Ecolomondo Corporation

Consolidated Financial Statements
December 31, 2019 and 2018

Raymond Chabot Grant Thornton

Independent Auditor's Report

Raymond Chabot
Grant Thornton LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Quebec
H3B 4L8

T 514-878-2691

To the Shareholders of
Ecolomondo Corporation

Opinion

We have audited the consolidated financial statements of Ecolomondo Corporation (hereafter "the Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to 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 financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted our audit 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 audit 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.

Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in 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 audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, 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 in this auditor’s report. 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 (IFRS), 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;

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 Antonia Psyharis.

Raymond Chabot Grant Thornton LLP[1]

Montréal
April 20, 2020

[1] CPA auditor, CA public accountancy permit no. A119564

Ecolomondo Corporation
Consolidated Balance Sheets
December 31, 2019 and 2018
(In Canadian dollars)

	December 31, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash	5,331,573	307,800
Term deposit, 1.80% (2.30% in 2018)	150,000	505,913
Receivables (Note 3)	486,536	103,629
Investment tax credits receivable	22,912	56,816
Prepaid expenses		4,388
Total current assets	5,991,021	978,546
Non-current		
Term deposits, 2.85 %		1,843,534
Plant under construction	4,209,391	1,030,053
Deposit on plant under construction	1,917,304	
Equipment (Note 4)	2,573,392	3,150,409
Right of use assets (Note 5)	68,272	
Intangible assets (Note 6)		70,184
Total non-current assets	8,768,359	6,094,180
Total assets	14,759,380	7,072,726
LIABILITIES		
Current		
Accounts payable and accrued liabilities	2,027,295	395,462
Deferred revenues (Note 7)	1,325,125	1,341,049
Deposit from a future partner (Note 8)	2,467,720	
Current portion of long term debt	20,000	20,000
Current portion of lease liabilities	49,950	
Total current liabilities	5,890,090	1,756,511
Non-current		
Advance from a company under common control, without interest and without repayment terms until January 2022	1,518,853	1,518,853
Long term debt (Note 10)	5,017,805	180,000
Lease liabilities (Note 5)	19,702	
Deferred income taxes (Note 9)	556,963	781,176
Total non-current liabilities	7,113,323	2,480,029
Total liabilities	13,003,413	4,236,540
EQUITY		
Common shares (Note 11)	17,195,204	17,104,907
Warrants (Note 11)		571,000
Options (Note 11)	4,045,078	4,097,275
Accumulated deficit	(19,484,315)	(18,936,996)
Total equity	1,755,967	2,836,186
Total liabilities and equity	14,759,380	7,072,726

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

/s/ Elio Sorella
Director

/s/ Donald S. Prinsky
Director

Ecolomondo Corporation
Consolidated Statements of Loss and Comprehensive Loss
Years ended December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

	December 31, 2019	December 31, 2018
	$	$
Ancillary revenues (Note 12)	76,586	72,180
Expenses		
General and administrative expenses (Note 13)	282,517	346,494
Research and development (Note 13)	1,135,357	1,706,120
Financial expenses	1,244	1,080
Total expenses	1,419,118	2,053,694
Loss before income taxes	(1,342,532)	(1,981,514)
Income taxes		
Current		
Deferred	(224,213)	(279,516)
	(224,213)	(279,516)
Net loss and comprehensive loss	(1,118,319)	(1,701,998)
Net loss per share		
Basic and diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding – basic and diluted	177,227,708	176,167,391

The accompanying notes are an integral part of the consolidated financial statements and Note 12 provides other information on consolidated loss and comprehensive loss.

Ecolomondo Corporation
Consolidated Statements of Changes in Equity

Years ended December 31, 2019 and 2018

(In Canadian dollars, except for number of shares)

2019

	Number of class "A" shares outstanding	Share capital	Warrants	Options	Deficit	Total equity
		$	$	$	$	$
Balance, December 31, 2018	176,929,398	17,104,907	571,000	4,097,275	(18,936,996)	2,836,186
Exercise of options (Note 11)	381,000	90,297		(52,197)		38,100
Expiration of warrants (Note 11)			(571,000)		571,000	
Transactions with owners	177,310,398	17,195,204	–	4,045,078	(18,365,996)	2,874,286
Net loss and comprehensive loss for the year ended December 31, 2019					(1,118,319)	(1,118,319)
Balance, December 31, 2019	177,310,398	17,195,204	–	4,045,078	(19,484,315)	1,755,967

2018

	Number of class "A" shares outstanding	Share capital	Warrants	Options	Deficit	Total equity
		$	$	$	$	$
Balance, December 31, 2017	175,967,598	16,879,242	573,760	4,224,000	(17,234,998)	4,442,004
Exercise of options (Note 11)	925,000	219,225		(126,725)		92,500
Exercise of warrants (Note 11)	36,800	6,440	(2,760)			3,680
Transactions with owners	176,929,398	17,104,907	571,000	4,097,275	(17,234,998)	4,538,184
Net loss and comprehensive loss for the year ended December 31, 2018					(1,701,998)	(1,701,998)
Balance, December 31, 2018	176,929,398	17,104,907	571,000	4,097,275	(18,936,996)	2,836,186

The accompanying notes are an integral part of the consolidated financial statements.

Ecolomondo Corporation
Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018
(In Canadian dollars)

	December 31, 2019	December 31, 2018
	$	$
OPERATING ACTIVITIES		
Net loss	(1,118,319)	(1,701,998)
Interest on lease liability	6,389	
Non-cash items		
Interest income		(46,887)
Depreciation of equipment	581,438	594,795
Depreciation of right of use assets	95,075	
Amortization of intangible assets	70,184	280,753
Deferred income taxes	(224,213)	(279,516)
Loss on disposal of equipment		63,109
Changes in working capital items (Note 14)	(441,517)	219,861
Net cash used for operating activities	(1,030,963)	(869,883)
INVESTING ACTIVITIES		
Investments in term deposits	(150,000)	(4,350,748)
Disposal of term deposits	2,349,447	4,050,748
Disposal of equipment		143,000
Plant under construction	(3,383,831)	(669,957)
Acquisition of equipment	(4,421)	
Net cash used for investing activities	(1,188,805)	(826,957)
FINANCING ACTIVITIES		
Advances from a company under common control		273
Deposit from a future partner	2,467,720	
Long term debt	4,857,805	
Repayment of long term debt	(20,000)	
Repayment of lease liabilities	(93,695)	
Interest on lease liabilities	(6,389)	
Proceeds from exercise of warrants		3,680
Proceeds from exercise of options	38,100	92,500
Net cash provided by financing activities	7,243,541	96,453
Net increase (decrease) in cash	5,023,773	(1,600,387)
Cash, beginning of year	307,800	1,908,187
Cash, end of year	5,331,573	307,800

The accompanying notes are an integral part of the consolidated financial statements.

1 - GOVERNING STATUTES, NATURE OF OPERATIONS AND CHANGE IN CORPORATE NAME

Ecolomondo Corporation (the "Company") was incorporated on September 30, 2015 under the Canada Business Corporations Act. Prior to October 20, 2017, the Company was listed on the TSX Venture Exchange (the "Exchange"), according to the provisions of Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual.

On October 20, 2017, the Company completed its qualifying transactions (the "Qualifying Transaction") pursuant to the rules and policies of the Exchange by acquiring 100% of the issued and outstanding shares of Ecolomondo Corporation Inc, which changed named to Ecolomondo Environmental (Contrecoeur) Inc in 2018. With the completion of the Qualifying Transaction, the Company is now a development stage clean tech company conducting research and development focused on the design, engineering and development of a Thermal Decomposition Process ("TDP") using a pyrolysis platform that converts hydrocarbon waste into marketable commodity end-products, namely carbon black substitute, oil, gas and steel.

The Company's planned principal business is the manufacture and sale of turnkey facilities based on this technology platform as well as the collection of royalties from their operation or the operation of these facilities through wholly-owned or jointly-owned companies.

The head office and the registered head office of the Company is located at 3435 Pitfield Boulevard, Saint-Laurent, Quebec, Canada.

Statement of compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements for the year ended December 31, 2019 were approved and authorized for issuance by the Board of Directors on April 20, 2020.

2 - SIGNIFICANT ACCOUNTING POLICIES

New standards adopted as at January 1, 2019

IFRS 16 Leases

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). The new Standard has been applied using the modified retrospective approach, with the cumulative effect, if any, of adopting being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identify as leases under IAS 17 and IFRIC 4.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares, warrants and options)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards adopted as at January 1, 2019 (Continued)

IFRS 16 Leases (Continued)

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 8.5%.

The following is a reconciliation of the total operating leases commitment at December 31, 2018 to the lease liabilities recognised at January 1, 2019:

	$
Total operating lease commitments disclosed at December 31, 2018	132,668
Less recognition exemption: leases with remaining lease term of less than 12 months	(20,168)
	112,500
Discount using incremental borrowing rate	5,166
Total leases liabilities recognized under IFRS 16 as at January 1, 2019	107,334

A right-of-use asset of equivalent value was recorded on January 1, 2019, therefore, the adoption of IFRS 16 had no impact on the Company’s equity as at January 1, 2019.

Standards, amendments and interpretation to existing standards that are not yet effective

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board but are not yet effective, and have not been early adopted by the Company.

Any other new standards and interpretations that have been issued are not expected to have a material impact on the Company's consolidated financial statements.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares, warrants and options)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and those of Ecolomondo Environmental (Contrecœur) Inc, Ecolomondo Environmental (Hawkesbury) Inc. (incorporated in 2018) and 9083-5018 Quebec Inc., directly or indirectly, wholly-owned subsidiaries. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of December 31. All intercompany balances and transactions have been eliminated upon consolidation.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and all of the subsidiaries. Accordingly, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of each reporting period. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates during the reporting period. The related gains or losses are accounted for in the consolidated statements of comprehensive loss. The Company has not utilized any foreign currency hedging strategies to mitigate the effect of its foreign currency exposure.

Plant under construction

Plant under construction includes any cost that is directly attributable to the construction of a new plant and to bringing the plant to the condition necessary for it to be capable of operating in the manner intended by management. Such costs include the cost of the land, as well as borrowing costs that are directly attributable to the construction and any deposit made on the construction.

Equipment

Equipment is accounted for at cost less accumulated depreciation. Depreciation is based on estimated useful life using the straight-line method, and the following periods:

	Periods
Reactor	15 years
Shredder	15 years
Office equipment	5 years
Other equipment	5 years

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment (Continued)

Estimates of useful life are updated as required and are reviewed at least annually. Maintenance and repairs are expensed as incurred.

The plant under construction is not amortized until construction is complete and operating in the manner intended by management.

Intangible assets

Intangible assets include patents acquired, which are amortized on a straight-line basis over their estimated legal lives. At the time of acquisition, estimated legal lives approximated ten years, including patent renewals.

Impairment testing of plant under construction, equipment and intangible assets

For impairment assessment purposes, assets are grouped at the lowest level for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Non-amortizable assets are tested for impairment annually.

An impairment loss is recognized for the amount by which the asset’s (or cash-generating unit’s) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company’s latest approved budget, adjusted as necessary. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Any impairment loss is charged to the individual asset or on a pro rata basis to the assets in a cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset’s or cash-generating unit’s recoverable amount exceeds its carrying amount.

As at December 31, 2019 and 2018, the Company determined that there was no impairment of equipment, plant under construction nor the intangible assets.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets, other than those designated and effective as hedging instruments, are classified into one of the following categories: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. In periods presented, the Company only has financial instruments classified at amortized cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company's cash, receivables (excluding sales taxes receivable) and term deposits are classified in the category of amortized cost upon initial recognition. Receivables from the sale of by-products that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Subsequent measurement

In subsequent periods, the measurement of financial instruments depends on their classification.

The Company measures financial assets at amortized cost if the assets meet the following conditions:

a) They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows

b) The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The Company recognizes a loss allowance for expected credit losses arising from financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial information.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and subsequent measurement of financial liabilities

The Company’s financial liabilities include accounts payable and accrued liabilities, excluding salaries and benefits payable, certain deferred revenues, advances from a company under common control, advance from a future partner and long-term debt.

Financial liabilities are measured subsequently at amortized cost using the effective interest method and all revenues and expenses relating to financial liabilities are recognized in consolidated loss.

Leases

Policy applicable as of January 1, 2019

The Company recognises a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereafter, the “commencement date”).

The right-of-use asset is initially measured at cost, which includes the initial lease liabilities adjusted for lease payments on or before the commencement date, plus initial direct costs incurred and an estimate of all of the costs for dismantling and removing the underlying asset, less any lease incentives received.

The right-of-use asset is amortised over the shorter of the estimated useful life of the underlying asset or the lease term on a straight-line basis. Additionally, the cost of a right-of-use asset is reduced by any accumulated impairment losses and, as appropriate, adjusted for any remeasurement of the related lease liability.

Policy applicable as of January 1, 2019

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as its discount rate. The lease payments included in the lease liability include the following, in particular:

– Fixed payments, including in-substance fixed payments, less any lease incentives receivable;

– Variable payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– Lease payments relating to extension options that the Company is reasonably certain it will exercise.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Policy applicable as of January 1, 2019 (Continued)

The interest expense relating to lease liabilities is recognised in profit or loss using the effective interest method.

The lease liability is remeasured when there is a change in future lease payments resulting from a change in an index or when the Company changes its measurement with respect to the exercise of a purchase, extension or termination option.

The lease liability adjustment is adjusted against the related right-of-use asset or recorded in profit or loss if the right-of-use asset is reduced to zero.

Lease payments relating to leases with a lease term of 12 months or less and leases for which the underlying asset is of low value are recognised on a straight-line basis as an expense in profit or loss.

Policy applicable before January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company did not have any finance leases prior to January 1, 2019.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rental payments arising under operating leases are recognised as an expense in the period in which they are incurred.

Revenue recognition

Sale of facilities

When a letter of intent is signed for the potential sale of a facility, a deposit representing a commitment fee is received in anticipation of signing a contract for the sale of the facility. Such deposits are presented as deferred revenues. If the contract is signed, the commitment fee is credited against the contract price. If the potential buyer chooses not to proceed with the project, the commitment fee is retained by the Company and recognized in revenue upon the termination of the letter of intent.

As at December 31, 2019 and 2018, there were no contracts signed for the sale of facilities.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Ancillary revenues

The sale of by-products contains a single performance obligation to transfer such goods. Revenue is recognized when control of goods has transferred to customers. Control is considered transferred in accordance with the terms of sale, generally when goods are shipped to external customers as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customers.

Research and development costs and investment tax credits

Research expenses and development costs that do not meet the criteria for capitalization are expensed as they are incurred. Such costs consist primarily of materials and employee related expenses including salaries and benefits.

Investment tax credits are accounted for during the year in which the research and development costs are incurred, provided that the Company is reasonably assured that the credits will be received. The investment tax credits must be examined and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

Share capital, warrants and options

Class "A" shares, warrants and options are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from the proceeds in equity in the period where the transaction occurs.

Balances from cancelled or expired warrants and cancelled or expired options are transferred to deficit.

Units

Proceeds from issuance of units are allocated between share capital and warrants according to their relative fair values. The Company uses the share price at the date of issuance for the fair value of the shares and the Black-Scholes pricing model to determine the fair value of the warrants.

Income taxes

Tax expense recognized in consolidated comprehensive loss comprises the sum of current and deferred taxes that are not recognized directly in equity.

Current tax is based on the results for the period as adjusted for items that are not taxable or deductible. Current tax is calculated using tax rates and laws enacted or substantially enacted at the reporting date.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (Continued)

Deferred income taxes are calculated using the liability method. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheets. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax is calculated using tax rates and laws enacted or substantially enacted at the reporting date, and which are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

The carrying amounts of deferred tax assets are reviewed at each reporting period 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Share-based compensation and other share-based payments

The Company has a stock option plan under which directors, executives, employees and consultants can be granted stock options of the Company.

The fair value is measured at the grant date and recognized as an expense in profit or loss with a corresponding amount to options in equity over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Any consideration paid by the employees on exercise or purchase of stock options is credited to share capital. The value attributed to stock options is transferred to share capital at the issuance of common shares.

In the normal course of operations, the Company grants shares in exchange for goods or services to parties other than staff members. For these transactions, the Company evaluates the goods or services received and the increase in equity, which is the counterpart, directly to the fair value of goods or services received, unless that fair value cannot be reliably estimated. In this case, the fair value is the value of shares issued on the market at the date the goods or services are received.

Basic and diluted net loss per share

The Company presents basic and diluted loss per share data for its common shares calculated by dividing the loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss and the weighted average number of common shares outstanding for the effects of all warrants and stock options that may add to the total number of common shares in the case where they would not have an anti-dilutive impact.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares, warrants and options)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and diluted net loss per share (Continued)

For the years ended December 31, 2019 and 2018, the diluted loss per share was the same as the basic loss per share since the options and warrants had an anti-dilutive effect. Accordingly, the basic and diluted loss per share for those years were calculated using the basic weighted average number of shares outstanding.

Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the consolidated financial statements, management makes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, revenues and expenses.

Significant management judgment

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the consolidated financial statements.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilized.

Capitalization of development costs

Determining whether the recognition requirements for the capitalization of development costs of the TDP are met requires judgment. As at December 31, 2019 and 2018, the Company determined that not all recognition requirements were met. Thus, the Company did not record any development costs in the consolidated balance sheets for the years ended December 31, 2019 and 2018.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, revenues and expenses is provided below. Actual results may be substantially different.

Impairment of plant under construction, equipment and intangible assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. As at December 31, 2019 and 2018, the Company determined that there was no impairment of plant under construction, equipment nor the intangible assets.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares, warrants and options)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation uncertainty (Continued)

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain equipment.

Leases

Recognising leases requires judgement and use of estimates and assumptions. Judgement is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability.

Investment tax credits

Investment tax credits related to research and development activities are accounted for during the year in which the related research and development expenses are incurred. The investment tax credits must be examined and approved by the tax authorities and it is possible that the amounts granted by the tax authorities will differ from the amounts recorded.

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility determined by reference to historical data of comparable entities, the probable life of options and warrants granted and the time of exercise of those options and warrants. The model used by the Company is the Black-Scholes valuation model.

3 - RECEIVABLES

	December 31, 2019	December 31, 2018
	$	$
Sales taxes receivable	486,536	76,241
Employee advances		1,500
Deposits and other receivable		25,888
	486,536	103,629

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

4 - EQUIPMENT

	Reactor	Shredder	Office equipment	Other equipment	Total
	$	$	$	$	$
Cost as at December 31, 2017	8,700,968	530,020	17,094	1,832,783	11,080,865
Disposal		(530,020)			(530,020)
Cost as at December 31, 2018	8,700,968	–	17,094	1,832,783	10,550,845
Accumulated depreciation as at December 31, 2017	4,970,494	309,181	17,094	1,832,783	7,129,552
Depreciation	580,065	14,730			594,795
Disposals		(323,911)			(323,911)
Accumulated depreciation as at December 31, 2018	5,550,559	–	17,094	1,832,783	7,400,436
Balance as at December 31, 2018	3,150,409	–	–	–	3,150,409
Cost as at December 31, 2018	8,700,968		17,094	1,832,783	10,550,845
Addition			4,421		4,421
Cost as at December 31, 2019	8,700,968	–	21,515	1,832,783	10,555,266
Accumulated depreciation as at December 31, 2018	5,550,559		17,094	1,832,783	7,400,436
Depreciation	580,068		1,370		581,438
Accumulated depreciation as at December 31, 2019	6,130,627	–	18,464	1,832,783	7,981,874
Balance as at December 31, 2019	2,570,341	–	3,051	–	2,573,392

(In Canadian dollars, except for number of shares)

5- LEASES

The Company leases a manufacturing facility and some equipment from companies under common control. The leases have an initial term of two years.

The right-of-use assets and lease liabilities recognised by the Group:

Right-of-use assets

	Manufacturing Facility	Loader	Total
	$	$	$
Balance as at January 1, 2019 (Note 2)	107,334		107,334
Addition		56,013	56,013
Depreciation	(85,867)	(9,208)	(95,075)
Balance as at December 31, 2019	21,467	46,805	68,272

Lease liabilities

	$
Balance as at January 1, 2019 (Note 2)	107,334
Addition	56,013
Lease payments	(93,695)
Balance as at December 31, 2019	69,652
Current portion	49,950
Non-current portion	19,702

Contractual undiscounted payments under lease liabilities are as follows:

	December 31, 2019
	$
2020	52,752
2021	20,168
	72,920

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

6 - INTANGIBLE ASSETS

	Patents
Cost as at December 31, 2018	2,807,525
Accumulated amortization as at December 31, 2017	2,456,588
Amortization	280,753
Accumulated amortization as at December 31, 2018	2,737,341
Balance as at December 31, 2018	70,184
Cost as at December 31, 2019	2,807,525
Accumulated amortization as at December 31, 2018	2,737,341
Amortization	70,184
Accumulated amortization as at December 31, 2019	2,807,525
Balance as at December 31, 2019	–

7 - DEFERRED REVENUES

As at December 31, 2019, the deferred revenues are composed of two customer deposits on the signing of two letters of intent for the purchase of two facilities. One of the deposits is for an amount of $1,000,000 ($1,000,000 as at December 31, 2018). Of this amount, $100,000 represent a non-refundable commitment fee. This commitment fee together with an amount of $600,000 will be credited against the contract price. The balance of $300,000 will be held until such time as a facility that has received final completion has been delivered to the potential buyer. If a contract for the sale of a facility is not signed, then the Company will retain $500,000 and the remaining $500,000 will be returned to the potential buyer.

The second customer deposit is for US$250,000 ($325,125 as at December 31, 2019; $341,049 as at December 31, 2018).

8 - DEPOSIT FROM A FUTURE PARTNER

During the year, the Company received an amount of $1,900,000 U.S. ($2,467,720) from a future partner. When the plant under construction will be completed, 45% of the subsidiary that owns the plant will be sold to this partner. As at December 31, 2019, the plant is not yet complete, and as such, the transaction has not been finalized. Upon sale of the subsidiary, the deposit will be applied against the purchase price.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

(In Canadian dollars, except for number of shares)

9 - INCOME TAXES

As at December 31, 2019, the Company has net operating loss carry-forwards of approximately $6,530,000 ($6,245,000 as of December 31, 2018) that may be available to reduce taxable income in future years in various amounts through 2039. The Company has determined that the realization of the future tax benefits arising from the net operating loss carry-forwards is not likely to occur and, therefore, deferred tax assets have been recognized in the consolidated financial statements to the extent that taxable temporary differences exist to offset them.

Deferred taxes arising from temporary differences and unused tax losses are summarized as follows:

	January 1, 2019	Recognized in comprehensive loss	December 31, 2019
	$	$	$
Deferred tax liabilities (assets)			
Non-current assets			
Equipment	846,176	(206,213)	639,963
Intangible assets	18,000	(18,000)	
Unused tax losses	(83,000)		(83,000)
	781,176	(224,213)	556,963

	January 1, 2018	Recognized in comprehensive loss	December 31, 2018
	$	$	$
Deferred tax liabilities (assets)			
Non-current assets			
Equipment	1,060,692	(214,516)	846,176
Intangible assets	94,000	(76,000)	18,000
Unused tax losses	(94,000)	11,000	(83,000)
	1,060,692	(279,516)	781,176

Unused tax losses and deductible temporary differences for which no deferred tax assets have been recognized on the consolidated financial statements are as follows:

	December 31, 2019	December 31, 2018
	$	$
Tax losses	6,530,000	6,245,000
Financing costs		141,000
	6,530,000	6,386,000

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

9 - INCOME TAXES (Continued)

The following table presents the year of expiration of the Company's unused tax losses carried forward for which no deferred tax assets have been recognized as at December 31, 2019:

	$
2029	557,000
2030	322,000
2031	419,000
2032	638,000
2033	215,000
2034	1,007,000
2035	550,000
2036	1,231,000
2037	207,000
2038	452,000
2039	932,000
	6,530,000

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the Company's effective income tax rate is detailed as follows:

	December 31, 2019	December 31, 2018
	%	%
Combined federal and provincial income tax rate	26.60	26.70
Deferred tax assets not recognized	(8.41)	(11.87)
Other	(1.42)	(0.72)
	16.77	14.11

The Company has investment tax credits related to research and development amounting to $109,430 that have not been recognized in the consolidated financial statements as such credits are not reimbursable rather they are available to reduce future taxable income.

(In Canadian dollars, except for number of shares)

10 - LONG TERM DEBT

	December 31, 2019	December 31, 2018
	$	$
Balance of purchase price, payable in 10 equal annual instalments of $20,000, bearing interest at 3% (a)	180,000	200,000
Term loan for the construction of a new thermal decomposition facility for an authorized amount of $32,125,000, secured by a movable hypothec on all present and future assets of Ecolomondo Environmental (Hawkesbury) Inc. and of Ecolomondo Environmental (Contrecœur) Inc., bearing interest at the CIDOR rate plus 6.5% (8.47%), payable in quarterly instalments starting in March 2021, maturing in November 2031 (b)	5,500,305	
Transaction costs (c)	(642,500)	
	5,037,805	200,000
Current portion	20,000	20,000
	5,017,805	180,000

(a) A letter of credit has been established by the Company in the amount of $150,000 for the benefit of the town of Hawkesbury pursuant the work and services to be performed by the Company.

(b) Under the terms loan, the Company will be required to respect certain covenants when the plant is completed. One of the covenants is to deposit an amount of $375,000 in a cost overrun account, to cover potential cost overruns in the construction of the Hawkesbury TDP turnkey facility. This amount is included in the cash at year-end.

(c) The financing fees for the long term totalled 642,500$ and are amortized on a straight-line basis over the term of the debt.

11 - SHARE CAPITAL

a) Share capital

The Company is authorized to issue an unlimited number of class "A", "B", "C", "D", "E" and "F" shares of no par value with the following restrictions and privileges:

Class "A" shares, voting, participating, dividend as declared by the Board of Directors;

Class "B" shares, non-voting, participating, dividend as declared by the Board of Directors;

Class "C" shares, voting (100 voting rights per share), non-participating, redeemable at the option of the Company or their holders at the redemption value;

(In Canadian dollars, except for number of shares)

11 - SHARE CAPITAL (Continued)

Class "D" shares, non-voting, non-participating, redeemable at the option of the Company or their holders at the redemption value, non-cumulative monthly dividend equal to one percent (1%) of the redemption value as voted by the Board of Directors;

Class "E" shares, non-voting, non-participating, redeemable at the option of the Company or their holders at the redemption value, preferred non-cumulative monthly dividend equal to three quarters of one percent (0.75%) of the redemption value as voted by the Board of Directors;

Class "F" shares, non-voting, non-participating, redeemable at the option of the Company or their holders at the redemption value, preferred cumulative monthly dividend equal to one-twelfth (1/12) of the prime rate of the Company’s bank in effect on the first day of each month; such dividend is declared calculated on the redemption value as voted by the Board of Directors.

Issued and outstanding

	2019	2018
	$	$
177,310,398 class "A" shares (176,929,398 in 2018)	17,195,204	17,104,907

7,000,000 class "A" shares originally issued in 2015 as part of a seed offering were deposited in escrow.

Under an escrow agreement, 10% of the escrowed shares were released from escrow on the issuance of the Final Exchange Bulletin by TSX Venture Exchange Inc. (the "Initial Release") and an additional 15% will be released on the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

As part of the Qualifying Transaction, in 2017, 155,328,790 class "A" shares were issued, of which 6,264,330 class "A" shares are subject to an escrow agreement with the same release mechanism as the original seed shares under escrow. An additional 138,512,474 class "A" shares and 456,000 stock options are also subject to an escrow agreement, of which 5% of such shares were released from escrow on the Initial Release, an additional 5%, 6 months following the Initial Release, an additional 10%, on the dates which are 12 and 18 months following the Initial Release, an additional 15%, on the dates which are 24 and 30 months following the Initial Release and the final 40% will be released on the date which is 36 months following the Initial Release. As at December 31, 2019, a total of 80,161,160 class "A" shares remain in escrow (118,768,577 as at December 31, 2018).

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

(In Canadian dollars, except for number of shares)

11 - SHARE CAPITAL (Continued)

b) Warrants

A continuity of warrants and their related recorded values is set out as follows:

	Number of warrants	Amount	Weighted average exercise price
		$	$
Balance as at December 31, 2017	3,601,395	573,760	0.49
Exercise of warrants (i)	(36,800)	(2,760)	0.10
Balance as at December 31, 2018	3,564,595	571,000	0.49

	Number of warrants	Amount	Weighted average exercise price
		$	$
Balance as at December 31, 2018	3,564,595	571,000	0.49
Expiration of warrants (ii)	(3,564,595)	(571,000)	0.49
Balance as at December 31, 2019	–	–	0.49

(i) On May 17, 2016, Haywood Securities Inc. (the "Agent") was granted 160,000 warrants to purchase class "A" shares of the Company. Each warrant entitles the holder to purchase one class "A" share at $0.10 for a period of 24 months. In November 2017, 123,200 warrants were exercised for proceeds amounting to $12,320. In January 2018, February 2018 and May 2018, 5,600, 24,800 and 6,400 were exercised, respectively, for total proceeds amounting to $3,680.

(ii) The warrants have all expired in April 2019 and the value attributed to them was transferred to the deficit.

The following table summarizes information about warrants outstanding for the year ended December 31, 2018:

Exercise price	Number of warrants	Amount	Weighted average remaining contractual life
$		$	Years
0.42	211,791	45,000	0.30
0.50	3,352,804	526,000	0.30
	3,564,595	571,000	0.30

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

11 - SHARE CAPITAL (Continued)

c) Options

The Company adopted a stock option plan pursuant to which the Board of Directors of the Company may, from time to time, at its discretion and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants stock options of the Company. The total number of shares issuable pursuant to options granted under the plan is limited to 10% of the number of shares issued and outstanding of the Company. The exercise price of each option is the price set at the time of grant by the Board of Directors. Stock options have a maturity of ten years from the date of grant and vesting is determined at the time of issuance of stock options.

A continuity of options and their related recorded values is set out as follows:

	Number of options	Amount	Weighted average exercise price
		$	$
Balance as at December 31, 2017	13,097,000	4,224,000	0.34
Exercise of options	(925,000)	(126,725)	0.10
Balance as at December 31, 2018	12,172,000	4,097,275	0.33
Options exercisable	11,807,200		0.35

	Number of options	Amount	Weighted average exercise price
		$	$
Balance as at December 31, 2018	12,172,000	4,097,275	0.33
Exercise of options (ii)	(381,000)	(52,197)	0.10
Balance as at December 31, 2019	11,791,000	4,045,078	0.33
Options exercisable	11,540,200		0.35

(ii) In March 2019, 381,000 options were exercised for proceeds amounting $38,100. At the time of the exercise of options, the fair the value of each share was 0.33$.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

11 - SHARE CAPITAL (Continued)

The following table summarizes information about options outstanding for the year ended December 31, 2018:

	Exercise price	Number of options	Amount	Weighted average remaining contractual life
	$		$	Years
	0.10	456,000	62,275	7.14
	0.35	11,716,000	4,035,000	8.80
		12,172,000	4,097,275	8.77
Options exercisable	11,807,200			8.79

The following table summarizes information about options outstanding for the year ended December 31, 2019:

	Exercise price	Number of options	Amount	Weighted average remaining contractual life
	$		$	Years
	0.10	75,000	10,078	6.14
	0.35	11,716,000	4,035,000	7.81
		11,791,000	4,045,078	7.81
Options exercisable	11,540,200			7.84

As at December 31, 2019, 250,800 incentive options are held in escrow pursuant to Exchange escrow requirements (Note 11 a)) (364,800 as at December 31, 2018).

12 - ANCILLARY REVENUES

	December 31, 2019	December 31, 2018
	$	$
Revenue from the sale of by-products	558	20,640
Interest income	76,028	51,540
	76,586	72,180

Ecolomondo Corporation
Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In Canadian dollars, except for number of shares)

13 - INFORMATION INCLUDED IN CONSOLIDATED LOSS AND COMPREHENSIVE LOSS

Information included in consolidated loss and comprehensive loss for the years ended December 31, 2019 and 2018 is detailed as follows:

	December 31, 2019	December 31, 2018
	$	$
General and administrative expenses		
Foreign exchange loss (gain)	(110,542)	45,744
Research and development		
Depreciation of equipment	581,438	594,795
Depreciation of right of use asset	95,075	–
Amortization of intangible assets	70,184	280,753
Salaries and other short-term benefits	242,315	312,087
Investment tax credits	(22,912)	(60,318)
Interest on leases liabilities	6,389	–
Rent to companies under common control	20,168	120,252

14 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items for the years ended December 31, 2019 and 2018 are detailed as follows:

	December 31, 2019	December 31, 2018
	$	$
Receivables	(382,907)	(60,225)
Investment tax credits receivable	33,904	240,996
Prepaid expenses	4,388	20,756
Accounts payable and accrued liabilities (a)	(80,978)	(9,091)
Deferred revenues	(15,924)	27,425
	(441,517)	219,861

(a) During the year, the Company acquired plant under construction, $1,712,811 (nil as at December 31, 2018) of which is included in trade and other payables.

15 - FINANCIAL INSTRUMENTS

Fair value

The Company's financial instruments include cash, accounts payable and accrued liabilities, and long-term debt whose carrying amounts approximates their fair value due either to length of maturity or interest rates that approximate prevailing market rates unless otherwise disclosed in these consolidated financial statements.

The fair value of the advance from a company under common control is approximately $1,290,000 as at December 31, 2019. The fair value is estimated using a present value techinique, by discounting the contractual cash flows.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

15 - FINANCIAL INSTRUMENTS (Continued)

Financial risks

The most significant financial risks to which the Company is exposed are described below.

Foreign currency risk

Most of the Company's transactions are carried out in Canadian dollars. Exposure to currency risk arises from the Company's signing of a letter of intent for the sale of TDP facilities and obtaining deposits in U.S. dollars as well as incurring certain expenses in U.S. dollars. The Company does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are translated into Canadian dollars at the closing rate:

	December 31, 2019	December 31, 2018
	$	$
Financial assets	831,403	163,414
Financial liabilities	(2,811,418)	(357,145)
Total exposure	3,642,821	520,559

Assuming that all other variables remain constant, a 6% increase or decrease in the exchange rate of the Canadian dollar, compared to the U.S. dollar, would have a significant impact of $168 685 on the Company's net loss for the years ended December 31, 2019 (no significant impact for the year ended December 31, 2018).

Credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Generally, the carrying amount reported on the Company's consolidated balance sheets for its financial assets exposed to credit risk, net of any applicable provisions for expected losses, represents the maximum amount exposed to credit risk.

Financial assets that potentially subject the Company to credit risk consist primarily of cash.

Credit risk associated with cash is substantially mitigated by ensuring that these financial assets are primarily placed with major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities and obligations as they become due. The Company is exposed to this risk mainly through accounts payable and accrued liabilities, the advance from a company under common control and long-term debt.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

15 - FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management serves to maintain a sufficient amount of cash. The Company establishes budgets and cash estimates to ensure it has the necessary funds to fulfill its obligations for the foreseeable future.

As at December 31, 2018, the Company's financial liabilities mature as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Accounts payable and accrued liabilities (a)	351,215			
Advances from a company under common control			1,518,853	
Long term debt		20,000	100,000	80,000
	351,215	20,000	1,618,853	80,000

(a) Excluding salaries and benefits payable.

As at December 31, 2019, the Company's financial liabilities mature as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Accounts payable and accrued liabilities (a)	2,027,295			
Advances from a company under common control			1,518,853	
Long term debt		20,000	5,496,326	163,979
	2,027,295	20,000	7,015,179	163,979

(a) Excluding salaries and benefits payable.

16 - CAPITAL MANAGEMENT

The Company manages its capital to ensure the Company’s ability to continue as a going concern and to meet strategic objectives including the commercialization of the TDP technology, while taking into consideration financial risks.

The capital structure of the Company consists of cash, term deposits, advances from a company under common control, long-term debt and equity.

Ecolomondo Corporation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In Canadian dollars, except for number of shares)

16 - CAPITAL MANAGEMENT (Continued)

A summary of the Company's capital structure is as follows as at:

	December 31, 2019	December 31, 2018
	$	$
Cash	(5,331,573)	(307,800)
Term deposits		(2,349,447)
Advance from a company under common control	1,518,853	1,518,826
Long term debt	5,037,805	200,000
Total equity	1,755,967	2,836,186
	2,981,052	1,897,765

17 - RELATED PARTY TRANSACTIONS

Related party transactions consist of the advance from a company under common control and lease agreements (Note 5).

Transactions with key management personnel

Key management of the Company are the members of the Board of Directors, as well as officers of the Company. Key management personnel remuneration for the year ended December 31, 2019 amounts to $104,000 ($69,000 in 2018 including options).

18 - CLAIMS

In the normal course of operations, the Company is contingently liable with respect to litigations and claims that arise from time to time. In the opinion of management, any liability, which may arise from such contingencies, would not have a material adverse effect on the Company's consolidated financial statements. The evaluation of litigations and claims is subject to uncertainties and the ultimate future resolution of the litigations and claims which cannot be predicted.

19 - POST-REPORTING DATE EVENTS

The world economy is currently impacted by the crisis created by the COVID-19 (coronavirus) pandemic. The COVID-19 pandemic has resulted in the confinement of the population of Canada and many countries around the world.

The Company has taken and will continue to take all necessary actions needed to reduce the impact of the crisis created by the coronavirus. The Company expects that the milestone to complete the plant under construction in Hawkesbury, Ontario, will not be materially impacted by the current situation. It is to note, it is impossible to determine with certitude the long-term consequences and financial implications if the current situation persists.