Ecolomondo Corporation

MANAGEMENT'S DISCUSSION & ANALYSIS

April 20, 2020

The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Ecolomondo Corporation, dated April 20, 2020, covers the years ended December 31, 2019 and 2018 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;*
- *competition for suitable acquisitions; and*
- *volatility in the global economy created by COVID-19 Pandemic.*

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 marketing its proprietary Thermal Decomposition platform ("TDP"), that recovers resources from end-of-life tires. During the year 2019, the Company continued developing its TDP platform and made important advancements in the areas of process optimization, efficiency, end-product quality and filtration. To find out more about the Company and its technology, visit its website at www.ecolomondo.com.

The Company continued to market TDP turnkey facilities, which have continued to receive international attention. The Company expects that its main revenue drivers will be the sale of TDP turnkey facilities along with corresponding royalties from their operation, and revenues from the operations of wholly-owned and joint venture turnkey facilities. Revenues for TDP turnkey facilities will come from selling of the end-products they produce, namely recovered carbon black, oil, gas, fiber and steel. The Company continued to market its recovered carbon black, known as "Mondo Black", and made considerable progress in securing ready markets for all of the end-products.

Recovered carbon black is the end-product that has the highest commercial value. Ecolomondo's process and its optimization ensures a high percentage of recovered carbon black production of between 38% and 40% of reactor payloads that should result into higher revenues for TDP turnkey facilities. Carbon black is black powder normally manufactured using a highly polluting process, notably the direct combustion of hydrocarbons. Today, restrictions on emissions are causing the global supply of carbon black to plateau while global demand keeps expanding. Supply shortages could be easily filled by waste-to-resources companies like Ecolomondo and with a much greener environmental footprint. Management believes that strengthening demand and a tightening supply for virgin carbon black should set the stage for higher demand and prices in the future for recovered carbon black.

The other end-products of the Company's TDP facilities are also commodities that continue to have strong global markets. Oil is comparable to a refined quality bunker oil that could be used as low-sulfur industrial fuel and could demand pricing higher than conventional bunker.

The steel extracted from waste tires is a high-grade product that is in strong demand by steel foundries and mills. TDP also produces a high-BTU hydrocarbon gas with a calorific value approaching propane gas. This gas is used as the energy source for the thermal process, making Ecolomondo's thermal technology almost completely energy self-sufficient.

The Company expects that there will continue to be an abundant supply of scrap tire feedstock for the foreseeable future, supported by increasing global consumption caused by an increasing population, a larger global middle class and emerging markets.

During the year, the Company continued to focus on its new Hawkesbury TDP turnkey facility. The Company completed its project financing negotiated with Export Development Canada ("**EDC**") to build its Hawkesbury TDP turnkey facility. The Company and EDC announced a loan agreement of $32.1 million for project financing for the construction of the Hawkesbury facility on April 3, 2019 and a groundbreaking ceremony was held to kickoff construction of the TDP plant on August 21, 2019. Financial closing of the agreement was successfully executed on December 23, 2019 and the Company received on December 27, 2019 its first drawdown of $5,500,305.

This facility will be a first of its kind and be used as a technological showpiece to promote the sale of TDP turnkey facilities globally. Once built, the Hawkesbury facility will be comprised of four different processing departments (shredding, thermal processing, recovered carbon black processing, oil fractionation) and, once 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 recovered carbon black, 42,700 barrels of oil, 1,800 tons of steel and 1,600 tons of process gas.

Management believes that once the Hawkesbury facility comes online, the Company will be able to show its proof of concept along with the commercial viability of TDP turnkey facilities and, as a result, it expects that demand for TDP turnkey facilities to increase.

To view updates and pictures of the construction of the Hawkesbury TDP facility, please visit the Company's website at www.ecolomondo.com.

The Company believes that EDC will be a key player in the Company's expansion and the proliferation of TDP turnkey plants globally. EDC is a financial Crown corporation dedicated to helping Canadian companies of all sizes succeed on the world stage.

Until the commissioning of its Hawkesbury facility, the Company expects to continue to use the Contrecoeur pilot plant as its technological showpiece as part of its marketing strategy and use it as a training center for the new operators needed for its Hawkesbury facility that is expected to be commissioned in the third quarter of 2020. The Company also plans to keep using the Contrecoeur pilot plant for ongoing research and development, so that it could keep developing and improving its thermal decomposition technology and also to begin testing other feedstocks such as plastics and auto shred residue.

Impact of the COVID-19 Crisis on the Company

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.

Significant Projects That Have Not Yet Generated Revenues

As of December 31, 2019, 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: During the year 2019, the Company's facility in Contrecoeur, Quebec, Canada, a 2-reactor industrial-size TDP facility, was used for research and development and operated on a limited basis. Starting early in the third quarter of 2020, management expects to begin using it as a simulator to train new operators needed for the new Hawkesbury TDP turnkey facility.

Hawkesbury facility: In March 2019, the Company agreed on definitive terms with Mr. Gregory Matzel, a

New Jersey and Pennsylvania-based real estate developer to be Ecolomondo's future partner in the new Hawkesbury 2-reactor TDP turnkey facility. Mr. Matzel, also the Company's joint venture partner in the New Jersey project, paid $2,467,720 (US$1,900,000) as his share of the capital injection to purchase 45% equity stake in the joint venture entity, Ecolomondo Environmental (Hawkesbury) Inc., the owner of the new Hawkesbury TDP turnkey facility.

Ecolomondo Environmental (Hawkesbury) Inc. purchased the land for the TDP turnkey facility in 2018 and the Town of Hawkesbury built the access road to the plant location on Tessier street. Management held a groundbreaking ceremony on August 21, 2019 and immediately began construction of the plant. During the year 2019, the Company placed most of the purchase orders to cover long-lead equipment items such as reactors, fractionation, recovered carbon black, flare, shredding, scrubbing, etc.

The Company made capital expenditures that total $4,209,391 and has given further deposits of $1,917,304 as of December 31, 2019. Deposits were given towards the purchase of equipment and the building of the Hawkesbury facility. Capital expenditures are essentially for site purchase, engineering, site preparation, construction, labor, permitting and equipment items 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 now estimates that direct costs to build the Hawkesbury plant, including equipment, land, building and soft costs, are on budget at approximately $38 million. As of December 31, 2019, the Company contributed all of the cash needed to fund its equity share and to fulfill all loan covenants required by the lender to achieve financial close.

Commissioning of the Hawkesbury facility is scheduled to begin by the end of the third quarter of 2020 and start-up is scheduled for the following quarter.

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 for the sale of a 4-reactor TDP turnkey facility expected to be located in New Jersey (USA). The projected sale price is US$49,875,000.

The Matzel Group, whose CEO is Mr. Gregory Matzel, the future partner in the Hawkesbury project, has advised the Company that while they are not withdrawing their Letter of Intent, they want to wait for the Hawkesbury facility to come on line before they proceed with the New Jersey project. Expenditures relative to this project are, as of December 31, 2019, very limited and mostly categorized as general and administrative expenses.

Results of Operations

Results of Operations for the Years Ended December 31, 2019 and 2018

Ancillary revenues

During the years ended December 31, 2019 and 2018, the Company has ancillary revenues of $76,586 and $72,180, respectively.

The increase of $4,406 in ancillary revenues between the years ended December 31, 2019 and 2018 is due to an increase in interest income, which was $76,028 for the year ended December 31, 2019, compared to $51,540 for the year ended December 31, 2018. The variance of $24,448 is primarily due to the fact that the Company invested money received from its future partner in term deposits. The increase in interest was offset by a decrease of $20,082 in the revenue from the sale of by-products, which was $558 in the year ended December 31, 2019 compared to $20,640 in the year ended December 31, 2018. 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 and sold to customers to test for market acceptance, especially the recovered carbon black.

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 $282,517 for the year ended December 31, 2019 compared to $346,494 for the year ended December 31, 2018. General and administrative expenses decreased by $63,977 mostly due to a foreign exchange gain of $110,542 in the year ended December 31, 2019 compared to a foreign exchange loss of $45,744 in the year ended December 31, 2018.

Research and development expenses

Research and development expenses consist primarily of expenses for personnel focused on finding and developing improved processes and operations. These expenses also consist of facility costs, lab materials and related overhead. The Company's research and development expenses are associated with its Contrecoeur facility and are incurred as a direct result of the efforts to keep improving and developing the TDP technology platform. Accordingly, the Company expects to incur ongoing research and development expenses.

The Company expenses all research and development costs as they are incurred and if they do not meet the criteria for capitalization. Research and development expenses for the year ended December 31, 2019 were $1,135,358, compared to $1,706,120 for the year ended December 31, 2018. The decrease of $570,762 is mainly attributable to (i) a decrease of $210,569 in amortization of intangible assets, which were $280,753 for the year ended December 31, 2018 compared to $70,184 for the year ended December 31, 2019, to (ii) a decrease of $100,084 in rent to companies under common control, due to the fact that they are no longer chargeable for R&D purposes, which was $120,252 for the year ended December 31, 2018 compared to $20,168 for the year ended December 31, 2019 and to (iii) a decrease in salaries and short-term benefits of $69,772, which were $312,087 for the year ended December 31, 2018 compared to $242,315 for the year ended December 31, 2019.

The overall decrease in research and development expenses was partially offset by $95,075 due to the increase in depreciation of "right of use assets" of $95,075 in the year ended December 31, 2019 compared to nil in the year ended December 31, 2018.

Regarding investment tax credits, prior to October 20, 2017, the Company benefited from investment tax credits at rates for Canadian controlled private corporations and since the Company is public, the rates are 15% at the federal level and 14% at the provincial level. In addition, the federal credits are no longer reimbursed rather they can only be used to reduce future taxable income. Accordingly, there is approximately $109,430 of federal credits not recorded in the consolidated financial statements for the twelve-month period ended December 31, 2019.

Loss before income taxes

The operating loss for the year ended December 31, 2019 was $1,689,319, after expiration of warrants of

$571,000 the loss before income taxes for the year ended December 31, 2019 amounted to $1,118,319 compared to a loss of $1,701,998 for the year ended December 31, 2018. The decrease of $583,679 in the loss for the year ended December 31, 2019 is mostly attributable to the decrease in research and development expenses of $570,762, and also to a decrease of $63,977 in general and administrative expenses, offset by an increase in deferred income taxes of $55,303.

Income taxes

For both the years ended December 31, 2019 and 2018, the Company had no current income tax expense. The Company had deferred income tax recovery of $224,213and $279,516 for the years ended December 31, 2019 and 2018, respectively.

As of 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

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	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.

Results of Operations for the Three Months Ended December 31, 2019 and 2018

Ancillary revenues

During the quarters ended December 31, 2019 and 2018, the Company had ancillary revenues of $5,417 and $36,242, respectively. The decrease of $30,825 was primarily due to the sale of by-products for an amount of $558 in the quarter ended December 31, 2019, compared to $20,640 in the quarter ended December 31, 2018, and by a $10,743 decrease in interest income from term deposits, which was $4,859 in the three months ended December 31, 2019 compared to $15,602 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 adjusted for the quarter ended December 31, 2019, which resulted in a decrease of $70,867 compared to an increase of $149,251 for the same quarter ended December 31, 2018. If it were not for this adjustment, general and administrative expenses would have continued their historical trend as there was no extraordinary event.

Research and development expenses

Research and development expenses consist primarily of expenses for personnel focused on finding and developing improved processes and operations. These expenses also consist of facility costs, lab materials and related overhead. The Company's research and development expenses are associated with its Contrecoeur facility and are incurred as a direct result of the efforts to keep improving and developing the TDP technology platform. 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 and if they do not meet the criteria for capitalization. Research and development expenses for the quarter ended December 31, 2019 were $261,985, compared to $372,900 for the same quarter ended December 31, 2018. The decrease of $110,915 is mainly attributable to (i) a decrease of $100,084 in rent to companies under common control, due to the fact that they are no longer chargeable for R&D purposes, which was $20,168 in the quarter ended December 31, 2019 compared to $120,252 in the same period ended December 31, 2018, and to (ii) a decrease of $70,190 in amortization of intangible assets, which was nil in the quarter ended December 31, 2019 compared to $70,190 in the same period ended December 31, 2018.

Regarding investment tax credits, prior to October 20, 2017, the Company benefited from investment tax credits at rates for Canadian controlled private corporations and since the Company is public, the rates are 15% at the federal level and 14% at the provincial level. In addition, the federal credits are no longer reimbursed rather they can only be used to reduce future taxable income. Accordingly, there is approximately $109,430 of federal credits not recorded in the consolidated financial statements for the twelve-month period ended December 31, 2019.

Loss before income taxes

Loss before income taxes for the three-month period ended December 31, 2019 amounted to $184,728 compared to a loss of $486,235 for the same period ended December 31, 2018. The decrease of $332,332 in the loss between the two periods is mostly attributable to (i) a decrease of $220,118 in general and administrative expenses between the two periods, which was due to an adjustment of expenses, and to (ii) a decrease of $110,915 in research and development expenses, which were $261,985 in the three-month period ended December 31, 2019 compared to $372,900 in the three-month period ended December 31, 2018.

As mentioned above, if it were not for their adjustment, general and administrative expenses would have continued their historical trend as there was no extraordinary event. In this case, the decrease in loss before income taxes between the two periods is mostly attributable to the decrease in research and development expenses.

Income taxes

For both the three-month periods ended December 31, 2019 and 2018, the Company had no current income tax expense. The Company had deferred income tax expense of $59,141 and $60,099 for the quarters ended December 31, 2019 and 2018, respectively. The decrease in deferred income tax expense of $958 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, 2019 and 2018

Cash Flows

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Operating Activities	(1,030,963)	(869,883)
Investing Activities	(1,188,805)	(826,957)
Financing Activities	7,243,541	96,453
Net Increase (Decrease) in Cash	**(5,023,773)**	**(1,600,387)**

Operating Activities: Net cash used by the Company's operating activities during the year ended December 31, 2019 increased by $161,080 compared to the year ended December 31, 2018, primarily due to a negative variance in changes in working capital items of $661,378 and to a decrease in amortization of intangible assets of $210,569. This increase was mostly offset by a decrease of the net loss of $583,679, from $1,701,998 in the year ended December 31, 2018 to $1,118,319 in the year ended December 31, 2019.

Investing Activities: Net cash used for investing activities during the year ended December 31, 2019 increased by $361,848 compared to the year ended December 31, 2018, which is due to an increase of $2,713,874 in "Plant under construction", which was $3,383,831 in the year ended December 31, 2019 and $669,957 in the year ended December 31, 2018. The increase in cash used for investing activities is offset by a net disposal of term deposits of $2,499,447 in the year ended December 31, 2019 compared to the year ended December 31, 2018.

Financing Activities: During the year ended December 31, 2019, cash flows provided by financing activities increased by $7,147,088, from $96,453 in the year ended December 31, 2018 to $7,243,541 in the year ended December 31, 2019. This increase came from (i) a long-term debt of $4,857,805 related to the construction of the new turnkey TDP facility in Hawkesbury, and (ii) a deposit of $2,467,720 from a future partner for the Hawkesbury project.

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, 2019 and 2018

Three-Month Periods ended

	Dec 31, 2019	Dec 31, 2018
	$	$
Operating Activities	(942,062)	(556,579)
Investing Activities	806,584	190,433
Financing Activities	4,737,391	92,500
Net Increase (decrease) in Cash	**4,601,913**	**(273,646)**

Operating Activities: Net cash used for the Company's operating activities during the quarter ended December 31, 2019 increased by $385,483 compared to the same period ended December 31, 2018, primarily due to a negative variance in changes in working capital items of $709,263, which is partially offset by a decrease of $300,550 in net loss.

Investing Activities: Net cash provided by the Company's investing activities during the quarter ended December 31, 2019 increased by $616,151 compared to the same period ended December 31, 2018. The increase in cash provided by the Company's investing activities is due to a net disposal of term deposits of $1,628,059 in the quarter ended December 31, 2019 compared to the quarter ended December 31, 2018. The increase in cash provided by the Company's investing activities is offset by an increase in "Plant under construction" of $1,007,487 between the two periods, from $975 in the quarter ended December 31, 2018 to $1,008,462 in the quarter ended December 31, 2019.

Financing Activities: Net cash provided by the Company's financing activities during the quarter ended December 31, 2019 increased by $4,644,891 compared to the same period ended December 31, 2018 due to a long term debt of $4,857,805 related to the Hawkesbury project, partially offset by (i) an amount of $92,500 in proceeds from exercise of options recorded in the three-month period ended December 31, 2018 compared to nil in the quarter ended December 31, 2019 and (ii) an amount of $67,830 in the deposit from a future partner, which is due to the variation in exchange rate between the Canadian and US dollars.

Assets, Liabilities and Shareholders' Equity

As of December 31, 2019, total assets were $14,759,380, compared to $7,072,726 as of December 31, 2018. The primary reasons for the increase of $7,686,654 in total assets between December 31, 2019 and December 31, 2018 were (i) an increase of $5,023,773 in cash, (ii) an increase of $3,179,338 in "Plant under construction" and (iii) an increase in deposit on "Plant under construction" of $1,917,304, partially offset by (iv) a decrease of $577,017 in equipment and (v) a decrease in term deposits of $2,199,447.

As of December 31, 2019, total liabilities were $13,003,413, compared to $4,236,540 as of December 31, 2018. The increase of $8,766,873 in total liabilities between the two periods is mostly due to (i) an increase of $4,837,805 in long term debt, (ii) an increase of $2,467,720 in the deposit from a future partner and (iii) an increase of $1,631,833 in accounts payable and accrued liabilities. All these items are directly related to the construction of the turnkey TDP facility in Hawkesbury.

The Company had a working capital surplus of $100,931 as of December 31, 2019 compared to a working capital deficit of $777,965 as of December 31, 2018, representing an increase of $878,896. This increase is mostly attributable to (i) an increase in cash of $5,023,773 and (ii) an increase in receivables of $382,907, partially offset by (iii) a deposit from a future partner of $2,467,720 and (iv) an increase of $1,631,833 in accounts payable and accrued liabilities.

As of December 31, 2019, the Company had an accumulated deficit totaling $19,484,315 compared to an accumulated deficit of $18,936,996 as of December 31, 2018. The $547,319 increase in the accumulated deficit is attributable to the loss recorded for the year ended December 31, 2019 and to the expiration of warrants during the year 2019 for $571,000.

Liquidity

As of December 31, 2019, the Company had cash on hand of $5,331,573 and a term deposit of $150,000, for a total of $5,481,573. Of this amount, $4,329,516 derive from the proceeds of Export Development Canada (EDC) to be used solely for the benefit of the construction of the Hawkesbury TDP turnkey facility. The balance of $1,152,057 is for working capital purposes.

The Company has fulfilled all financial covenants agreed to in its term loan to achieve financial close with Export Development Canada (EDC) and management believes that it will not require any additional funds except the proceeds from the EDC term loan to complete the Hawkesbury TDP turnkey project.

The Company estimates that in the 12 months ending December 31, 2020, to fulfill working capital needs the Company will require an amount of $850,000 of cash. Beyond that, the Company believes that it has enough working capital until the second quarter of 2021.

The Company manages its capital to ensure the Company's ability to continue as a going concern and to meet strategic objectives, including the construction of the new Hawkesbury TDP facility and 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 does not anticipate, in the short-term, to require other long-term financing other than the EDC term loan.

Long-Term Debt

The Company has a long-term debt for advances from a company under common control in the amount of $1,518,853 as of December 31, 2019, unchanged from December 31, 2018. The Company also committed to two long-term debts related to the turnkey TDP facility in Hawkesbury: (i) the balance of purchase price of the land, for an amount of $180,000 as of December 31, 2019, payable in 10 equal annual installments of $20,000, bearing interest at 3% per annum, and (ii) advances in the amount of $5,500,305 on a term loan from Export Development Canada in the amount of $5,500,305 as of December 31, 2019.

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 of such facilities.

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, 2019 and 2018, 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, 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.

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.

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, Ecolomondo Environmental (Contrecoeur) 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. 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

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.

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.

Impairment testing of plant under construction, equipment and intangible assets

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 nor the intangible assets.

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:

1. They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
2. 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.

Classification and subsequent measurement of financial liabilities

The Company’s financial liabilities include accounts payable and accrued liabilities, 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 recognised 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.

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 Group is reasonably certain it will exercise.

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.

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 other contracts signed for the sale of facilities.

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.

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.

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 cashgenerating 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.

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.

Related Party Transactions

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

Additional Information

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