

# **EARTHRENEW INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and six months ended June 30, 2020**

**(Expressed in Canadian dollars)  
(unaudited)**

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements, in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity's auditor.

**EARTHRENEW INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian dollars- unaudited)**

	Note	June 30, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 376,390	\$ 434,208
Receivables		58,457	163,888
Digital assets		11,113	2,700
Prepaid expenses		490,103	77,623
Net investment in lease	4(b)	101,208	297,670
<b>Total current assets</b>		<b>1,037,271</b>	<b>976,089</b>
<b>Non-current</b>			
Plant and equipment	3	4,098,282	4,177,402
Intangible assets		23,550	23,550
<b>TOTAL ASSETS</b>		<b>\$ 5,159,103</b>	<b>\$ 5,177,041</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	5	\$ 1,100,852	\$ 925,137
Current portion of lease liabilities	4(a)	161,963	356,051
<b>Total current liabilities</b>		<b>1,262,815</b>	<b>1,281,188</b>
<b>Non-current liabilities</b>			
Long-term portion of lease liabilities	4(a)	32,243	63,227
<b>TOTAL LIABILITIES</b>		<b>1,295,058</b>	<b>1,344,415</b>
<b>EQUITY</b>			
Share capital	6	12,711,228	11,241,434
Shares to be issued	6	133,000	-
Warrants	6	131,707	35,511
Share-based payments reserve	6	1,043,321	947,163
Deficit		(10,155,211)	(8,391,482)
<b>TOTAL EQUITY</b>		<b>3,864,045</b>	<b>3,832,626</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 5,159,103</b>	<b>\$ 5,177,041</b>
<b>Nature of operations and going concern</b>	1		
<b>Commitments and contingencies</b>	9		
<b>Subsequent events</b>	10		
Approved on behalf of the Directors:			
<u>"Keith Driver"</u>		<u>"Catherine Stretch"</u>	
Director		Director	

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

**EARTHRENEW INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars- unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Electricity sales		\$ 68,120	\$ -	\$ 213,297	\$ -
Cost of goods sold		(26,347)	-	(91,227)	-
		41,773	-	122,070	-
<b>EXPENSES</b>					
Professional, consulting and management fees	5	\$ 688,102	\$ 176,404	1,257,766	343,732
Share-based payments	6	347,891	-	347,891	-
General and administrative		76,576	63,180	124,185	105,551
Shareholder communication and filing fees		193,896	43,020	250,753	80,446
Utilities and maintenance		40,447	106,577	84,346	153,549
Travel and accommodation		106	5,109	2,324	6,070
Depreciation	3	39,559	153,409	79,120	306,818
Other (gains)/losses		1,023	(326)	1,987	(3,000)
Total expenses before other items		1,387,600	547,373	2,148,372	993,166
<b>OTHER ITEMS</b>					
Accretion of lease obligation		-	180,224	-	356,891
Other income		10,236	8,634	10,840	10,430
<b>Net (loss) and comprehensive (loss) for the period</b>		<b>\$ (1,335,591)</b>	<b>\$ (358,515)</b>	<b>\$ (2,015,462)</b>	<b>\$ (625,845)</b>
<b>Net (loss) per share - basic and diluted</b>		<b>\$ (0.03)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>
Weighted average number of shares outstanding - basic and diluted		44,490,350	28,969,764	41,421,010	28,969,764

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**EARTHRENEW INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian dollars- unaudited)

	Number of shares #	Share capital \$	Share to be issued \$	Warrants \$	Share-based payment reserve \$	Deficit \$	Total \$
<b>Balance, December 31, 2018</b>	<b>28,969,764</b>	<b>10,631,745</b>	-	-	<b>829,500</b>	<b>(6,978,926)</b>	<b>4,482,319</b>
IFRS 16 adjustment - modified approach	-	-	-	-	-	(405,151)	(405,151)
Loss for the period	-	-	-	-	-	(625,845)	(625,845)
<b>Balance, June 30, 2019</b>	<b>28,969,764</b>	<b>10,631,745</b>	-	-	<b>829,500</b>	<b>(8,009,922)</b>	<b>3,451,323</b>
<b>Balance, December 31, 2019</b>	<b>33,537,017</b>	<b>11,241,434</b>	-	<b>35,511</b>	<b>947,163</b>	<b>(8,391,482)</b>	<b>3,832,626</b>
Private placement, net of issue costs	10,953,333	1,565,990	-	-	-	-	1,565,990
Shares to be issued	-	-	133,000	-	-	-	133,000
Warrants granted	-	(96,196)	-	96,196	-	-	-
Options granted	-	-	-	-	347,891	-	347,891
Options cancelled	-	-	-	-	(251,733)	251,733	-
Loss for the period	-	-	-	-	-	(2,015,462)	(2,015,462)
<b>Balance, June 30, 2020</b>	<b>44,490,350</b>	<b>12,711,228</b>	<b>133,000</b>	<b>131,707</b>	<b>1,043,321</b>	<b>(10,155,211)</b>	<b>3,864,045</b>

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**EARTHRENEW INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars- unaudited)

		Six months ended June 30,	
	Note	2020	2019
<b>CASH (USED IN) PROVIDED BY:</b>			
<b>OPERATING ACTIVITIES</b>			
Net (loss)		\$ (2,015,462)	\$ (625,845)
Items not affecting cash:			
Depreciation	3	79,120	306,818
Share-based compensation	6	347,891	-
Interest payable	4	4,390	6,584
Accretion of lease obligation	4	-	(356,891)
Change in non-cash working capital items:			
Accounts receivable		105,431	78,228
Digital assets		(8,413)	(5,496)
Prepaid expenses		(412,480)	(11,642)
Accounts payable and accrued liabilities		175,715	(76,406)
<b>Net cash (used in) operating activities</b>		<b>(1,723,808)</b>	<b>(684,650)</b>
<b>FINANCING ACTIVITIES</b>			
Private placement	6	1,565,990	-
Lease payments		(33,000)	(33,000)
Shares to be issued	6	133,000	-
Loans repaid	5	-	(54,479)
<b>Net cash provided by/(used in) financing activities</b>		<b>1,665,990</b>	<b>(87,479)</b>
<b>INVESTING ACTIVITIES</b>			
Disposition of plant and equipment	3	-	55,000
<b>Net cash provided by investing activities</b>		<b>-</b>	<b>55,000</b>
<b>(DECREASE) INCREASE IN CASH DURING THE PERIOD</b>		<b>(57,818)</b>	<b>(717,129)</b>
<b>CASH - BEGINNING OF PERIOD</b>		<b>434,208</b>	<b>885,873</b>
<b>CASH - END OF PERIOD</b>		<b>\$ 376,390</b>	<b>\$ 168,744</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Broker warrants issued	6	\$ 96,196	\$ -

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 1. NATURE OF OPERATIONS AND GOING CONCERN

EarthRenew Inc. (the “Company” or “EarthRenew”) was incorporated in the province of Ontario and is a low-cost sustainable power generation company with a patented production process that converts livestock waste to nutrient-rich, slow-release pelleted organic fertilizer. EarthRenew converts natural gas to electricity from an industrial-sized gas turbine, which it intends to capitalize on through various revenue drivers, including selling surplus electricity to the electrical grid or to cryptocurrency miners, which can co-locate on site, and dry manure feedstock to produce high-value organic fertilizer. The Company has a full-scale commercial facility located on a 25,000-head cattle feedlot in Strathmore, Alberta. The Company’s head office is located at 65 Queen Street West, 8th Floor, Toronto, Ontario, Canada, M5H 2M5.

These condensed interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at June 30, 2020, the Company has a working capital deficit of \$225,544 (December 31, 2019 – working capital deficiency of \$305,099), and an accumulated deficit of \$10,155,211 (December 31, 2019 - \$8,391,482). These matters represent material uncertainties that cast significant doubt as to the Company’s ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon its ability to obtain the necessary equity financing to continue operations, and its ability to attain profitable operations. EarthRenew may periodically have to raise additional capital to fund projects and continue operations and while it has been successful in doing so in the past, there can be no assurance the Company will be able to do so in the future.

### Novel Coronavirus (“COVID-19”)

The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

## 2. BASIS OF PRESENTATION

### a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and have been prepared in accordance with accounting policies based on International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretation Committee (“IFRIC”) interpretations. The policies set out in the Company’s annual financial statements for the year ended December 31, 2019 were consistently applied to all the periods presented unless otherwise noted below. These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 21, 2020.

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 2. BASIS OF PRESENTATION (continued)

### b) Basis of preparation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are stated at their fair values. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies, which are outlined in the Company's annual audited financial statements for the year ended December 31, 2019.

### c) New and future accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2020 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

New standards and amendments adopted:

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The adoption of this standard did not have any effect on the Company's financial statements.

### d) Principles of consolidation

#### (i) Subsidiaries

All entities in which the Company has a controlling interest are fully consolidated from the date that control commences until the date that control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has one subsidiary, EarthRenew Strathmore Inc.

#### (ii) Transactions eliminated on consolidation

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

### e) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant judgments, estimates and assumptions considered by management in preparing the consolidated financial statements include:



# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020

(Expressed in Canadian dollars- unaudited)

---

## 2. BASIS OF PRESENTATION (continued)

### e) Significant accounting judgments, estimates and assumptions (continued)

- Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events, which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

- Depreciation rates

All plant and equipment are depreciated over a term, which the Company believes is the best approximation of the asset utility to the Company. If the estimated life had been longer than management's estimate, the carrying amount of the asset would have been higher. The Company applies significant estimates to determine the useful lives, considering technological advancements, past experience, expected use and review of useful lives.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Income taxes, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

- Discount rate used in adoption of IFRS 16

The determination of the Company's lease liabilities, right-of-use assets, and net investment in lease depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Significant assumptions are required to be made when determining which borrowing rates to apply in this determination. Changes in the assumptions used may have a significant effect on the Company's consolidated financial statements.

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

## 2. BASIS OF PRESENTATION (continued)

### e) Significant accounting judgments, estimates and assumptions (continued)

- Expected credit losses

Determining an allowance for expected credit losses ("ECLs") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

### f) Significant accounting policies

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently throughout the years presented in these condensed interim consolidated financial statements, unless otherwise stated.

#### Functional and presentation currency

The functional currency of the Company and its subsidiary is the currency of the primary economic environment in which it operates. The Company's condensed interim consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiary.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("Foreign Currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in Foreign Currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

## 3. PLANT AND EQUIPMENT

A reconciliation of the carrying amount for the six months ended June 30, 2020 and year ended December 31, 2019 is as follows:

	Equipment	Electricity Equipment	Buildings	Plant	Right-of-use assets (land)	Total
<b>Cost as at December 31 2018</b>	\$ 61,479	\$ 500,000	\$ 642,184	\$ 3,018,620	\$ -	\$ 4,222,283
Adoption of IFRS 16, modified approach	-	-	-	-	428,659	428,659
Disposals	-	-	-	(55,000)	-	(55,000)
<b>Cost as at December 31, 2019 and June 30, 2020</b>	\$ 61,479	\$ 500,000	\$ 642,184	\$ 2,963,620	\$ 428,659	\$ 4,595,942
<b>Accumulated Depreciation</b>						
<b>Balance at December 31, 2018</b>	\$ 10,246	\$ -	\$ -	\$ -	\$ -	\$ 10,246
Adoption of IFRS 16, modified approach	-	-	-	-	300,061	300,061
Charge for the period	15,370	50,000	-	-	42,863	108,233
<b>Balance at December 31, 2019</b>	\$ 25,616	\$ 50,000	\$ -	\$ -	\$ 342,924	\$ 418,540
Charge for the period	7,685	50,000	-	-	21,435	79,120
<b>Balance at June 30, 2020</b>	\$ 33,301	\$ 100,000	\$ -	\$ -	\$ 364,359	\$ 497,660
<b>Net book value as at December 31, 2019</b>	\$ 35,863	\$ 450,000	\$ 642,184	\$ 2,963,620	\$ 85,735	\$ 4,177,402
<b>Net book value as at June 30, 2020</b>	\$ 28,178	\$ 400,000	\$ 642,184	\$ 2,963,620	\$ 64,300	\$ 4,098,282

The buildings and plant are not available for use as at June 30, 2020 and December 31, 2019, and therefore, no depreciation has been recognized. All of the Company's plant and equipment is domiciled in Canada.

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 4. NET INVESTMENT IN LEASE AND LEASE LIABILITIES

### (a) Lease liabilities

Upon the adoption of IFRS 16, operating leases were reassessed as lease liabilities for right-of-use assets using an estimated discount rate of 8%. The Company has lease agreements in place for land as well as office premises (also described in (b) below). The Company is party to an agreement to lease office space. On September 30, 2014, the Company entered into an indemnity agreement with 2227929 Ontario Inc., who agreed to incur all obligations related to this lease agreement and to release the Company from any and all claims, liability for personal injury, and loss of income or damages. As the obligation remains with the Company, it is presented as a lease liability and net investment in lease. The following table reflects the lease activity for the six months ended June 30, 2020 and year ended December 31, 2019:

<b>Balance, December 31, 2018</b>	<b>\$ -</b>
Adoption of IFRS 16	831,927
Interest expense	49,120
Lease payments for the period	(461,769)
<b>Balance, December 31, 2019</b>	<b>\$ 419,278</b>
Interest expense	11,690
Lease payments for the period	(236,762)
<b>Balance, June 30, 2020</b>	<b>\$ 194,206</b>

The following is a reconciliation from the undiscounted lease payments to the lease liabilities:

2020	\$ 134,881
2021	66,000
<b>Total contractual cash flows</b>	<b>\$ 200,881</b>
Less: interest	(6,675)
<b>Lease liabilities</b>	<b>\$ 194,206</b>

### (b) Net investment in lease

The Company entered into finance leasing arrangements as a lessor for office premises. These premises were originally leased by the Company, and subsequently sub-leased. The following is a reconciliation from the undiscounted lease payments to the net investment in lease:

<b>Balance, December 31, 2018</b>	<b>\$ -</b>
Net investment in lease	656,412
Interest income	37,027
Lease payments for the period	(395,769)
<b>Balance, December 31, 2019</b>	<b>\$ 297,670</b>
Interest income	7,300
Lease payments for the period	(203,762)
<b>Balance, June 30, 2020</b>	<b>\$ 101,208</b>
2020	\$ 101,881
Less: interest	(674)
<b>Net Investment in lease</b>	<b>\$ 101,208</b>

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

## 5. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company:

During fiscal 2018, a director of the Company made an advance of \$53,000 to the Company. The advance was unsecured, due on demand and bore interest at 5%. Interest expense of \$1,479 was incurred and payment in full of \$54,479 was made on January 17, 2019.

	Loan from Directors
<b>Balance, December 31, 2018</b>	<b>\$ 54,479</b>
Interest expense	114
Loan repaid	(54,593)
<b>Balance, December 31, 2019 and June 30, 2020</b>	<b>\$ -</b>

### *Compensation of key management personnel of the Company*

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee having regard to the performance of individuals and market trends. During the six months ended June 30, 2020 and 2019, the remuneration of directors and other key management personnel are as follows:

	Six months ended June 30,	
	2020	2019
Management fees	\$ 150,000	\$ 60,000
Share-based payments	196,900	-

At June 30, 2020, the Company had \$265,433 (December 31, 2019 - \$314,750) owing to its key management. Such amounts are unsecured, non-interest bearing, with no fixed terms of payment or "due on demand", included in accounts payable and accrued liabilities.

During the six months ending June 30, 2020, the Company granted 783,333 options with an exercise price of \$0.33 expiring June 5, 2025 to directors and officers of the Company (see Note 6).

## 6. SHARE CAPITAL

### **Authorized**

Unlimited number of voting common shares, without par value

### **Issued and outstanding common shares**

	Number of Shares #	Amount \$
Balance, December 31, 2018	28,969,784	10,631,745
Private placement	4,567,333	609,689
<b>Balance, December 31, 2019</b>	<b>33,537,117</b>	<b>11,241,434</b>
Private placement	10,953,333	1,469,794
<b>Balance, June 30, 2020</b>	<b>44,490,450</b>	<b>12,711,228</b>

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 6. SHARE CAPITAL (continued)

On June 8, 2020, the Company completed a 3:1 share consolidation. Prior to the consolidation, the Company had 133,471,292 common shares outstanding, and following the consolidation had 44,490,450 common shares outstanding as at June 30, 2020. All current and comparative common share amounts in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

On November 28, 2019, the Company closed a private placement financing by issuing 4,567,333 common shares at a price of \$0.15 per share for gross proceeds of \$685,100. The Company paid finders fees of \$39,900 in cash and issued 266,000 finders warrants. Each warrant is exercisable into one common share of the Company at a price of \$0.30 per warrant until November 28, 2021. The fair value of the warrants issued was estimated at \$35,511 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118%; risk-free interest rate of 1.59% and an expected life of 2 years. Aberdeen International Inc. subscribed for 1,000,000 common shares of this private placement for \$150,000. An officer of the Company is also an officer of Aberdeen International Inc.

On February 20, 2020, the Company closed a private placement financing by issuing 10,953,333 common shares at a price of \$0.15 per share for gross proceeds of \$1,643,000. The Company paid finders fees of \$76,510 in cash and issued 510,066 finder warrants. Each finder warrant is exercisable into one common share of the Company at a price of \$0.30 per warrant until February 20, 2022. The fair value of the warrants issued was estimated at \$96,196 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 149%; risk-free interest rate of 1.82% and an expected life of 2 years.

During the six months ending June 30, 2020, the Company received subscription funds of \$133,000 related to a private placement that was completed subsequent to the year-end (see Note 10).

### Warrants

The following summarizes the warrants outstanding as of June 30, 2020:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
266,000	266,000	28-Nov-19	28-Nov-21	\$ 0.30	\$ 35,511	118%	2.00	0%	1.59%
510,066	510,066	20-Feb-20	20-Feb-22	\$ 0.30	\$ 96,196	149%	2.00	0%	1.82%
<b>776,066</b>	<b>776,066</b>				<b>\$ 131,707</b>				

On June 8, 2020, the Company completed a 3:1 share consolidation. Prior to the consolidation, the Company had 2,328,200 warrants outstanding, and following the consolidation had 776,066 warrants outstanding as at June 30, 2020. All current and comparative warrant amounts in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

The weighted-average remaining contractual life of the warrants as of June 30, 2020 is 1.56 years (June 30, 2019: nil).

The Company's outstanding warrants were issued as finder fee compensation and valued at the fair value of the instruments issued, as the fair value of the services received could not be reliably measured. The fair value of the warrants issued during the year was determined using the Black-Scholes option pricing model, using the above inputs.

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

## 6. SHARE CAPITAL (continued)

### Share-based payments reserve

#### Stock options

The Company has an amended stock option compensation plan for executives and employees. In accordance with the terms of the plan, officers, non-independent directors, employees and consultants of the Company may be granted options to purchase common shares at exercise prices determined at the time of grant. The Company has adopted a Floating Stock Option Plan (the "Plan"), whereby the number of common shares reserved for issuance under the Plan is equivalent to up to 10% of the issued and outstanding shares of the Company. Options under the Plan which have been exercised or which have expired shall be available for subsequent grants. The option vesting terms are determined at the discretion of the board of directors.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following is a summary of changes in options from January 1, 2019 to June 30, 2020:

	No. of options #	Weighted Average Exercise Price \$	Value of options \$
<b>December 31, 2018</b>	<b>1,750,000</b>	<b>0.66</b>	<b>829,500</b>
Granted	1,125,000	0.24	126,313
Expired	(16,667)	0.75	(8,650)
<b>December 31, 2019</b>	<b>2,858,333</b>	<b>0.51</b>	<b>947,163</b>
Granted	1,500,000	0.32	347,891
Expired	(593,333)	0.62	(251,733)
<b>June 30, 2020</b>	<b>3,765,000</b>	<b>0.41</b>	<b>1,043,321</b>

On June 8, 2020, the Company completed a 3:1 share consolidation. Prior to the consolidation, the Company had 11,295,000 options outstanding, and following the consolidation had 3,765,000 options outstanding as at June 30, 2020. All current and comparative option amounts in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

The consolidated number of stock options outstanding as at June 30, 2020 is as follows:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
923,333	923,333	18-Jul-17	18-Jul-21	\$ 0.75	\$ 479,210	100%	4.00	0%	1.48%
291,667	291,667	22-Aug-17	22-Aug-22	\$ 0.42	\$ 96,250	202%	5.00	0%	1.53%
450,000	450,000	8-Jul-19	8-Jul-24	\$ 0.30	\$ 34,830	105%	5.00	0%	1.57%
600,000	600,000	25-Oct-19	25-Oct-24	\$ 0.18	\$ 85,140	110%	5.00	0%	1.57%
333,333	83,333	2-Apr-20	2-Apr-25	\$ 0.30	\$ 34,641	116%	5.00	0%	0.59%
1,166,667	1,166,667	5-Jun-20	5-Jun-25	\$ 0.33	\$ 313,250	118%	5.00	0%	0.52%
<b>3,765,000</b>	<b>3,515,000</b>				<b>\$ 1,043,321</b>				

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 6. SHARE CAPITAL (continued)

### *Share-based payments reserve (continued)*

During the six months ended June 30, 2020, 1,500,000 stock options were granted, and the Company recorded share-based payment expense of \$347,891 (six months ended June 30, 2019: no stock options granted and share-based payment expense of \$nil). The weighted-average grant date fair value of the options granted during the six months ended June 30, 2020 was \$0.32 (December 31, 2018: \$nil).

The weighted average remaining life of the outstanding options at June 30, 2020 is 3.54 years (June 30, 2019: 2.32 years).

During the six months ended June 30, 2020, 593,333 options were cancelled in accordance with the Plan and \$251,733 was recorded against deficit (six months ended June 30, 2019: no options cancelled with \$nil recorded against deficit).

On April 2, 2020, the Company granted 333,333 options to a consultant of the Company pursuant to the Company's stock option plan. 83,333 options vested on the date of grant and the remaining 250,000 options vest in equal increments of 83,333 every three months thereafter. Each option may be exercised to acquire one common share of the Company at an exercise price of \$0.30 for a period of five years from the date of grant.

On June 5, 2020, the Company granted 1,166,167 stock options to certain directors, officers and consultants of the Company pursuant to the Company's stock option plan. The stock options vest immediately and each option may be exercised to acquire one common share of the Company at a price of \$0.33 for a period of five years from the date of grant.

The fair value of the options issued was determined using the Black-Scholes option pricing model, using the above inputs. Volatility was estimated by using the historical volatility of the Company, adjusted for the Company's expectation of volatility going forward. The expected life in years represents the period of time that the options granted are expected to be outstanding. The risk-free interest rate was based on Bank of Canada government bonds with a remaining term equal to the expected life of the options.

## 7. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' equity and current liabilities. The Company manages its capital structure and makes adjustments based on the funds available to support the development of its operations. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management and the board of directors to sustain future development of the business.

The Company is dependent upon external financing to fund its activities. To continue to carry out the Company's planned development and funding of ongoing administrative expenses the Company will utilize its existing working capital and will raise additional capital as appropriate.

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets. There were no changes to the approach of management and the board of directors to capital management for the six months ended June 30, 2020.

The Company and its subsidiary are not subject to any capital requirements imposed by a lending institution or regulatory body.

# EARTHRENEW INC.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2020  
(Expressed in Canadian dollars- unaudited)

---

## 8. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including market risk (including currency, commodity and cash flow interest rate risk), credit risk, and liquidity risk.

### *Fair value hierarchy*

The three levels of the fair value hierarchy with respect to required disclosures about the inputs to fair value measurements are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3 – Inputs that are not based on observable market data.

The carrying value of cash, receivables, accounts payable and accrued liabilities and loans from related parties reflected in the consolidated statement of financial position approximate fair value because of the relatively short-term maturities.

### *Foreign currency risk*

The Company funds the operations and maintains a head office in Canada. A portion of the Company's expenses are denominated in United States dollars. Consequently, the Company is exposed to fluctuations in foreign exchange rates. The Company has not used derivative instruments to reduce its exposure to foreign exchange fluctuations.

### *Credit risk*

Credit risk is the risk of financial loss to the Company is a customer or counterparty fails to meet its contractual obligations, and arises principally from cash, net investment in lease and receivables.

### *Cash*

Cash consists of cash held in financial institutions from which management believes the risk of loss to be remote.

### *Receivables*

Management does not believe the Company has significant concentration of credit risk. All of the receivables from contracts with customers, \$10,454 (December 31, 2019 - \$111,525) are due from two customers (2019 – two customers). There is no history of losses from receivables and there are no overdue receivables as at June 30, 2020.

### *Net investment in lease*

Based on historical information, and adjusted for forward-looking expectations, the Company has assessed an insignificant loss allowance on the net investment in leases for the six months ended June 30, 2020.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk primarily through its accounts payable and accrued liabilities. All of the Company's accounts payable and accrued liabilities have a contractual maturity of less than one year. As at June 30, 2020, 79% of the accounts payable and accrued liabilities was owing to five vendors (December 31, 2019 – 67% to three vendors). As at June 30, 2020 and December 31, 2019, the Company had negative net working capital. The Company expects to complete future equity or other debt financings, as required and available. However, there is no assurance that funds will be available on terms acceptable to the Company, or at all.



# **EARTHRENEW INC.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020

(Expressed in Canadian dollars- unaudited)

---

## **9. COMMITMENTS AND CONTINGENCIES**

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

A former consultant of the Company has initiated a legal action seeking approximately \$51,400 for fees owed and damages, plus interest. The Company is currently defending the matter, and accordingly no provision for loss has been recognized.

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately \$960,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed interim consolidated financial statements. Minimum commitments upon termination under these contracts are approximately \$300,000.

## **10. SUBSEQUENT EVENT**

On July 24, 2020, the Company closed the first tranche of a non-brokered private placement financing issuing 6,977,840 units at a price of \$0.30 per unit for gross proceeds of \$2,093,352. Each unit consists of one common share of the Company, and one-half of one common share purchase warrant, entitling the holder to acquire one additional common share at an exercise price of \$0.45 for a period of 24 months from the date of issuance. If at any time after four months and one day from the closing of the first tranche, the Company's common shares trade at \$0.90 per share or higher on the CSE for a period of 30 consecutive days, the Company will have the right (but not the obligation) to accelerate the expiry date of the warrants to the date that is 30 days after the Company issues a news release announcing the exercise of the acceleration right.

Finder's fees were paid in accordance with the policies of the CSE, consisting of cash commissions equal to \$79,524 and a total of 265,078 finder warrants, entitling the holder to purchase one common share at a price of \$0.45 per common share for a period of 24 months.

The net proceeds of the first tranche are expected to be used for costs incurred for capital equipment purchases, engineering and construction costs for the redevelopment of the Strathmore facility, feasibility studies on future projects, field and research trials, market development activities, working capital for the ramp-up of operations at the Strathmore facility, and for general corporate purposes.