursuant to settlement of payables *[note 10]*	56,446	—	—	—	56,446	—	56,446
Share and warrant issue costs *[note 10]*	(44,270)	—	(13,725)	—	(57,995)	—	(57,995)
Net loss and comprehensive loss for the year	—	—	—	(2,771,546)	(2,771,546)	—	(2,771,546)
De-consolidation of variable interest entity *[note 17]*	—	—	—	(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)**

The accompanying notes are an integral part of these consoldiated financial statements

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Consolidated statements of cash flows

[Expressed in Canadian dollars]

Years Ended December 31

	2019	2018
	$	$
Operating activities		
Net loss for the year	**(2,771,546)**	(1,142,905)
Add items not involving cash		
Depreciation of property and equipment *[note 7]*	**83,822**	85,261
Amortization of right of use asset *[note 14]*	**34,346**	—
Finance expense - other debt *[note 9]*	**264,807**	223,087
Accretion expense - convertible debenture *[note 9d]*	**171,164**	97,778
Stock-based compensation *[note 10]*	**106,597**	70,332
Change in fair value of derivative liability *[note 9d]*	**1,019,691**	(277,787)
	(1,091,119)	(944,234)
Changes in non-cash working capital balances related to operations		
Trade receivable	**10,529**	(11,061)
Government remittances recoverable	**(81,006)**	—
Prepaid expenses and sundry	**15,588**	9,826
Accounts payable and accrued liabilities	**(17,129)**	242,036
Provisions	**—**	(81,600)
Contract liability	**(140)**	3,925
Cash used in operating activities	**(1,163,277)**	**(781,108)**
Financing activities		
Proceeds from private placement unit issuance, net of costs *[note 10]*	**1,606,887**	—
Proceeds from issuance of share subscriptions *[note 10]*	**—**	150,930
Share issuance costs on settlement of promissory note [note 10]	**(4,882)**	**—**
Proceeds from the issuance of promissory note *[note 9c]*	**—**	634,210
Proceeds from issuance of convertible debt *[note 9d]*	**500,000**	—
Repayments of mortgages payable *[note 9e]*	**(19,308)**	(18,187)
Repayment of lease obligations *[note 14]*	**(47,211)**	—
Cash provided by financing activities	**2,035,486**	**766,953**
Net increase (decrease) in cash during the year	**872,209**	(14,155)
Cash, beginning of year	**13,382**	27,537
Cash, end of year	**885,591**	13,382
Non-cash transactions		
Issuance of shares pursuant to settlement of promissory note *[note 9c, 10]*	**710,000**	—
Issuance of shares pursuant to settlement of payables *[note 10, 13]*	**56,446**	—
Extinguishment of payables via deferred compensation financing *[note 13]*	**400,000**	—

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

Notes to consolidated financial statements

For the years ended December 31, 2019 and 2018

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 consolidated financial statements of EWI *[note 4]* were authorized for issue in accordance with a resolution of the Board of Directors on April 23, 2020. The Company's registered office is located at 360 Frankcom Street, Ajax, Ontario, L1S 1R5.

2. Basis of preparation and statement of compliance

The consolidated financial statements of EWI have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

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

3. Going concern assumption

These consolidated financial statements have been prepared on a basis that assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company incurred a net loss of $2,771,546 during the year ended December 31, 2019 [2018 – $1,142,905] and, as at that date, had working capital deficiency for accounting purposes of $1,854,984 [2018 – $5,323,539] and a cumulative deficit of $62,621,881 [2018 – $59,748,975]. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is at an early stage and the Company has not yet achieved a level of profitability and positive cash flows. The Company needs to obtain additional financing to enable it to continue operations. In the absence of additional financing, the Company is not expected to have sufficient funds to meet its obligations. Management continues to monitor cash needs and is considering various alternatives to raise additional financing. There can be no assurances that the Company will be able to secure the necessary financing to enable it to continue as a going concern. The factors noted above indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2019. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee [i.e., existing rights that give it the current ability to direct the relevant activities of the investee];
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

4. Summary of significant accounting policies - continued

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

The consolidated financial statements include the results of the Company and the following subsidiaries as at December 31, 2019: 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], and 2228641 Ontario Limited [100% equity interest].

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Revenue recognition

Revenue is measured based on the value of the expected consideration in a contract with a customer. The Company recognizes revenue using a 5 step process including:

1. Identification of the contract, or contracts with the customer
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when or as the Company satisfies the performance obligation

A contract asset is recognized in the consolidated financial statements of financial position when the Company's right to consideration form the transfer of products or services to a customer is conditional on its contractual obligation to transfer other products or services. Contract assets are transferred to trade receivables when the Company's right to consideration becomes conditional only as to the passage of time.

A contract liability is recognized in the consolidated financial statements of financial position when the Company receives consideration in advance of the transfer of products or services to the customer. Contract assets and liabilities relating to the same contract are presented on a net basis.

Incremental costs of obtaining a contract with a customer, principally comprised of sales commissions and prepaid contract fulfillment costs, are included in contract costs in the statements of financial position, except where the amortization period is on year or less, in which case costs of obtaining a contract are immediately expensed. Capitalized costs are amortized on a systematic basis that is consistent with the period and pattern of transfer to the customer of the related products or services.

4. Summary of significant accounting policies - continued

Service revenue

Typically, the Company enters into contracts that contain multiple and services such as combined maintenance and support contracts. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price ("SSP").

The Company recognizes revenue when the transfer of control of the promised products or services has occurred. Maintenance and support revenue is recognized over the term of the maintenance agreement. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as contract liabilities.

Interest income

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

Financial instruments

[a] Financial assets

Initial recognition and measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in the consolidated statements of loss and comprehensive loss when incurred.

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

Subsequent measurement – loans and receivables

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

4. Summary of significant accounting policies - continued

Derecognition

A financial asset is derecognized when:

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

Impairment of financial assets

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets’ contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated balance sheet as a deduction from the gross carrying amount of the financial asset.
Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

[b] Financial liabilities

Initial recognition and measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Compound financial liabilities and embedded derivatives

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Financial instruments recorded at fair value in the statement of financial position are classified according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

4. Summary of significant accounting policies - continued

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative liability is classified as level 3 in the fair value hierarchy.

Debt component of convertible loans

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

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

Derecognition of financial liabilities

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

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

Cash

Cash in the consolidated statements of financial position comprise cash held at banks and on hand.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment. Repairs and maintenance are charged against income as incurred. Expenditures that extend the estimated life of an asset are capitalized.

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

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

4. Summary of significant accounting policies - continued

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

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

Research and development costs

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

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

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

Impairment of non-financial assets

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

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

4. Summary of significant accounting policies - continued

Provisions

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

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

Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed, using the treasury stock method, to show the potential reduction in earnings per share that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. In the Company’s case, these potential issuances are “anti-dilutive” as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same

Share-based payment transactions

Stock options

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

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

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

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

4. Summary of significant accounting policies - continued

Warrants

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

Share issue costs

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

Leases

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations. IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The Company assesses, at the inception of contract, whether it contains a lease. A contract is classified as a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses:

- Whether the contract involves the use of an identified asset. This can be specified explicitly or implicitly and should be physically distinct or represents substantially all of the capacity of a physically distinct asset.
- Whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- Whether the Company has the right to direct use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct use of the asset if either:

  i. The Company has the right to operate the asset; or
  ii. The Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any indirect costs incurred.

4. Summary of significant accounting policies - continued

The right-to-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful lives of right-to-use assets are determined using the same criteria as those for property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses and adjusted for certain remeasurements of the lease liability, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company's incremental borrowing rate.

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

Investment tax credits ["ITCs"] and government grants

Refundable ITCs are accounted for as a reduction in the cost of the related asset or expense where there is reasonable assurance that such credits will be realized. Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is deducted from expenses. When the grant relates to an asset, it is deducted from the cost of the related asset. If a grant becomes repayable, the inception-to-date impact of the assistance previously recognized in income is reversed immediately in the period that the assistance becomes repayable.

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the appropriate rates of exchange prevailing at the consolidated statement of financial position dates while other assets and liabilities are converted at the rates of exchange applicable at the dates acquired or incurred.

Revenue and expenses are translated into Canadian dollars at rates of exchange applicable during the periods in which they were earned or expensed. All gains and losses are included in the consolidated statements of loss and comprehensive loss as they arise.

Taxes

[a] Current income tax

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

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

4. Summary of significant accounting policies - continued

[b] Deferred income tax

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information arises related to facts and circumstances that existed at the acquisition date. The adjustment would either be treated as a reduction to goodwill if it is incurred during the measurement period, with any excess amount recognized in profit or loss.

[c] Sales tax

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

5. Changes in accounting policies and disclosures

Newly adopted accounting standards

IFRS 16 - Leases

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations *[note 14]*. IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

5. Changes in accounting policies and disclosures - continued

Standards issued and not yet adopted

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.

6. Significant accounting judgments, estimates and assumptions

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

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

[a] Credit Risk associated with trade receivables

The Company is exposed to credit risk associated with its trade receivables. Management reviews the trade receivables at each reporting date in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of financial instruments based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results are used to calculate the run rates of default which are then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

[b] Impairment of non-financial assets

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

6. Significant accounting judgments, estimates and assumptions - continued

[c] Income taxes

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

[d] Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 10.

[e] Fair value of the derivative

The Company measures the fair value of the derivative liability using an option pricing model with both observable and unobservable inputs. Observable inputs include the Company's share price and implied volatility. Unobservable inputs include inputs such as expected future financing.

[f] Going concern

The Company's going concern assumption is subject to judgement from management and expected sources of future financings.

[g] Incremental borrowing rate used to discount leases

The Company's incremental borrowing rate is used to estimate the initial value of the lease liability and associated right of use asset. The Company's incremental borrowing rate is the rate that, at the inception of the lease, the Company would incur to borrow over a similar term and with similar security the funds necessary to acquire the asset.

7. 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, 2017	68,261	984,994	71,060	36,725	38,566	719,169	1,918,775
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**
Accumulated depreciation							
As at December 31, 2017	—	243,181	33,159	34,512	24,295	334,071	669,218
Depreciation charge	—	29,673	4,737	664	2,243	47,945	85,261
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**
Net book value							
As at December 31, 2018	68,261	712,141	33,161	1,549	12,029	337,155	1,164,296
As at December 31, 2019	**68,261**	**683,655**	**28,427**	**958**	**9,871**	**289,302**	**1,080,474**

8. Provisions

	December 31 2019 $	December 31 2018 $
Balance, beginning of year	**81,600**	163,200
Paid during the year	**—**	(81,600)
Balance, end of year	**81,600**	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 and 9 monthly installments were made from April to December totaling $91,800. In 2018, an additional 8 monthly installments were made totally $81,600. At that time, a verbal agreement was made between the Company and the former CEO of the Company to defer the remaining payments. No payments were made in 2019. In December 2019, the parties signed an agreement to reduce the monthly installments to $3,000 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.

9. 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 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 9d].*

[b] Term loan payable consists of the following:

	December 31 2019 $	**December 31 2018** $
Fixed rate, non-revolving term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum.	**2,223,077**	2,133,333
Less current portion	**223,077**	2,133,333
	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 will be deferred to March 31, 2020. 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. Subsequent to year-end, the Company has obtained approval from the lender to delay the principal and interest payments for three months starting April 1, 2020 for its term loan [note 18].

The amount of interest accrued at December 31, 2019 was $223,077 [December 31, 2018 - $133,333], and interest expense during the year ended December 31, 2019 was $89,744 (2018 - $80,000).

[c] Promissory note payable consists of the following:

	December 31 2019 $	**December 31 2018** $
Promissory note payable, with interest at 6% per annum, principal and accrued interest payments payable on July 15, 2021	**1,017,333**	1,648,794
Less current portion	—	1,648,794
	1,017,333	—

9. Loans and borrowings - continued

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 10]* and amending the promissory agreement note 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 year ended December 31, 2019 was $78,539 (2018 - $75,587)

[d] Convertible loan payable consists of the following:

	Convertible debt $	Conversion feature derivative liability $	Warrant derivative liability $	Total derivative liability $	Total debt and derivative liability $
April 12, 2017 on issuance	805,613	423,433	120,954	544,387	1,350,000
Debt issue costs	(28,177)	—	—	—	(28,177)
Value on initial recognition	777,436	423,433	120,954	544,387	1,321,823
Interest	45,000	—	—	—	45,000
Accretion expense	60,481	—	—	—	60,481
Loss on revaluation of derivatives	—	224,383	66,071	290,454	290,454
As at December 31, 2017	882,917	647,816	187,025	834,841	1,717,758
Interest	67,500	—	—	—	67,500
Accretion expense	97,778	—	—	—	97,778
Gain on revaluation of derivatives	—	(216,043)	(61,744)	(277,787)	(277,787)
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**

On April 12, 2017, the Company received proceeds of $1,350,000 through the issuance of a 10 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 $0.08 for a period of 12 months and then increases to $0.10 until maturity. All other terms remained unchanged.

9. Loans and borrowings - continued

Pursuant to IFRS 9 accounting guidelines, the convertible loan of $1,350,000 was bifurcated into two components including, liability for convertible loan and a derivative liability for the conversion feature and warrants. The carrying value of the convertible loan represents the residual amount plus accrued interest and accretion expense. The fair value of the total derivative liability upon issuance using the Monte Carlo simulation model was $544,387. A residual value of $777,436 (net of debt issuance costs) was allocated to the convertible loan payable. Additional advances of $500,000 during the year were treated as an increase in the proceeds of the convertible loan as they held the same conversion features of the previously issued debt, and the derivative liability was valued at $447,048, and $52,952 was allocated to the convertible loan payable.

This derivative liability is re-valued at each period using the Monte Carlo simulation model, and the change in value is recorded as a gain or loss in the consolidated statement of loss and comprehensive loss. As a result of the private placements issued in 2019 [see note 10], the exercise price of the conversion feature and warrants decreased to $0.05 because of the call price protection feature embedded in the conversion feature and warrants. During the year ended December 31, 2019 the Company recorded a loss on revaluation of $1,019,691 (2018 - gain of $277,787).

The following is a summary as at December 31, 2019 of the cash value and accounting value for this financial instrument:

	Cash Liability $	**Accounting Liability** $
Convertible loan	1,850,000	830,388
Accrued interest	197,041	197,041
Accrued accretion expense	—	327,423
Convertible loan liability	2,047,041	1,356,852
Derivative liability	—	2,023,793
Total	**2,047,041**	**3,380,645**

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

The derivative liability is calculated at December 31, 2019 and 2018 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 each respective year end are as follows:

	December 31, 2019	December 31, 2018
Volatility	**158.5%**	122.4%
Dividend yield	**0%**	0%
Risk-free rate	**1.69%**	1.86%
Expected life	**2.3 years**	3.3 years

9. Loans and borrowings - continued

Accretion expense for the year ended December 31, 2019 was $171,164 (2018 - $97,778), and interest expense was $84,541 (2018 - $67,500).

The cash principal value of the loan of $1,850,000 is due on maturity on April 28, 2022. The loan and unpaid interest bears interest at 5% compounded annually. 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.

[e] Mortgages payable consist of the following:

	December 31 2019 $	**December 31 2018** $
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	**13,684**	32,992
Less current portion	**13,684**	19,308
	—	13,684

Total interest of $1,444 was recorded for the year ended December 31, 2019 (2018 - $2,565).
.
The security for the above is 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.

Principal repayments are as follows:

	$
2020	13,684

Subsequent to year-end, the Company has obtained approval from the lender to delay the principal and interest payments for three months starting April 1, 2020 for its mortgage payable [note 18].

[f] Deferred Compensation

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 to January 15, 2022. Prior to this date, this amount was included in accounts payable and accrued liabilities *[note 13b]*. Interest will accrue on this amount at 6% per annum calculated monthly in arrears and is payable at maturity. Total interest of $6,000 was recorded for the year ended December 31, 2019 (2018 – Nil)

10. Share capital and reserves

Authorized - Unlimited common shares
Issued and outstanding

	Number of shares	Amount
	#	$
Balance, December 31, 2017	**163,178,436**	**48,393,195**
Issuance of shares pursuant to share subscriptions [1]	2,649,300	264,930
Balance December 31, 2018	**165,827,736**	**48,658,125**
Issuance of shares pursuant to private placements [2]	33,200,000	1,231,460
Issuance of shares pursuant to settlement of promissory note [3]	14,200,000	710,000
Issuance of shares pursuant to settlement of debt [4]	1,128,913	56,446
Share issue costs [5]	—	(44,270)
Balance December 31, 2019	**214,356,649**	**50,611,761**

[1] In 2018, the Company completed a private placement and issued 2,649,300 common shares at a price of $0.10 per common share for gross proceeds of $264,930

[2] 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.

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.

[3] 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 9c]. 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.

[4] On September 16, 2019, the Company agreed to settle two advances from directors totaling $56,446 of 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.

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

10. Share capital and reserves – continued

Share-based payment plans

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

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

The following options to purchase shares were outstanding on December 31, 2019 and 2018:

	December 31, 2019		**December 31, 2018**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	#	$	#	$
Balance, beginning of year	**14,505,000**	**0.10**	14,625,000	0.11
Expired	**(6,010,000)**	**(0.10)**	(1,605,000)	(0.16)
Granted	**4,293,750**	**0.08**	1,485,000	0.10
Balance, end of year	**12,788,750**	**0.10**	14,505,000	0.10

A summary of stock options outstanding and exercisable as at December 31, 2019 and 2018 is set out below:

Year ended December 31, 2019	**Outstanding and exercisable stock options**		
Range of exercise prices	**Number of options**	**Remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.06	**3,300,000**	**4.59**	**0.06**
0.10	**7,751,250**	**1.51**	**0.10**
0.11	**1,075,000**	**1.28**	**0.11**
0.18	**662,500**	**4.21**	**0.18**
	12,788,750		**0.10**

10. Share capital and reserves – continued

	Outstanding and exercisable stock options		
Year ended December 31, 2018		**Remaining**	**Weighted**
Range of exercise prices	**Number of options**	**contractual life**	**average exercise price**
$	#	[years]	$
0.10	**13,430,000**	**1.18**	**0.10**
0.11	**1,075,000**	**2.42**	**0.11**
	14,505,000	**1.28**	**0.10**

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.

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% [2018 – 0%]; expected volatility of 176% [2018 – 188%]; risk-free interest rates of 1.39% [2018 – 1.74%]; and an average expected life of five years [2018 – five years]. This resulted in stock-based compensation expense of $106,597 during the year ended December 31, 2019 [2018 – $70,332].

In addition, the Company granted 2,150,000 stock options to Directors and Officers, which had an exercise price of $0.06 and vested evenly over 3 years from the date of issuance. In 2019, the Company granted 2,143,750 stock options to employees and consultants, of which 662,500 options were granted at $0.18 and vested immediately, 331,250 options were granted at $0.10 and vested immediately, and 1,150,000 options were granted at $0.06 and vested evenly over 3 years from the date of grant.

In 2018, the Company granted a total of 1,485,000 stock options, including 1,000,000 to Directors and Officers and 485,000 to employees and consultants. All stock options were issued with an exercise price of $0.10, vesting over 3 years with an expiry date of July 3, 2023.

10. Share capital and reserves – continued

Warrants

In 2017, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years. The value of these warrants has been accounted for as a derivative liability *[note 9[d]]*.

There were no warrant transactions during the year ended December 31, 2018.

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. As a result of the new private placements in 2019, the exercise price of the warrants issued in 2017 decreased to $0.05 due to the call price protection feature embedded in those warrants.

A summary of the status of the Company's warrants at December 31, 2019 are as follows:

	Number of warrants	Remaining contractual life	Weighted average exercise price
	#	[years]	$
Balance, December 31, 2017 and 2018	**3,712,500**	**2.34**	**0.01**
Issued April 30, 2019	**4,750,000**	**2.33**	**0.05**
Issued September 16, 2019	**11,850,000**	**2.71**	**0.12**
Balance, December 31, 2019	**20,312,500**		**0.17**

A summary of warrants outstanding and exercisable as at December 31, 2019 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.05	**3,712,500**	**2.34**	**0.05**
0.20	**16,600,000**	**2.60**	**0.20**

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

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.05	**3,712,500**	**3.34**	**0.05**

10. Share capital and reserves – continued

Contributed surplus

	December 31 2019 $	December 31 2018 $
Balance, beginning of year	**5,971,088**	5,900,756
Stock-based compensation	**106,597**	70,332
Issuance of warrants	**428,250**	—
Warrant issue costs	**(13,725)**	—
Balance, end of year	**6,492,500**	5,971,088

Per share amounts

For the year ended December 31, 2019, the weighted average number of shares outstanding was 183,538,872 [2018 – 165,341,426]. As at December 31, 2019, the Company had 12,788,750 [2018 – 14,505,000] stock options and 3,712,500 warrants [2018 – 3,712,500 warrants] as well as convertible instruments that were outstanding and anti-dilutive and therefore were excluded from the computation of diluted loss per share.

11. Income taxes

The reconciliation of the combined federal and provincial statutory income tax rate of 26.5% [2018 – 26.5%] to the effective tax rate is as follows:

	2019 $	**2018** $
Net loss before recovery of income taxes	**(2,771,546)**	(1,142,905)
Expected income tax recovery	**(734,460)**	(302,870)
Share based compensation and non-deductible expenses	**74,311**	(27,137)
Share issuance cost booked through equity	**(15,368)**	—
Change in fair value of derivative	**270,218**	—
Change in tax benefits not recognized	**403,282**	330,007
Others	**2,017**	—
Income tax expense	**—**	—

11. Income taxes - continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following temporary differences:

	2019 $	**2018** $
Deferred tax assets		
SR&ED expenditures	**2,559,396**	2,559,396
Unused tax losses carryforwards	**20,795,722**	19,938,094
Investment tax credits	**2,528,124**	2,763,213
Temporary differences		
Schedule 13 Reserves	**564,945**	81,600
Property and equipment	**2,329,034**	2,245,211
Intangible assets	**394,610**	394,610
Imputed interest on loans and notes	**462,879**	380,909
Right of use assets offset with lease liabilities	**(6,881)**	-
Ontario Research and Development Tax Credit	**235,089**	-
Deferred financing costs and other	**122,133**	100,418
Total deferred tax assets	**29,985,051**	28,463,451
Losses and other temporary differences not benefited	**(29,985,051)**	(28,463,451)
Net deferred tax assets	—	—

The Company's investment tax credits expire from 2024 to 2036.

The Company's Canadian non-capital income tax losses expire as follows:

	Non-capital losses $
2026	491,483
2028	519,673
2029	1,157,841
2030	2,513,251
2031	94,119
2031	3,561,899
2032	2,220,307
2033	1,444,772
2034	2,830,766
2035	1,471,694
2036	782,905
2037	1,765,317
2038	1,036,077
2039	905,618
Total	**20,795,722**

12. Financial instruments

[a] Fair value information

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

Fair value estimates of the loans and borrowings are made at the initial recognition date by discounting future cash flows using rates available for debt on similar terms, credit risk and remaining maturities.

[b] Financial risk management objectives and policies

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

The Company is exposed to credit risk, liquidity risk, market risk (including foreign currency and interest rate risk).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Company is exposed to credit risk from its operating activities [primarily for trade accounts receivable] and from its financing activities, including deposits with banks and financial institutions. Customer credit risk is managed subject to the Company's established policies, procedures and controls relating to customer credit risk management. The requirement for an impairment is analyzed at each reporting date on an individual basis. The maximum exposure to credit risk at the reporting date is the carrying value of trade accounts receivable and cash. One customer (2018 – one) accounted for 100% (2018 – 100%) of trade receivables at year end.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its obligations under its various loans and borrowings. The Company is exposed to liquidity risk from its financing activities, primarily for its various loans and borrowings and accounts payable and accrued liabilities. The Company monitors its risk to a shortage of funds regularly. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The Company's goal is to manage market risk exposures within acceptable parameters while optimizing its return. The Company's financial risk management policy establishes guidelines on how the Company is to manage the market risk inherent to the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures.

12. Financial instruments - continued

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not have a material amount of long-term debt with variable interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the U.S. dollar with a large portion of the Company's sales being realized in this currency.

As of December 31, 2019, fluctuations of the Canadian dollar relative to the United States dollar of 5% would result in change in revenue impacting the Company's comprehensive income by approximately $12,930 (2018 – $12,063).

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including expected interest payments:

As at December 31, 2019	**Less than 1 year**	**2 – 3 years**	**4 – 5 years**	**Greater than 5 years**	**Total**
	$	$	$	$	$
Accounts payable and accrued liabilities and provisions	554,751	—	—	—	554,751
Lease obligations	34,281	57,136	—	—	91,417
Term loan payable	223,077	380,722	545,142	1,074,136	2,223,077
Promissory note payable	—	1,017,333	—	—	1,017,333
Convertible loan payable	—	2,047,041	—	—	2,047,041
Mortgages payable	13,684	—	—	—	13,684
Deferred compensation	—	406,000	—	—	406,000
Total	**825,793**	**3,908,232**	**545,142**	**1,074,136**	**6,353,303**

12. Financial instruments - continued

[c] Capital management

The Company's objectives when managing its capital are:

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

The Company manages the following as capital:

	December 31, 2019 $	December 31 2018 $
Interest-bearing loans and borrowings	**5,717,135**	5,277,619
Lease liabilities	**91,417**	-
Trade payables and other provisions	**554,751**	1,028,326
Less cash and cash equivalents	**(885,591)**	(13,382)
Net debt	**5,467,712**	6,292,563
Shareholders' deficiency	**(5,416,670)**	(5,119,762)
Total capital	**51,042**	1,172,801

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to capital management during the year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

13. Related party disclosures

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

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

The Company recognized an expense during the year ended December 31, 2019 for interest on loans to a director of $163,080 [2018 – $143,987]. At December 31, 2019, $214,374 was included in loans payable [December 31, 2018 - $223,514] relating to unpaid interest on loans from a director *[note 9[c], 9[d]]*. During the year, the Company settled accounts payable of $56,446, including interest, due to directors by issuing common shares *[note 10]*. As at December 31, 2019, the Company has $Nil [2018 – $51,215] included in accounts payable and accrued liabilities owing to directors in addition to the interest included in accounts payable and accrued liabilities.

13. Related party disclosures - continued

[b] Transactions with key management personnel

The Company recorded compensation expense during the year ended December 31, 2019 in the amount of $248,200 [2018 – $287,773] and share-based compensation in the amount of $39,946 [2018 – $42,949] to key management personnel. Accounts payable as at December 31, 2019, includes $129,601 [2018 – $482,504] related to compensation of key members of management who are also directors.

In 2019, the Company agreed to defer compensation of a key member of management who is also a director, in the amount of $400,000 to January 15, 2022 [note 9[f]]. This amount was formerly included in accounts payable and accrued liabilities. Interest on this amount for the year ended December 31, 2019 was $6,000 [December 31, 2018 – Nil]

14. IFRS 16 – Adoption of lease accounting

The Company has applied IFRS 16 using the modified retrospective method for the lease for its office premises in Ajax, Ontario as of January 1, 2019 adoption date, and accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. 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%.

The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

The impact of adopting IFRS 16 on the Company's consolidated statement of loss for the year ended December 31, 2019 is a decrease to operating, labour and manufacturing costs of $47,169 and increase to amortization of right of use asset of $34,346 and an increase to finance expense of $5,983 for a net decrease to net loss and comprehensive loss of $6,840.

15. Commitments and contingencies

[a] 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.

15. Commitments and contingencies - continued

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.

16. 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

	2019 $	2018 $
Canada	**19,985**	25,112
United States	**202,337**	195,977
	222,322	221,089

During the year ended December 31, 2019, revenue from one customer amounted to $202,337 [2018 – $195,977].

Non-current assets

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

17. 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.

18. Subsequent Events

COVID-19

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand and supply chain disruptions which could negatively impact the Company's business and financial condition.

Due to the situation concerning COVID-19, the Company has obtained approval from the lender to delay the principal and interest payments for three months starting April 1, 2020 for both its term loan and mortgage payable. Payments will resume July 1, 2020 and the maturity dates have been extended by three months.