Ecolomondo Corporation

MANAGEMENT'S DISCUSSION & ANALYSIS

April 24, 2019

The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Ecolomondo Corporation, dated April 24, 2019, covers the years ended December 31, 2018 and 2017 and should be read in conjunction with the audited annual consolidated financial statements of the Company for the same periods, which were prepared in accordance with International Financial Reporting Standards **("IFRS").** Additional information on the Company is also available on SEDAR at www.sedar.com.

Where we say "we", "us", "our", or the "Company", we mean Ecolomondo Corporation (formerly Cortina Capital Corp.) unless otherwise indicated. All amounts are presented in Canadian dollars unless otherwise indicated.

Forward-looking statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe, and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

With respect to forward-looking statements above and otherwise contained in this MD&A, the Company has made assumptions regarding, among other things:

- *the legislative and regulatory environment;*
- *the impact of increasing competition;*
- *the ability to obtain regulatory and shareholder approvals; and*
- *the ability to obtain additional financing on satisfactory terms.*

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below:

- *volatility in the market conditions;*
- *incorrect assessments of the value of acquisitions;*
- *due diligence reviews; and*
- *competition for suitable acquisitions.*

Overall Performance

Ecolomondo Corporation (the "**Company**") was incorporated on September 30, 2015 under the Canada Business Corporations Act and is listed on the TSX Venture Exchange (the "**Exchange**").

The Company is a clean tech company that is commercializing its Thermal Decomposition platform, referred to as **TDP,** that recovers resources from end-of-life tires, namely carbon black substitute, oil, gas and steel.

During this period, TDP turnkey facilities have received considerable attention from certain interested parties in USA, Canada, Europe, South America and Africa. The Company continued its efforts to market its TDP turnkey facilities and has received several letters of interest from parties that may be interested in acquiring a turnkey facility.

Until the building and commissioning of the Company's new turnkey facility, to be located in Hawkesbury, Ontario, the Company expects to continue to operate its Contrecoeur pilot plant on a limited commercial basis and to continue to use it as a technological showpiece as part of its marketing strategy.

In order to keep developing and improving its thermal technology, the Company will also keep using the Contrecoeur pilot plant for ongoing research and development.

The Company expects that its main revenue drivers are the sale of TDP turnkey facilities based on its thermal technology and to collect royalties from their operation, including revenues from the operations of wholly-owned and joint venture turnkey facilities. TDP turnkey facilities generate their revenues by selling the recovered resources (end-products) that they produce, namely carbon black substitute, oil, gas and steel.

Global acceptance of TDP is dependent on the commercial viability of turnkey plants in operation. Towards this end, during 2018, the Company used considerable resources to improve end-product quality and to ensure market acceptance.

The Company believes that there is an abundant and continuous supply of scrap tire feedstock because of the increasing global consumption created by an increase of population and the emerging markets. According to industry sources, global production of tires is expected to climb to 2.5 billion units by 2020. Higher tire production should lead to increased feedstock, and fuel the Company's immediate and long term expansion.

During the fiscal year ended December 31, 2018, the Company has made considerable progress in its technology, especially in the areas of process optimization and efficiency. During this period, technological advancements were achieved by our technical teams that allow reactor payloads to increase from 12,000 lbs to 14,000 lbs per batch, which should bring increased revenues of approximately 16.5% to the Company's operating TDP turnkey facilities.

The Company was able to make substantial progress towards securing offtake agreements and market acceptance for its end-products, especially for its recycled carbon black, the end-product with the highest commercial value.

During this period, the Company was able to sell its recycled carbon black produced in its Contrecoeur plant (now marketed under the trade name "Mondo Black"), at pricing higher than projected. Carbon black is black powder normally manufactured using a highly polluting process, notably the direct combustion of hydrocarbons, that is. Environmental restrictions are causing the supply of carbon black to plateau worldwide. Demand for carbon black keeps growing steadily. According to industry information, worldwide shortages in carbon black supply are expected as global supply is plateauing while demand continues to grow. The void could easily be filled by recycled carbon black, which is much cleaner to produce. It is expected that stronger demand will drive prices for recycled carbon black to levels never seen before.

The other end-products of the Company's TDP facilities are also commodities and have strong global markets. The oil is comparable to a refined bunker oil that will be used as industrial fuel. The steel extracted from waste tires is a high-grade product in strong demand from steel foundries and mills that mix it with their own production. The Company's technology also generates a hydrocarbon gas with a calorific value between natural and propane gas. This gas is used as the energy source to heat the TDP facility, which makes the technology energy self-sufficient and protects the TDP facility from energy shortages or price variations.

During this period, the Company also made considerable progress in its negotiations with Export Development Canada ("**EDC**") to secure project financing to build its Hawkesbury TDP turnkey facility and as of December 31, 2018 was very close to reaching an agreement. It is to be noted that as a post year-end event, on April 3, 2019, the Company announced a loan agreement with EDC of $32.1 million for project financing for the construction of the Hawkesbury facility.

Management believes that EDC could be a key player in the Company's future expansion and in the Company's strategy to have market penetration on a global scale for its TDP turnkey facilities.

EDC is a financial Crown corporation dedicated to helping Canadian companies of all sizes succeed on the world stage. As international risk experts, EDC equips Canadian companies with the tools they need, the trade knowledge, financing solutions, investments, insurance, and connections, to take on the world with confidence.

Once built, this facility will be the first of its kind, comprised of four different processing departments (shredding, thermal, carbon black treatment, oil distillation) and expected to be used as the technological showpiece to promote and market TDP turnkey facilities.

When fully operational, this facility is expected to process a minimum of 14,000 tons of tire waste per year and produce 5,300 tons of recycled carbon black, 42,700 barrels of oil, 1,800 tons of steel and 1,600 tons of process gas. The Hawkesbury TDP turnkey facility is expected to be used as a showpiece to garner interest in the TDP technology.

Significant Projects That Have Not Yet Generated Revenues

As of December 31, 2018, the Company had three significant projects:

1. Partial commercialization of the Company's Contrecoeur facility;
2. Sale and construction of a 2-reactor TDP turnkey facility to a joint venture in Hawkesbury;
3. Sale of a 4-reactor TDP turnkey facility to a joint venture in New Jersey, and its construction.

Contrecoeur facility: The Company's facility in Contrecoeur, Quebec, Canada, is a 2-reactor industrial-size TDP facility that in the past has been used for research and development. During the year 2018, the Company continued its efforts to complete the conversion of its Contrecoeur facility to become a partially commercialized TDP facility. In late 2018, the Contrecoeur facility began limited operations, generating limited revenues. Management expects that this facility to progressively ramp up production during the first half of 2019.

Hawkesbury facility: In May 2014, the Company secured a Letter of Intent ("LOI") for a joint venture with Ecological Recycling CG Inc. ("ERCG"), a company looking to invest in recycling and green technologies, for the sale of a 2-reactor TDP turnkey facility in Hawkesbury (Ontario). In 2018, the joint venture entity was formed under the name of "Ecolomondo Environmental (Hawkesbury) Inc." and completed the purchase of the land for the TDP turnkey facility, and the Town of Hawkesbury built the access road to the plant location on Tessier street. During this period, the EPCM contractor mandated to build the Hawkesbury TDP turnkey facility, Ultragen, was actively working and made substantial progress in the areas of engineering, procurement and construction design. Construction of the Hawkesbury facility is expected to begin in the second quarter of 2019 and to be built by the first quarter of 2020.

Capital expenditures that total $1,030,053 as of December 31,2018 are essentially for site purchase, engineering, site preparation, labor and permitting and have been capitalized accordingly.

The costs to bring the project to the next stage have been factored in the Company's financial projections. Management estimates that direct costs to build the Hawkesbury plant, including equipment, land and building, will be approximately $30 million.

New Jersey facility: In May 2014, the Company secured a LOI for a joint venture with The Matzel Group, a New Jersey and Pennsylvania-based real estate developer specializing in commercial, resort, recreational and residential development and construction, for the sale of a 4-reactor TDP turnkey facility that was expected to be located in New Jersey (USA). The projected sale price is $49,875,000.

To date, the joint venture parties have not selected a project site. Once a site is selected, the joint venture parties will decide on a timeline for construction. Expenditures relative to this project are, as of December 31, 2018, very limited and mostly categorized as general and administrative expenses.

Results of Operations

Results of Operations for the Years Ended December 31, 2018 and 2017

Ancillary revenues

During the years ended December 31, 2018 and 2017, the Company has ancillary revenues of $72,180 and $187,975, respectively.

The decrease of $115,795 in ancillary revenues between the years ended December 31, 2018 and 2017 is mostly due to the revenue of $160,420 in the period ended December 31, 2017 from a letter of intent that expired in the second quarter of 2017. The binding letter of intent was concluded on March 25, 2016 with CVE Abitibi Inc. to create a joint venture for the acquisition of a 2-reactor TDP turnkey facility. CVE Abitibi Inc., a group of 14 corporate and individual investors from the region, paid a non-refundable commitment fee of US$125,000.

The Company has generated minimal revenue from the sale of by-products of $20,640 and nil, respectively. By-products are represented by a small quantity of carbon black substitute. The cost of sales for this ancillary revenue has not been shown separately as the end-products were not specifically produced for commercial sale but rather were principally produced as part of the research and development process at the Contrecoeur facility.

Revenues for the years ended December 31, 2018 and 2017 include interest income from term deposits of

$51,540 and $10,955, respectively. Variance is primarily due the fact that the Company invested in its term deposits in the fourth quarter of 2017, resulting in less than three months of interest income versus twelve months in 2018.

Revenues for the year ended December 31, 2017 also include revenue of $16,600 from the settlement of a lawsuit initiated by Ecolomondo against Enerstat Company in 2014. The lawsuit was based on the non-delivery of equipment by the supplier.

General and administrative expenses

The Company's general and administrative expenses reflect all expenses that management considers overhead and administrative salaries. In addition to the administrative expenses, overhead expenses include advertising and marketing, travel, utilities, insurance, communications and professional fees.

General and administrative expenses were $346,494 for the year ended December 31, 2018 compared to $4,258,749 for the year ended December 31, 2017. General and administrative expenses decreased by $3,912,255 mostly due to the stock-based compensation expense recorded in the year ended December 31, 2017 of $4,035,000. Further information on the Company's stock based compensation plan is documented below. The decrease in general and administrative expenses is partially offset by a foreign exchange loss of $45,744 in the year ended December 31, 2018 compared to a foreign exchange gain of $11,916 in the year ended December 31, 2017.

Research and development expenses

Considerable research and development expenses are incurred as a direct result of the efforts put in the technology platform to ensure that it is ready for commercialization and the continued effort to improve the automation, process design, efficiencies, payloads and end-products quality. Research and development expenses consist primarily of expenses associated with its Contrecoeur facility for personnel, facilities costs, lab materials and related overhead. Accordingly, the Company expects to incur ongoing research and development expenses. The Company expenses all of its research and development costs as they are incurred as they do not meet the criteria for capitalization.

Research and development expenses for the year ended December 31, 2018 were $1,706,120, compared to $1,610,203 for the year ended December 31, 2017. The increase of $95,917 is mainly attributable to a reduction of $53,904 in investment tax credits, which were $60,318 for the year ended December 31, 2018 compared to $114,222 for the year ended December 31, 2017. This variation in investment tax credits is due to the change in control from a privately- to a publicly-held corporation of the wholly owned subsidiary of the Company, Ecolomondo Corporation Inc. Prior to October 20, 2017, Ecolomondo Corporation Inc. benefited from investment tax credits at rates for Canadian controlled private corporations. On October 20, 2017, the Company completed a reverse takeover with Ecolomondo Corporation Inc. by acquiring 100% of its issued and outstanding shares. Following the reverse takeover, the federal credits are no longer reimbursed rather they can only be used to reduce future taxable income. Accordingly, there is approximately $110,800 of federal credits not recorded in the consolidated financial statements.

The overall increase in research and development expenses was partially offset by $34,535 due to the decrease in depreciation of equipment from $629,330 in the year ended December 31, 2018 compared to $594,795 in the year ended December 31, 2017. The decrease is due to the sale of a shredder during the second quarter of 2018.

Loss before income taxes

Loss before income taxes for the year ended December 31, 2018 amounted to $1,981,514 compared to a loss of $7,155,125 for the year ended December 31, 2017. The decrease of $5,173,611 in the loss for the year ended December 31, 2018 is mostly attributable to the decrease in general and administrative expenses of $3,912,255, primarily because of the stock-based compensation recorded in the year ended December 31, 2017 for $4,035,000. The remaining decrease in the loss for the year ended December 31, 2018 is attributable to the non-recurring reverse take-over listing cost of $1,473,486, incurred as part of the Qualifying Transaction, offset by an increase in research and development expenses of $95,917.

Income taxes

For both the years ended December 31, 2018 and 2017, the Company had no current income tax expense. The Company had deferred income tax recovery of $279,516 and $229,764 for the years ended December 31, 2018 and 2017, respectively. The increase in recovery of $49,752 is mainly attributable to the sale of the shredder on which an income tax liability had been recorded.

As at December 31, 2018, the Company has net operating loss carry-forwards of approximately $6,245,000 ($6,176,000 as of December 31, 2017) that may be available to reduce taxable income in future years in various amounts through 2036. 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, 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

	January 1, 2017	Recognized in comprehensive loss	December 31, 2017
	$	$	$
Deferred tax liabilities (assets)			
Non-current assets			
Equipment	1,219,456	(158,764)	1,060,692
Intangible assets	170,000	(76,000)	94,000
Unused tax losses	(99,000)	5,000	(94,000)
	1,290,456	(229,764)	1,060,692

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, 2018	December 31, 2017
	$	$
Tax losses	5,932,000	5,821,000
Financing costs	141,000	196,000
	6,073,000	6,017,000

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, 2018:

	$
2029	191,000
2030	420,000
2031	639,000
2032	237,000
2034	1,008,000
2035	551,000
2036	1,231,000
2037	208,000
2038	1,447,000
	5,932,000

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, 2018	December 31, 2017
	%	%
Combined federal and provincial income tax rate	26.70	26.80
Deferred tax assets not recognized	(11.87)	(3.85)
Stock-based compensation		(15.11)
Reverse takeover listing cost		(5.52)
Other	(0.72)	0.89
	14.11	3.21

The Company has investment tax credits related to research and development amounting to $110,800 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.

Results of Operations for the Three Months Ended December 31, 2018 and 2017

Ancillary revenues

During the quarters ended December 31, 2018 and 2017, the Company had ancillary revenues of $36,242 and $26,632, respectively. The increase of $9,610 was primarily due to the sale of by-products for an amount of $20,640 in the quarter ended December 31, 2018, compared to nil in the quarter ended December 31, 2017. The increase in ancillary revenues was also caused by a $5,570 increase in interest income from term deposits, which was $10,032 in the three months ended December 31, 2017 and $15,602 in the three months ended December 31, 2017. The increase in ancillary revenues in the quarter ended December 31, 2018 was offset by the settlement of a lawsuit for an amount of $16,600 in the three months ended December 31, 2017, compared to nil in the three months ended December 31, 2018.

General and administrative expenses

The Company's general and administrative expenses reflect all expenses that management considers overhead and administrative salaries. In addition to the administrative expenses, overhead expenses include advertising and marketing, travel, utilities, insurance, communications and professional fees.

General and administrative expenses were $149,251 for the quarter ended December 31, 2018 compared to $4,101,036 for the same quarter ended December 31, 2017. General and administrative expenses decreased by $3,951,785 mostly due to the stock-based compensation expense recorded in the quarter ended December 31, 2017 of $4,035,000, offset by an increase of $75,157 in foreign exchange loss, which was $75,687 in the quarter ended December 31, 2018 compared to a foreign exchange loss of $530 in the quarter ended December 31, 2017.

Research and development expenses

Significant research and development expenses are incurred as a direct result of the efforts put in the technology platform to ensure that it is ready for commercialization and the continued effort to improve the automation, process design, efficiencies, payloads and end-products quality. Research and development expenses consist primarily of expenses associated with its Contrecoeur facility for personnel, facilities costs, lab materials and related overhead. Accordingly, the Company expects to incur ongoing research and development expenses. The Company expenses all of its research and development costs as they are incurred as they do not meet the criteria for capitalization.

Research and development expenses for the quarter ended December 31, 2018 were $372,900, compared to $580,958 for the same quarter ended December 31, 2017. The decrease of $208,058 is mainly attributable to a decrease in investment tax credits of $114,988, which were $23,811 in the quarter ended December 31, 2018 compared to $138,799 in the same period ended December 31, 2017. The variation in investment tax credits is due to the change in control from a privately- to a publicly-held corporation of the wholly owned subsidiary of the Company. Prior to October 20, 2017, Ecolomondo Corporation Inc. benefited from investment tax credits at rates for Canadian controlled private corporations. On October 20, 2017, the Company completed a reverse takeover with Ecolomondo Corporation Inc. by acquiring 100% of its issued and outstanding shares. Following the reverse takeover, the federal credits are no longer reimbursed rather they can only be used to reduce future taxable income. Accordingly, there is approximately $3,087 of federal credits not recorded in the consolidated financial statements for the three-month period ended December 31, 2018.

Loss before income taxes

Loss before income taxes for the three-month period ended December 31, 2018 amounted to $486,235 compared to a loss of $6,129,203 for the same period ended December 31, 2017. The decrease of $5,642,968 in the loss between the two periods is mostly attributable to (i) an increase of $3,951,785 in general and administrative expenses between the two periods, which was mostly due to the stock-based compensation expense recorded in the quarter ended December 31, 2017 of $4,035,000, (ii) a decrease in reverse takeover listing cost, which was nil in the three-month period ended December 31, 2018 compared to $1,473,486 in the three-month period ended December 31, 2017, and (iii) a decrease of $372,900 in research and development expenses, which was $208,058 in the three-month period ended December 31, 2018 compared to $580,958 in the three-month period ended December 31, 2017.

Income taxes

For both the three-month periods ended December 31, 2018 and 2017, the Company had no current income tax expense. The Company had deferred income tax expense of $60,099 and $57,867 for the quarters ended December 31, 2018 and 2017, respectively. The decrease in deferred income tax expense of $2,232 is mainly attributable to the reduction in the taxable temporary differences of the equipment and intangible assets from the depreciation and amortization being taken.

Cash Flows

Cash Flows for the Years Ended December 31, 2018 and 2017

Cash Flows

	Year ended	
	December 31, 2018	**December 31, 2017**
	$	$
Operating Activities	(869,883)	551,129
Investing Activities	(826,957)	(1,349,312)
Financing Activities	96,453	2,663,020
Net Increase (Decrease) in Cash	**(1,600,387)**	**1,864,837**

Operating Activities: Net cash used by (provided for) the Company's operating activities during the year ended December 31, 2018 increased by $1,421,012 compared to the year ended December 31, 2017, primarily due to the reduction of the net loss from $6,925,361 in the year ended December 31, 2017 to $1,701,998 in the year ended December 31, 2018, offset by (i) the non-cash stock-based compensation of $4,035,000 recorded in the year ended December 31, 2017, (ii) the non-cash reverse takeover listing cost of $1,473,486 recorded in the year ended December 31, 2017, (iii) cash held in trust of $1,030,263 recorded in the year ended December 31, 2017.

Investing Activities: Net cash used for investing activities during the year ended December 31, 2018 decreased by $522,355 compared to the year ended December 31, 2017, which is primarily due to (i) a decrease of $1,702,560 in net investments in term deposits, (ii) the sale of the shredder that resulted in proceeds for the Company of $143,000. Total decrease is offset by (i) an increase of $669,957 in plant under construction recorded in the year ended December 31, 2018, and (ii) a non-recurring amount of $653,248 for cash acquired from the reverse takeover recorded in the year ended December 31, 2017.

Financing Activities: During the year ended December 31, 2018, cash flows provided by financing activities decreased by $2,566,567, from $2,663,020 in the year ended December 31, 2017 to $96,453 in the year ended December 31, 2018. This decrease came mostly from (i) the net proceeds from the issuance of units from the private placement in the amount of $2,234,289 in the year ended December 31, 2017, and (ii) a decrease of $416,138 in advances from a company under common control, partially offset by (iii) an amount of $92,500 in proceeds from exercise of options recorded in the year ended December 31, 2018.

The Company anticipates its material liquidity needs in the near and intermediate term to consist of the following:

- Working capital needs, including operating expenses and costs associated with research and development and future developments and the commercialization of the TDP technology;
- Funding the construction and delivery of the Hawkesbury TDP facility;

- Funding the construction and delivery of the New Jersey TDP facility.

The Company does not anticipate paying any cash dividends on its capital stock in the foreseeable future as it currently expects to retain all future earnings, if any, in the operation and expansion of its business.

Cash Flows for the Three Months Ended December 31, 2018 and 2017

	Three-Month Periods ended	
	Dec 31, 2018	Dec 31, 2017
	$	$
Operating Activities	(556,579)	(224,704)
Investing Activities	190,433	(1,349,312)
Financing Activities	92,500	2,246,336
Net Increase (decrease) in Cash	**(273,646)**	**672,320**

Operating Activities: Net cash used for the Company's operating activities during the quarter ended December 31, 2018 increased by $331,885 compared to the same period ended December 31, 2017, primarily due to a variance in changes in working capital items of $280,139.

Investing Activities: Net cash provided by the Company's investing activities during the quarter ended December 31, 2018 increased by $1,539,745 compared to the same period ended December 31, 2017. This increase is mostly due to a net increase in term deposits of $191,408 in the three-month period ended December 31, 2018 compared to an increase of $2,002,560 in the three-month period ended December 31, 2017, partially offset by a non-recurring amount of cash acquired from the reverse takeover of $653,248 in the three-month period ended December 31, 2017.

Financing Activities: During the three-month period ended December 31, 2018, net cash provided by the Company's financing activities during the quarter ended December 31, 2018 decreased by $2,153,836 compared to the same period ended December 31, 2017 due to the net proceeds from the issuance of units from the private placement in the amount of $2,234,289 recorded in the three-month period ended December 31, 2017, offset by an amount of $92,500 in proceeds from exercise of options recorded in the three-month period ended December 31, 2018.

Assets, Liabilities and Shareholders' Equity

As of December 31, 2018, total assets were $7,072,726, compared to $8,579,357 as of December 31, 2017. The primary reasons for the decrease of $1,506,631 in total assets between December 31, 2018 and December 31, 2017 were (i) a decrease of $1,496,647 in term deposits maturing in November 2019 and (ii) a decrease in cash of $1,600,387, (refer to cash flow section above) and (iii) a decrease in Equipment primarily due depreciation and the sale of a shredder partially offset by (iii) an increase in non-current term deposits of $1,843,534 and (iv) an increase in an amount of $1,030,053 for plant under construction.

As of December 31, 2018, total liabilities were $4,236,540, compared to $4,137,353 as of December 31, 2017. The increase of $99,187 in total liabilities between the two periods is mostly due to (i) a debt of $200,000, including $180,000 of long term debt and $20,000 in short term debt, which is the balance of purchase price for the land in Hawkesbury and (ii) an increase of $151,005 in accounts payable and accrued liabilities. The increase in total liabilities was partially offset by a decrease of $279,516 in deferred income taxes, which is due mainly to the reduction in the taxable temporary differences of the equipment and intangible assets from the depreciation and amortization being taken.

The Company had a working capital deficit of $777,992 as of December 31, 2018 compared to a working capital surplus of $2,718,999 as of December 31, 2017, representing a decrease of $3,496,991. This decrease is mostly attributable to (i) a decrease in cash of $1,600,387, (ii) a decrease in short-term deposits of $1,496,647, and (iii) a decrease of $240,996 in investment tax credits receivable. The decrease in working capital was partially offset by an increase of $151,005 in accounts payable and accrued liabilities. During the year 2018, the Company has invested most of its funds in the Hawkesbury project.

As of December 31, 2018, the Company had an accumulated deficit totaling $18,936,996 compared to an accumulated deficit of $17,234,998 as of December 31, 2017. The $1,701,998 increase in the accumulated deficit is attributable to the loss recorded for the year ended December 31, 2018.

Liquidity

As of December 31, 2018, the Company had cash and cash equivalents of $2,822,080, compared to $4,277,107 as of December 31, 2017. During the period ended December 31, 2018, the Company consumed $1,455,027, of which $1,030,053 was used to pay for capital expenditures on behalf of the new Hawkesbury facility. During this period, management was able to reduce cash requirements because of reductions in administrative, general and selling costs. The Company estimates that it may require another $1,650,000 of cash in the 12 months ending December 31, 2019. Included in this amount is $700,000 to fulfill its commitments for a possible acquisition of Transport Lyon Inc., that is expected to close by the end of May 2019, subject to atisfactory due diligence. Beyond that, the Company believes that it should have enough cash until the third quarter of 2020.

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.

Off-Balance Sheet Arrangements

The Company is not currently a party to, or otherwise involved with, any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Additional Financing Requirements

The Company currently has no outstanding long term debt, except for advances from companies under common control. The Company anticipates, in the short-term, to require a long-term financing for the construction and commissioning of its Hawkesbury project.

Long-Term Debt

The Company presently does not have any long-term debt other than (i) advances from a company under common control, in the amount of $1,518,826 as of December 31, 2018, and (ii) the balance of purchase price of a land in Hawkesbury, in the amount of $200,000 as of December 2018, payable in 10 equal annual installments of $20,000, bearing interest at 3%.

Seasonality

The Company expects neither its sales nor commercial production of TDP turnkey facilities to be subject to seasonality. The Company also does not anticipate that its clients' production and sales of carbon black substitute, oil and steel, to be subject to seasonality either. However, selling and construction of TDP facilities may take longer than expected because the size and extent of the potential project may force clients to scrutinize or even delay their decision and, for these reasons, there may be volatility in the Company's sales.

Critical Accounting Judgements, Estimates and Assumptions

The preparation of the Company's consolidated financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these estimates on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about these significant judgments, assumptions and estimates that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are summarized below:

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 thermal decomposition process are met requires judgment.

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, 2018 and 2017, the Company determined that there was no impairment of plant under construction, equipment nor the intangible assets.

- 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.

- Investment tax credits

Investment tax credits related to research and development activities are accounted for 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.

- Stock-based compensation

The estimation of stock-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.

New standards adopted as at January 1, 2018

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses accounting for financial assets and financial liabilities, classification and measurement, recognition and derecognition, hedge accounting and impairment. The Company adopted IFRS 9 on January 1, 2018 and the adoption of this new standard did not result in any significant impact on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenues. The Company adopted IFRS 15 on January 1, 2018. The Company is not generating any significant revenues at this time and, therefore, the adoption of this new standard did not have a significant impact on the Company's consolidated financial statements.

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.

Management anticipates that all the relevant pronouncements will be adopted in the Company’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the consolidated balance sheet for all leases with exemptions permitted for short-term leases and leases of low-value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 will be effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted in certain circumstances. Management does not expect the impact of this new standard to have a significant effect on its consolidated financial statements as its leases are not significant.

Lease and Contractual Obligations

In March 2009, the Company entered into an operating lease agreement with a company under common control for a manufacturing facility, for a term of 84 months ending in March 2016, at a rate of $7,500 per month. In July 2017, the Company renewed the agreement for an additional two-year term ending in March 2020 with the same conditions.

During the year ended December 31, 2017, the Company renewed an operating lease agreement with a company under common control for equipment, for a term of 24 months ending in September 2019, at a rate of $2,521 per month.

Rental expenses are recognized on a straight-line basis and the rental expense was $120,252 for each of the years ended December 31, 2018 and 2017. Future minimum payments under these lease agreements as of December 31, 2018 are as follows:

2019	$110,168
2020	$22,500
	$132,668

Stock-Based Compensation

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 business, 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.

Related Party Transactions

Related party transactions consist of advances from companies under common control and lease agreements.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com.