Consolidated financial statements

Environmental Waste International Inc.

December 31, 2020 and 2019

MNP LLP

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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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 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 28, 2021

Chartered Professional Accountants
Licensed Public Accountants

MNP

Environmental Waste International Inc.

Consolidated statements of financial position

[Expressed in Canadian dollars]

As at December 31	Note	**2020** $	2019 $
Assets			
Current			
Cash		**619,721**	885,591
Trade and other receivables	12a	**63,403**	18,692
Government remittances recoverable		**59,452**	102,840
Prepaid expenses and sundry		**51,387**	49,312
Total current assets		**793,963**	1,056,435
Property and equipment, net	7	**1,007,006**	1,080,474
Right-of-use asset	8	**148,010**	91,587
		1,948,979	2,228,496
Liabilities and shareholders' deficiency			
Current			
Accounts payable and accrued liabilities	16b	**436,294**	473,151
Provisions	9	**39,600**	81,600
Current portion of lease liability	8	**14,285**	30,192
Current portion of promissory note payable		**1,077,904**	—
Current portion of term loan payable	10c	**2,230,344**	223,077
Current portion of mortgages payable	10f	**2,253**	13,684
Contract liability		**63,515**	65,921
Derivative liability	10e	**757,295**	2,023,793
Total current liabilities		**4,621,490**	2,911,418
Lease liability	8	**134,351**	54,513
CEBA loans payable	10b	**67,475**	—
Term loan payable	10c	**—**	2,000,000
Promissory note payable	10d	**—**	1,017,333
Convertible loan payable	10e	**—**	1,356,852
Mortgage payable	10f	**493,093**	—
Deferred compensation	10g	**430,000**	406,000
Total liabilities		**5,746,409**	7,746,116
Shareholders' deficiency			
Capital stock	11a	**54,481,040**	50,611,761
Contributed surplus	11d	**6,760,615**	6,492,500
Deficit		**(65,039,085)**	(62,621,881)
Total shareholders' deficiency		**(3,797,430)**	(5,517,620)
		1,948,979	2,228,496
Going concern	3		
Commitments and contingencies	17		
Subsequent events	22		

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

	Note	2020 $	2019 $
Revenue		**113,368**	222,322
Expenses			
Technology development	15, 21	**495,260**	298,475
Plant operations	15, 21	**196,186**	301,143
Selling, marketing and administration	15, 21	**641,122**	699,124
Stock-based compensation	11b	**158,616**	106,597
Depreciation of property and equipment	7	**82,653**	83,822
Amortization of right-of-use asset	8	**34,039**	34,346
		1,607,876	1,523,507
Operating loss		**(1,494,508)**	(1,301,185)
Other income (expenses)			
Gain on recognition of interest-free loan	12b	**16,699**	—
Finance costs	10h	**(364,178)**	(437,415)
Foreign exchange gain (loss)		**15,006**	(13,255)
Loss on termination of lease	8	**(3,005)**	—
Gain on modification of debt	10c	**40,284**	—
Change in fair value of derivative	10e	**(627,502)**	(1,019,691)
		(922,696)	(1,470,361)
Net loss and comprehensive loss for the year		**(2,417,204)**	(2,771,546)
Loss per share – basic and diluted		**(0.02)**	(0.02)
Weighted average number of shares outstanding basic and diluted		**225,392,179**	183,538,872

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

Consolidated statements of changes in shareholders' deficiency

[Expressed in Canadian dollars]

	Note	Capital Stock #	Capital Stock $	Contributed surplus $	Deficit $	Total attributable to owners of the parent $	Non-controlling interests $	Total $
Balance, January 1, 2019		165,827,736	48,658,125	5,971,088	(59,748,975)	(5,119,762)	(101,360)	(5,221,122)
Stock compensation expense	11b	—	—	106,597	—	106,597	—	106,597
Issuance of shares pursuant to private placements	11a	33,200,000	1,231,460	—	—	1,231,460	—	1,231,460
Issuance of warrants pursuant to private placements	11a, c	—	—	428,540	—	428,540	—	428,540
issuance of shares pursuant to settlement of promissory note	11a	15,328,913	710,000	—	—	710,000	—	710,000
issuance of shares pursuant to settlement of payables	11a	—	56,446	—	—	56,446	—	56,446
Share and warrant issue costs	11a, c	—	(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	19	—	—	—	(101,360)	(101,360)	101,360	—
Balance, December 31, 2019		**214,356,649**	**50,611,761**	**6,492,500**	**(62,621,881)**	**(5,517,620)**	**—**	**(5,517,620)**
Stock compensation expense	11b	—	—	158,616	—	158,616	—	158,616
Issuance of shares pursuant to private placement	11a	6,153,846	211,921	—	—	211,921	—	211,921
Issuance of warrants pursuant to private placement	11a, c	—	—	188,079	—	188,079	—	188,079
Issuance of shares on conversion of convertible loan	11a	25,114,037	3,449,114	—	—	3,449,114	—	3,449,114
Stock options exercised	11b	1,548,308	223,116	(75,284)	—	147,832	—	147,832
Share and warrant issue costs	11a, c	—	(14,872)	(3,296)	—	(18,168)	—	(18,168)
Net loss and comprehensive loss for the year		—	—	—	(2,417,204)	(2,417,204)	—	(2,417,204)
Balance, December 31, 2020		**247,172,840**	**54,481,040**	**6,760,615**	**(65,039,085)**	**(3,797,430)**	**—**	**(3,797,430)**

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

Environmental Waste International Inc.

Consolidated statements of cash flows

[Expressed in Canadian dollars]

Years ended December 31

	Note	2020 $	2019 $
Operating activities			
Net loss for the year		**(2,417,204)**	(2,771,546)
Add items not involving cash:			
Stock-based compensation	11b	**158,616**	106,597
Depreciation of property and equipment	7	**82,653**	83,822
Amortization of right-of-use asset	8	**34,039**	34,346
Finance costs	10h	**229,592**	264,807
Gain on recognition of interest-free loan	12b	**(16,699)**	—
Accretion expense	10h	**134,586**	171,164
Loss on termination of lease	8	**3,005**	—
Gain on modification of term loan	10c	**(40,284)**	—
Change in fair value of derivative	10d	**627,502**	1,019,691
		(1,204,194)	(1,091,119)
Changes in non-cash working capital balances related to operations:			
Trade and other receivables		**(44,711)**	10,529
Government remittances recoverable		**43,388**	(81,006)
Prepaid expenses and sundry		**(2,075)**	15,588
Accounts payable and accrued liabilities		**(36,857)**	(17,129)
Provisions		**(42,000)**	—
Contract liability		**(2,406)**	(140)
		(84,661)	(72,158)
Cash used in operating activities		**(1,288,855)**	(1,163,277)
Investing activities			
Purchase of property and equipment	7	**(9,185)**	—
Cash used in investing activities		**(9,185)**	—
Financing activities			
Proceeds from CEBA loans payable	10b	**80,000**	—
Proceeds from issuances of private placements, net of costs	11a	**394,107**	1,606,887
Share issuance costs on conversion of convertible loan	10e	**(12,275)**	(4,882)
Proceeds from issuance of convertible loan	10e	**—**	500,000
Proceeds from exercise of stock options	11b	**147,832**	—
Proceeds from mortgage payable, net of issuance costs	10f	**474,629**	—
Repayments of mortgage payable	10f	**(17,678)**	(19,308)
Repayments of lease obligations	8	**(34,445)**	(47,211)
Cash provided by financing activities		**1,032,170**	2,035,486
Net increase (decrease) in cash during the year		**(265,870)**	872,209
Cash, beginning of year		**885,591**	13,382
Cash, end of year		**619,721**	885,591

	Note	2020 $	2019 $
Non-cash transactions			
Issuance of shares pursuant to settlement of promissory note payable	10d	**—**	710,000
Issuance of shares pursuant to settlement of payables	11a	**—**	56,446
Extinguishment of payables via deferred compensation financing	10g	**—**	400,000

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

1. Corporate information

Environmental Waste International Inc. ["EWI" or the "Company"] was incorporated under the *Ontario Business Corporations Act* on October 31, 1987. The Company's business is the design, development and sale of environmentally sound devices utilizing EWI's patented Reverse Polymerization process and dealing with environmental waste disposal, including the development, advancement, licensing and sale of its technology and related machines throughout the world. The consolidated financial statements of EWI *[note 4]* were authorized for issue in accordance with a resolution of the Board of Directors on April 28, 2021. The Company's registered office is located at 1751 Wentworth Street, Unit 1, Whitby, Ontario, L1N 8R6.

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 $2,417,204 during the year ended December 31, 2020 [2019 – $2,771,546] and, as at that date, had working capital deficiency for of $3,827,527 [2019 – $1,854,983] and a cumulative deficit of $65,039,085 [2019 – $62,621,881]. Recurring sources of revenue have not yet proven to be sufficient as the commercialization of the Company's core technology is at an early stage and the Company has not yet achieved a level of profitability and positive cash flows. While the Company has been successful in raising additional financing and extending the repayment terms for its terms loan payable subsequent to year-end *[note 22]*, it will require 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, 2020. 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 wholly-owned subsidiaries as at December 31, 2020: Environmental Waste Management Corporation, Jaguar Carbon Sales Limited, Ellsin Environmental Ltd., EWI Rubber Inc., and 2228641 Ontario Limited.

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 from 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 one 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 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; and
- 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
Leasehold improvements	5 years straight-line, over term of the lease
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.

4. Summary of significant accounting policies – continued

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.

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.

Notes to consolidated financial statements

For the years ended December 31, 2020 and 2019

4. Summary of significant accounting policies – continued

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.

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, *Leases* ["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 are 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:

4. Summary of significant accounting policies – continued

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.

The right-of-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-of-use asset or the end of the lease term. The estimated useful lives of right-of-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. Government grants related to forgivable portion of loans is recorded as other income. 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.

4. Summary of significant accounting policies – continued

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.

[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

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company, but may impact future periods should the company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9, *Financial Instruments* ["IFRS 9"] and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Company as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Company, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting issued on 29 March 2018 [the "Conceptual Framework"]

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

5. Changes in accounting policies and disclosures – continued

New and amended standards and interpretations – continued

Amendments to IFRS 16 COVID-19 Related Rent Concessions – amendment to IFRS 16 Leases

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Company.

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:

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 expected credit loss model requires considerable judgment, including consideration of how changes in economic factors affect expected credit losses, which are determined on a probability weighted basis. IFRS 9 outlines a three-stage approach to recognizing expected credit losses 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 expected credit losses at an amount equal to lifetime expected credit losses. The Company applies the simplified approach to determine expected credit losses 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.

Notes to consolidated financial statements

For the years ended December 31, 2020 and 2019

6. Significant accounting judgments, estimates and assumptions – continued

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.

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.

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 11.

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.

Going concern

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

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.

Notes to consolidated financial statements

For the years ended December 31, 2020 and 2019

7. Property and equipment

Property and equipment consist of the following:

	Land	Building	Leasehold improvements	Fixtures	Computer equipment	Office equipment	Equipment – gas engine	Total
	$	$	$	$	$	$	$	$
Cost								
As at January 1, 2019	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
Additions	—	—	9,185	—	—	—	—	9,185
As at December 31, 2020	**68,261**	**984,994**	**9,185**	**71,060**	**36,725**	**38,566**	**719,169**	**1,927,960**
Accumulated depreciation								
As at January 1, 2019	—	272,854	—	37,896	35,176	26,538	382,015	754,479
Depreciation	—	28,485	—	4,737	591	2,157	47,852	83,822
As at December 31, 2019	—	301,339	—	42,633	35,767	28,695	429,867	838,301
Depreciation	—	27,346	153	4,737	325	2,147	47,945	82,653
As at December 31, 2020	**—**	**328,685**	**153**	**47,370**	**36,092**	**30,842**	**477,812**	**920,954**
Net book value								
As at December 31, 2019	68,261	683,655	—	28,427	958	9,871	289,302	1,080,474
As at December 31, 2020	**68,261**	**656,309**	**9,032**	**23,690**	**633**	**7,724**	**241,357**	**1,007,006**

8. Lease assets and liabilities

The Company leases its head office premises in Ontario. On December 1, 2020, the head office was moved from Ajax, Ontario to Whitby, Ontario and the Company signed a new lease for a term of five years.

The following tables present the right-of-use assets and liabilities at December 31, 2020 and 2019:

	$
Balance – January 1, 2019	—
Addition	125,933
Amortization	(34,346)
Balance – December 31, 2019	91,587
Addition	150,566
Write off due to termination of lease	(60,104)
Amortization	(34,039)
Balance – December 31, 2020	148,010

Notes to consolidated financial statements

For the years ended December 31, 2020 and 2019

8. Lease assets and liabilities – continued

	$
Balance – January 1, 2019	—
Addition	125,933
Interest expense on lease obligation	5,983
Rent payments	(47,211)
Balance – December 31, 2019	84,705
Addition	150,566
Write off due to termination of lease	(57,099)
Interest expense on lease obligations *[note 10h]*	4,909
Rent payments	(34,445)
Balance – December 31, 2020	148,636

	$
Current portion	14,285
Non-current portion	134,351
Balance – December 31, 2020	148,636

On December 1, 2020, the Company recorded $3,005 loss on termination of their lease in Ajax, and recorded a new right-of-use asset and lease obligation for $150,566. When measuring the lease obligation, the Company discounted the lease payments using the implicit rate in the lease which is 9% per annum. Amortization of right-of-use asset is calculated using the straight-line over their estimated useful life of term of the lease.

The following table presents the contractual undiscounted cash flows for lease obligation as at December 31, 2020:

	$
Year 1	30,364
Year 2	38,220
Year 3	40,033
Year 4	41,845
Year 5	39,882
Total undiscounted lease obligation	190,344

9. Provisions

	December 31, 2020	December 31, 2019
	$	$
Balance, beginning of year	**81,600**	81,600
Paid during the year	**(42,000)**	—
Balance, end of year	**39,600**	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, a claim was settled for $255,000 payable over 25 months in equal installments of $10,200. No payments were made in 2019 based on a verbal agreement between the parties. In December 2019, the parties signed an agreement to reduce the monthly installments to $3,500 per month during an interim period until the Company receives a down payment from a customer to build its first commercial plant. At that time, the Company will resume original installments and any monies paid during the interim period will reduce the number of remaining payments or final payment amount. During the year ended December 31, 2020, the Company paid $42,000 representing $3,500 per month (2019 – $nil).

10. 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. 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. These funds were subsequently converted to common shares during the year ended December 31, 2020 *[notes 10e, 11a].*

[b] CEBA loans payable consist of the following:

	December 31, 2020	December 31, 2019
	$	$
Loans payable at fair value at inception	**63,301**	—
Accretion expense	**4,174**	—
	67,475	—

On April 30, 2020, the Company received proceeds of $80,000 pursuant to the Canadian federal government under Government sponsored Canada Emergency Business Account ("CEBA") as a business support measure for COVID-19. Environmental Waste International Inc. and its subsidiary EWI Rubber Inc. each received a $40,000 loan. No principal repayments are required until December 2022. Repayment of $30,000 of each of the loans on or before December 31, 2022 will result in loan forgiveness of $10,000 on each of the loans. After 2022, any remaining balances will be converted to a three-year term loan at a 5% interest rate.

The Company has recorded the fair value of $63,301 as at April 30, 2020, the initial recognition date of the loans using an effective interest rate of 10%. The difference of $16,699 between the fair value and the total amount of proceeds received of $80,000 was recorded as gain on recognition of interest-free loan on inception under IFRS 9 *[note 12b].* During the period May 1, 2020 to December 31, 2020 the Company recorded $4,174 accretion expense.

10. Loans and borrowings – continued

[c] Term loan payable consists of the following:

	December 31, 2020 $	December 31, 2019 $
Fixed rate, non-revolving $2,000,000 term loan from the Northern Ontario Heritage Fund Corporation ["NOHFC"], with interest at 4% per annum, due January 1, 2029.	**2,266,998**	2,223,077
Less: gain on modification of loan	**(40,284)**	—
	2,226,714	2,223,077
Accretion expense	**3,630**	—
	2,230,344	2,223,077
Less current portion	**2,230,344**	223,077
	—	2,000,000

This term loan is between the NOHFC and Ellsin Environmental Ltd. ("Ellsin"), a wholly-owned subsidiary which owns the Company's waste tire facility in Sault Ste. Marie including land, building and equipment. In May 2017, Ellsin repaid the NOHFC $339,762 representing all unpaid and accrued interest at that date. During 2018 and 2019 no principal payments were made and Ellsin continued to accrue interest on the outstanding principal of the loan, compounded monthly.

On February 4, 2020, Ellsin and NOHFC signed a fourth amendment to the loan agreement which deferred the catch-up interest payment to April 1, 2020, with go-forward and catch-up interest payments only to start May 1, 2020 and blended payments to start July 1, 2021.

With the onset of the COVID-19 pandemic in March 2020, Ellsin obtained approval from NOHFC to delay the April 1, 2020 interest catch-up payment and interest payments for six months from April 1 to September 30, 2020. NOHFC agreed to waive interest for these six months and to extend the maturity date of the loan by six months. No payments were made by Ellsin from October 1 to December 31, 2020 *[note 22d].*

Due to the changes in payment terms in the fourth amendment as well as the deferral of six months payments including waiving interest for that period, Ellsin recorded a gain on modification of debt of $40,284 in the year ended December 31, 2020.

The amount of interest accrued at December 31, 2020 was $266,998 [December 31, 2019 – $223,077]. During the year ended December 31, 2020, Ellsin recorded interest expense of $43,921 (2019 – $89,744) and accretion expense of $3,630 (2019 – $nil).

Subsequent to year end, Ellsin completed a joint venture agreement with a third party to expand and modernize the plant in Sault Ste. Marie. Ellsin renegotiated the repayment terms with NOHFC to defer catch-up interest and go-forward interest and principal payments in order to ensure that the plant is fully operational while not placing a financial burden on Ellsin early in the commercialization phase *[note 22d].*

10. Loans and borrowings – continued

[d] Promissory note payable consists of the following:

	December 31, 2020 $	December 31, 2019 $
Promissory note payable, with interest at 6% per annum, principal and accrued interest payments payable on July 15, 2021	**1,077,904**	1,017,333
Less current portion	**1,077,904**	—
	—	1,017,333

In April 2017, the Company received net proceeds of $903,000 from a director in the form of a promissory note which bears interest at 6%. The principal balance of this note was increased to $1,537,209 by December 31, 2018. As at August 31, 2019, the total amount including principal and interest owing was $1,710,000. Pursuant to an agreement signed on September 16, 2019, the parties agreed to settle $710,000 of the total amount owing by issuing 14,200,000 common shares of the Company at $0.05 *[note 11a]* and amending the promissory note agreement to decrease the principal amount to $1,000,000 and to defer the maturity date from September 30, 2019 to July 15, 2021. All other terms of the note remain unchanged. There was no gain or loss on settlement of this debt as the fair value of the equity issued was the same as the fair value of the debt on the settlement date.

Interest expense for the year ended December 31, 2020 was $60,571 (2019 – $78,539).

[e] Convertible loan payable consists of the following:

	Convertible debt $	**Conversion feature derivative liability** $	**Warrant derivative liability** $	**Total derivative liability** $	**Total debt and derivative liability** $
As at January 1, 2019	1,048,195	431,773	125,281	557,054	1,605,249
New issuance during the year	52,952	447,048	—	447,048	500,000
Interest	84,541	—	—	—	84,541
Accretion expense	171,164	—	—	—	171,164
Loss on revaluation of derivatives	—	956,178	63,513	1,019,691	1,019,691
As at December 31, 2019	1,356,852	1,834,999	188,794	2,023,793	3,380,645
Interest	71,480	—	—	—	71,480
Accretion expense	126,782	—	—	—	126,782
Loss on revaluation of derivatives	—	59,001	568,501	627,502	627,502
Conversion to share capital	(1,555,114)	(1,894,000)	—	(1,894,000)	(3,449,114)
As at December 31, 2020	—	—	**757,295**	**757,295**	**757,295**

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

10. Loans and borrowings – continued

On September 16, 2019, the face value of the convertible loan was increased from $1,350,000 to $1,850,000 *[note 10a]*. In addition, the conversion feature was revised to a price of $0.08 if converted within a period of 12 months and then increases to $0.10 until maturity. All other terms remained unchanged.

On September 11, 2020, the debtholder converted the principal of $1,850,0000 at a price of $0.08 per share, and the accrued interest of $268,521 at $0.135 per share per TSXV regulations, resulting in the issuance of an aggregate of 25,114,037 common shares. The associated conversion feature derivative liability was revalued at $1,894,000 at September 11, 2020 using the Monte Carlo simulation model resulting in a loss in value of $59,001.

The Monte Carlo simulation model used the following assumptions on September 11, 2020 as well as the probability of subsequent equity raises and expected issuance price: exercise price $0.10, daily volatility 12.084%, dividend yield 0%, risk free rate 0.26% and an expected life of 1.61 years. An exercise price of $0.10 per share was used based on the conversion price available to the holder of the note after September 16, 2020. This value as well as the carrying value of the convertible debt, which amounted to $3,449,114 in aggregate, was transferred to share capital upon conversion *[note 11a].* Costs of $12,275 relating to the conversion of debt were deducted from share capital.

This derivative liability is re-valued at each period end 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. The residual balance that remains at December 31, 2020 represents the fair value of the derivative liability associated with 3,712,500 warrants that were issued with the debt on April 12, 2017.

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

	As at December 31, 2020		As at December 31, 2019	
	Cash liability $	**Accounting liability $**	Cash liability $	Accounting liability $
Convertible loan	**1,850,000**	**830,388**	1,850,000	830,388
Accrued interest	**268,521**	**268,521**	197,041	197,041
Accrued accretion expense	**—**	**456,205**	—	329,423
Conversion to share capital	**(2,118,521)**	**(1,555,114)**	—	—
Convertible loan liability	**—**	**—**	2,047,041	1,356,852
Derivative liability	**—**	**2,651,295**	—	2,023,793
Conversion to share capital	**—**	**(1,894,000)**	—	—
Derivative liability	**—**	**757,295**	—	2,023,793
Total liability	**—**	**757,295**	2,047,041	3,380,645

As at December 31, 2020, the difference between the cash liability and accounting liability of $757,295 (2019 – $1,333,604) is a non-cash liability as it will be settled by the issuance of common shares of the Company if the warrants are exercised (2019 – conversion and warrants have been exercised). It represents the fair value of the benefit conferred on the debtholder and does not represent a cash liability.

This derivative liability was re-valued at December 31, 2020 and 2019 using the Monte Carlo simulation model using the following assumptions, as well as the probability of subsequent equity raises and expected issuance price.

10. Loans and borrowings – continued

The terms for valuing the derivatives at each respective year-end are as follows:

	December 31, 2020	December 31, 2019
Volatility	**218.9%**	158.5%
Dividend yield	**0%**	0%
Risk-free rate	**0.20%**	1.69%

The total change in fair value of derivative liability for the year ended December 31, 2020 was $627,502 (2019 – 1,019,691). For the year ended December 31, 2020, accretion expense was $126,782 (2019 – $171,164), and interest expense was $71,480 (2019 – $84,541).

[f] Mortgage payable consists of the following:

	December 31, 2020 $	December 31, 2019 $
Fixed-rate first mortgage, ten-year amortization period, with interest at 6% per annum, calculated monthly, repayable on August 1, 2020	—	13,684
Fixed-rate mortgage, with principal due upon maturity on July 3, 2025, with interest at 6% per annum payable monthly and interest of 4% per annum due upon maturity	**500,000**	—
Accrued interest outstanding	**10,379**	—
Debt issue costs	**(16,687)**	—
Cumulative amortization of debt issue costs	**1,654**	—
	495,346	—
Less current portion	**2,253**	13,684
	493,093	—

On July 3, 2020, Ellsin received gross proceeds of $500,000 from the issuance of a five-year mortgage with a third party, secured by land and a building owned by Ellsin in Sault Ste. Marie. The fair value of the mortgage was deemed to equal $500,000 based on the discounted cash flow using an estimated cost of borrowing of 9.16%. The loan matures on July 3, 2025 and bears interest at a rate of 10% per annum, 6% of which is paid monthly starting August 3, 2020 and 4% which is accrued and paid on maturity along with the principal. The 4% accrued interest can be paid in cash or common shares of the Company at the Company's option. As at December 31, 2020, the total value of the interest that may be repayable in shares was $10,000 (2019 - $nil). Debt issue costs totaling $16,687 have been deducted from the face value of the mortgage.

The remaining balance plus interest on the previous mortgage was repaid during the year including $8,684 settled from the proceeds of the new mortgage.

10. Loans and borrowings – continued

Total interest expense on mortgages of $24,711 was recorded for the year ended December 31, 2020 (2019 – $1,444).

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

[g] Deferred compensation

	December 31, 2020	December 31, 2019
	$	$
Deferred compensation with interest at 6% per annum, calculated monthly in arrears, payable January 15, 2022	**400,000**	400,000
Accrued interest	**30,000**	6,000
	430,000	406,000

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

Total interest of $24,000 was recorded for the year ended December 31, 2020 (2019 – $6,000).

[h] Finance costs

Finance costs for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
	$	$
Interest on lease liabilities *[note 8]*	**4,909**	5,983
Interest on term loan payable *[note 10c]*	**43,921**	89,744
Interest on promissory note payable *[note 10d]*	**60,571**	78,539
Interest on convertible loan payable *[note 10e]*	**71,480**	84,541
Interest on mortgages payable *[note 10f]*	**24,711**	1,444
Interest on deferred compensation *[note 10g]*	**24,000**	6,000
Accretion expense on CEBA loans payable *[note 9b]*	**4,174**	—
Accretion expense on term loan *[note 10c]*	**3,630**	—
Accretion expense on convertible loan payable *[note 10e]*	**126,782**	171,164
	364,178	437,415

11. Share capital and reserves

[a] Share Capital

Authorized – Unlimited common shares
Issued and outstanding

	Number of shares #	Amount $
Balance January 1, 2019	**165,827,736**	**48,658,125**
Issuance of shares pursuant to private placements [1]	33,200,000	1,231,460
Issuance of shares pursuant to settlement of promissory note [2]	14,200,000	710,000
Issuance of shares pursuant to settlement of debt [3]	1,128,913	56,446
Share issue costs [4]	—	(44,270)
Balance December 31, 2019	**214,356,649**	**50,611,761**
Issuance of shares pursuant to private placement [5]	6,153,846	211,921
Issuance of shares pursuant to conversion of loan payable (6)	25,114,037	3,449,114
Stock options exercised [7]	1,548,308	223,116
Share issue costs [8]	—	(14,872)
Balance December 31, 2020	**247,172,840**	**54,481,040**

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

[2] On September 16, 2019, the Company and holder of the promissory note outstanding, agreed to settle $710,000 of the total amount owing by issuing 14,200,000 common shares of the Company at $0.05 *[note 10d]*. There was no gain or loss on settlement of this debt as the fair value of the equity issued was the same as the fair value of the debt on the settlement date. Share issue costs incurred on settlement of $4,882 were adjusted against share capital.

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

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

11. Share capital and reserves – continued

[5] On June 30, 2020 the Company closed a private placement and issued 6,153,846 units for gross proceeds of $400,000. Each unit included one common shares at a price of $0.65, and one warrant with an exercise price of $0.18 expiring on June 30, 2025. The fair value of these warrants of $184,783 inclusive of transaction costs of $3,296 was allocated to contributed surplus. Associated share issue costs of $2,597 attributable to share capital were adjusted against share capital. The counterparty to the partnership to enter the European Market described in note 17, participated in this private placement.

[6] On September 11, 2020, the loan payable $1,850,0000 and accrued interest of $268,521 was converted into common shares of the Company. The principal amount of the loan was converted at a price of $0.08 per share and the accrued interest was convertible at $0.135 per share, resulting in the issuance of an aggregate of 25,114,037 common shares. The amount of $3,449,114 representing the principal, accrued interest and value of the derivative liability at the date of conversion was transferred to share capital *[note 10e].* Associated share issue costs of $12,275 were adjusted against share capital.

[7] During the year ended December 31, 2020 the Company received total proceeds of $147,832 for the issuance of a total of 1,548,308 common shares as a result of the following stock options exercised at a price in the range of $0.06 to $0.11. An amount of $75,284 related to the options exercised was transferred from contributed surplus to share capital.

[8] Issuance costs for the year ended December 31, 2020 allocated to share capital totaled $14,872.

[b] Share-based payment plans

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

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.

11. Share capital and reserves – continued

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

	December 31, 2020		**December 31, 2019**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Outstanding, beginning of year	**12,788,750**	**0.10**	14,505,000	0.10
Granted	**3,905,000**	**0.05**	4,293,750	0.08
Expired	**(3,935,000)**	**(0.10)**	(6,010,000)	(0.10)
Exercised	**(1,548,308)**	**(0.10)**	—	—
Outstanding, end of year	**11,210,442**	**0.08**	12,788,750	0.10
Exercisable, end of year	**4,359,080**	**0.08**	7,569,483	0.10

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

During the year ended December 31, 2020, 3,935,000 options with an exercise price of $0.10 expired.

During the year December 31, 2020, a total of 1,548,308 stock options were exercised at a pricing ranging from $0.06 to $0.11 for total proceeds of $147,832.

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

A summary of stock options outstanding as at December 31, 2020 is set out below:

	Outstanding stock options		
As at December 31, 2020 **Range of exercise prices** $	**Number of options** #	**Remaining contractual life** [years]	**Weighted average exercise price** $
0.05	**3,905,000**	**4.50**	**0.05**
0.06	**3,050,025**	**3.72**	**0.06**
0.10	**2,817,917**	**2.21**	**0.10**
0.11	**775,000**	**0.47**	**0.11**
0.18	**662,500**	**3.35**	**0.18**
	11,210,442	**3.37**	**0.08**

During the year ended December 31, 2020, the fair value of all options was estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0% [2019 – 0%]; expected volatility of 219% [2019 – 188%]; risk-free interest rates of 0.35% [2019 – 1.74%]; and an average expected life of five years [2019 – five years]. This resulted in stock-based compensation expense of $158,616 during the year ended December 31, 2020 [2019 – $106,597].

11. Share capital and reserves – continued

[c] Warrants

In 2017, pursuant to the issuance of the convertible loan, the Company issued 3,712,500 common share purchase warrants that entitle the holder to receive one common share at a price of $0.11 for a period of five years. The value of these warrants has been accounted for as a derivative liability *[note 10e]*.

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.

Pursuant to a financing on June 30, 2020, the Company issued 6,153,846 common share purchase warrants that entitle the holder to receive one common share at a price of $0.18 for a period of five years. The value of these warrants of $188,079 has been allocated to contributed surplus, less $3,296 of associated share issuance costs attributable to the warrants.

A summary of the status of the Company's warrants at December 31, 2020 are as follows:

	Number of warrants	**Weighted average remaining contractual life**	**Weighted average exercise price**
	#	[years]	$
Balance, January 1, 2019	3,712,500	1.34	0.11
Issued April 30, 2019	4,750,000	1.33	0.20
Issued September 16, 2019	11,850,000	1.71	0.20
Balance, December 31, 2019	20,312,500	1.55	0.17
Issued June 30, 2020	6,153,846	4.50	0.18
Balance, December, 31, 2020	**26,466,346**	**2.24**	**0.18**

A summary of warrants outstanding and exercisable as at December 31, 2020 is set out below:

	Outstanding and exercisable warrants		
Range of exercise prices	**Number of warrants**	**Weighted average Remaining contractual life**	**Weighted average exercise price**
$	#	[years]	$
0.11	**3,712,500**	**1.34**	**0.11**
0.18 – 0.20	**22,753,846**	**2.38**	**0.19**

11. Share capital and reserves – continued

[d] Contributed surplus

	December 31, 2020	December 31, 2019
	$	$
Balance, beginning of year	**6,492,500**	5,971,088
Stock-based compensation	**158,616**	106,597
Issuance of warrants	**188,079**	428,540
Stock options exercised	**(75,284)**	—
Warrant issue costs	**(3,296)**	(13,725)
Balance, end of year	**6,760,615**	6,492,500

[e] Per share amounts

For the year ended December 31, 2020, the weighted average number of shares outstanding was 225,392,179 [2019 – 183,538,872]. As at December 31, 2020, the Company had 11,210,442 stock options [December 31, 2019 – 12,788,750] and 26,466,346 warrants [December 31,2019 – 20,312,500] outstanding.

12. Government assistance

[a] Canada Emergency Wage Subsidy ("CEWS")

In response to the COVID-19 coronavirus pandemic, in April 2020 the government of Canada introduced the CEWS program. CEWS provides a wage subsidy program on eligible renumeration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy was retroactive to March 15, 2020. The qualification and application of the CEWS is being assessed over multiple four-week period segments.

The company recognizes government grants when there is reasonable assurance that it will comply with the conditions to qualify for the grant and that the grant will be received. The company has recognized $113,910 of CEWS during the year ended December 31, 2020 and has recorded it as a reduction to the eligible salaries and benefit expenses that are allocated proportionately to the functions of technology development, plant operations and selling, marketing and administration reported in the consolidated statements of loss and comprehensive loss *[note 15].*

Trade and other receivables at December 31, 2020, include $63,403 [December 31, 2019 – $nil] related to CEWS for the periods May 8, 2020 to December 31, 2020 that the Company has applied for but not received.

[b] Canada emergency business account ("CEBA")

CEBA is a government assistance program implemented by eligible financial institutions in cooperation with Export Development Canada. The CEBA provides interest-free loans of up to $60,000 to small businesses to help their operating costs during a period when their revenues have been temporarily reduced by the economic impact of COVID-19. On April 30, 2020, each of Environmental Waste International Inc. and its subsidiary EWI Rubber Inc. received a $40,000 loan for proceeds of $80,000. *[note 10b]*. A difference of $16,699 between the fair value of the loans and the proceeds received was recognized as gain on recognition of interest free loan over the term of the loan and included in other income in the consolidated statements of loss and comprehensive loss.

13. Income taxes

The reconciliation of the combined federal and provincial statutory income tax rate of 26.5% [2019 – 26.5%] to the effective tax rate is as follows:

	2020 $	2019 $
Net loss before recovery of income taxes	**(2,417,204)**	(2,771,546)
Expected income tax recovery	**(640,559)**	(734,460)
Share based compensation and non-deductible expenses	**76,140**	74,311
Share issuance cost booked through equity	**(4,815)**	(15,368)
Change in fair value of derivative	**166,288**	270,218
Change in tax benefits not recognized	**327,105**	403,282
Loss of investment tax credit (SR&ED) carryforwards	**72,934**	—
Others	**2,907**	2,017
Income tax (recovery) expense	**—**	—

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:

	2020 $	2019 $
Deferred tax assets		
Investment tax credit (SR&ED) expenditures	**2,559,396**	2,559,396
Unused tax losses carryforwards	**22,334,914**	20,795,722
Investment tax credits	**2,423,770**	2,528,124
Temporary differences		
Schedule 13 Reserves	**523,145**	564,945
Property and equipment	**2,411,688**	2,329,034
Intangible assets	**394,610**	394,610
Imputed interest on loans and notes	**405,819**	462,879
Right-of-use assets offset with lease liabilities	**626**	(6,881)
Ontario Research and Development Tax Credit	**235,089**	235,089
Deferred financing costs and other	**107,960**	122,133
Government Grant – CEBA loan	**7,475**	—
Total deferred tax assets	**31,404,492**	29,985,051
Losses and other temporary differences not benefited	**(31,404,492)**	(29,985,051)
Net deferred tax assets	—	—

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2024. The Company's investment tax credits expire from 2024 to 2036. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

13. Income taxes - continued

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	903,372
2040	1,541,438
Total	**22,334,914**

14. Financial instruments

[a] Fair value information

The fair values of cash, trade and other 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).

14. Financial instruments – continued

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 (2019 – one) accounted for 100% (2019 – 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.

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, 2020, 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 $4,303 (2019 – $12,930).

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

14. Financial instruments – continued

As at December 31, 2020	Less than 1 year	2 – 3 years	4 – 5 years	Greater than 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities and provisions	475,894	—	—	—	475,894
Contract liability	63,515	—	—	—	63,515
Lease obligations	30,364	78,253	81,727	—	190,344
Loans payable	—	80,000	—	—	80,000
Term loan payable	2,266,998	—	—	—	2,266,998
Promissory note payable	1,077,904	—	—	—	1,077,904
Mortgages payable	—	—	500,000	—	500,000
Deferred compensation	—	430,000	—	—	430,000
Total	**3,914,675**	**588,253**	**581,727**	—	**5,084,655**

[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, 2020	December 31 2019
	$	$
Interest-bearing loans and borrowings	**4,418,417**	5,707,135
Lease liabilities	**190,344**	91,417
Trade payables and other provisions	**475,894**	554,751
Less cash and cash equivalents	**(619,721)**	(885,591)
Net debt	**4,464,934**	5,467,712
Shareholders' deficiency	**(3,797,430)**	(5,517,620)
Total capital (deficiency)	**667,504**	(49,908)

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, 2020. The Company is not subject to externally imposed capital requirements.

15. Operating expenses by function

The Company classifies its operating expenses into three functions to reflect how it manages its business. Salaries and benefits are allocated to functions as follows for the years ended December 31, 2020 and 2019:

Year ended December 31, 2020	**Technology development**	**Plant operations**	**Selling, marketing and administration**	**Total**
	$	**$**	**$**	**$**
Salaries and benefits	153,886	90,542	97,820	342,248
Government grant income	(42,918)	(26,741)	(44,251)	(113,910)
	110,968	63,801	53,569	228,338

Government grant income relates to the Canada Emergency Wage Subsidy ("CEWS") provided by the government of Canada as financial assistance during the COVID-19 pandemic *[note 12a]*.

Year ended December 31, 2019	**Technology development**	**Plant operations**	**Selling, marketing and administration**	**Total**
	$	**$**	**$**	**$**
Salaries and benefits	152,326	70,351	81,535	304,212

16. Related party disclosures

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

During the year ended December 31, 2020, the Company engaged in transactions in the normal course of operations with the following related parties. All of these transactions have been accounted for at the exchange amount agreed to by the transacting parties as follows:

The Company recognized an expense during the year ended December 31, 2020 for interest on loans to a director of $132,051 [2019 – $163,080]. At December 31, 2020, $77,904 was included in loans payable [December 31, 2019 – $214,375] relating to unpaid interest on loans from a director *[note 10d].*

The Company recognized an expense during the year ended December 31, 2020 for shared-based compensation to directors in the amount of $33,948 [2019 – $16,055].

[b] Transactions with key management personnel

The Company recorded compensation expense during the year ended December 31, 2020 in the amount of $273,000 [2019 – $248,200] and share-based compensation in the amount of $70,948 [2019 – $23,891] to key management personnel. The Company recognized an expense of $24,000 [2019 – $6,000] during the year ended December 31, 2020 for interest on deferred compensation to a key member of management who is also a director.

16. Related party disclosures – continued

Accounts payable as at December 31, 2020, includes $113,591 [December 31, 2019 – $129,601] related to compensation of a key member of management who is also a director.

17. Commitments and contingencies

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

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

Partnership to enter European Market

On August 25, 2020, the Company announced that is signed an agreement with a European development and investment company to enter into a partnership to develop waste tire recycling plants across Europe. The first project of this partnership will be a TR100 tire recycling plant in Europe which utilizes the Company's reverse polymerization technology. Subject to certain conditions, exclusions and performance criteria, the Company granted to its partner exclusive rights to its technology across Europe. In exchange for these exclusive rights, its partner is required to meet performance criteria such as the timely purchase and construction of a TR100, and must order and build additional plants within the first five years of the partnership to retain their exclusive rights to this technology in Europe. The counterparty to this agreement participated in the June 30, 2020 private placement *[note 11a].*

18. Segment information

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

During the year ended December 31, 2020 and 2019, 100% of the revenue is attributable to the United States region. During the year ended December 31, 2020 and 2019, 100% of the revenue is attributable to one customer. All of the Company's non-current assets are located in Canada.

19. 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 in 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.

20. COVID-19

In March 2020, there was a global outbreak of the coronavirus COVID-19 which has had impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments. Measures taken to address the COVID-19 pandemic had an impact on the Company in the year resulting in a decrease in maintenance revenues due to the inability to travel to the US. In addition, the COVID-19 pandemic has slowed current negotiations on plant sales, although none have been abandoned.

Depending on the severity and duration of COVID-19 disruptions, including the current resurgence and possible future resurgences in the number of COVID-19 cases the company's financial results could continue to be negatively impacted in future periods.

21. Comparative Financial Statements

Certain figures in the comparative financial statements, namely the presentation of expenses by function *[note 15]*, have been reclassified to conform to the current period presentation.

22. Subsequent Events

[a] Proceeds from Exercise of stock options

During the period from January 1, 2021 to April 28, 2021 a total of 953,308 stock options were exercised for total proceeds of $88,182 by employees, officers and consultants of the Company.

21. Comparative Financial Statements

[b] Additional proceeds from CEBA loans

On January 22, 2021, the Company received additional proceeds totaling $40,000 pursuant to CEBA program *[note 10b]*. Environmental Waste International Inc. and its subsidiary EWI Rubber Inc. each received an additional $20,000 on their original $40,000 CEBA loans, bringing their total CEBA loan balances to $60,000 each ($120,000 in aggregate). Repayment of $40,000 on each of the loans on or before December 31, 2022 will result in loan forgiveness of $20,000 on each of the loans. After 2022, any remaining balances will be converted to a three-year term loan at a 5% interest rate.

[c] Proceeds from Exercise of warrants

On March 17, 2021, 250,000 warrants were exercised for total proceeds of $50,000.

[d] Joint venture agreement with $7 million investment

On March 19, 2021, the Company entered into an agreement with a private Ontario corporation, whereby that entity will invest $7,000,000 to convert Ellsin's pilot plant in Sault Ste. Marie into a commercial scale recycling plant utilizing the Company's patented microwave technology. Following the receipt of all of the committed funds, that private corporation will own 70% of Ellsin and the Company will retain a 30% ownership interest in Ellsin. Under the agreement, Ellsin will also pay a royalty fee of 6% of Ellsin's top line revenue to the Company on a quarterly basis, based on revenues generated from the Hybrid Reverse Polymerization process in perpetuity. In exchange for the investment in Ellsin, the Company will grant the private corporation the right to build three additional waste tire facilities in Ontario over the next five years if it meets certain conditions. The initial proceeds of $400,000 were received on March 19, 2021, and an additional $600,000 was received on April 7, 2021. The remaining $6,000,000 of financing is scheduled to be paid to Ellsin in four tranches up to August 10, 2021.

[e] Deferral of NOHFC loan repayments

On April 19, 2021 the NOHFC accepted a proposal from the Company to amend the repayment terms of the term loan payable *[note 10c]* as follows:

- Previously accrued and unpaid interest, and additional interest accruing up to and including August 31, 2021, is to be paid in full no later than August 31, 2021;
- Interest from August 31, 2021 until May 31, 2022 shall accrue and be paid in full no later than May 31, 2022,
- Blended payments based on a 5-year amortization will commence on June 1, 2022, and
- NOHFC will obtain a corporate guarantee and postponement of claim, supported by a general security agreement from the new majority shareholder of Ellsin [i.e., Torreco, *note 22d]*.

[f] Private Placement

On April 23, 2021, the Company completed a non-brokered private placement for proceeds of $1,233,000 through the issuance of 4,110,000 common shares at $0.30 per share.