

---

**INTERNATIONAL WASTEWATER SYSTEMS INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS  
THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2016  
(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

---

**Notice To Reader**

The accompanying unaudited condensed consolidated interim financial statements of International Wastewater Systems Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

**International Wastewater Systems Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

	As at September 30, 2016	As at December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 429,020	\$ 367,812
Receivables (note 3)	204,299	422,189
Prepaid expenses	110,423	42,438
Inventory (note 4)	360,707	595,436
Loans receivable (note 13)	72,620	115,235
<b>Total current assets</b>	<b>1,177,069</b>	<b>1,543,110</b>
<b>Non-current liabilities</b>		
Deposits	1,200	6,683
Equipment (note 6)	64,153	144,302
<b>Total assets</b>	<b>\$ 1,242,422</b>	<b>\$ 1,694,095</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 622,425	\$ 645,722
Loans payable (note 7)	23,043	61,478
Deferred revenue (note 8)	11,856	265,280
Warranty liability (note 9)	55,278	-
<b>Total current liabilities</b>	<b>712,602</b>	<b>972,480</b>
<b>Non-current liabilities</b>		
Warranty provisions (note 9)	10,216	24,011
Loans payable (note 7)	82,438	75,570
	<b>805,256</b>	<b>1,072,061</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (note 10)	6,945,602	5,421,804
Reserves (note 11)	766,226	551,753
Currency translation reserve	11,557	(15,782)
Deficit	(7,286,219)	(5,335,741)
<b>Total shareholders' equity (deficiency)</b>	<b>437,166</b>	<b>622,034</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 1,242,422</b>	<b>\$ 1,694,095</b>

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

Nature and continuance of operations (note 1)  
 Commitment (note 14)  
 Subsequent events (note 16)

**Approved on behalf of the Board:**

"Lynn Mueller", Director

"Yaron Conforti", Director

# International Wastewater Systems Inc.

## Condensed Consolidated Interim Statements of and Comprehensive Income (loss)

(Expressed in Canadian Dollars)

Unaudited

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Revenues</b>	\$ 59,202	\$ 1,403,360	\$ 1,009,453	\$ 1,580,439
<b>Cost of sales</b>	(37,962)	(779,986)	(885,786)	(988,099)
<b>Gross margin</b>	21,240	623,374	123,667	592,340
<b>Expenses</b>				
Accounting and legal (note 13)	25,602	22,483	112,907	36,988
Advertising and promotion	8,274	3,786	69,303	18,338
Consulting (note 13)	162,322	71,635	478,625	225,254
Depreciation	22,331	19,848	70,898	29,633
Foreign exchange	(1,472)	-	(19,155)	-
Insurance	7,193	7,508	26,027	12,059
Office and miscellaneous	48,724	35,534	166,989	84,329
Regulatory and filing fees	6,285	-	14,379	-
Rent	26,464	34,780	76,703	67,675
Repairs and maintenance	153	5,106	2,468	38,775
Share-based payments (note 13)	273,649	-	93,506	-
Telephone and utilities	14,682	14,555	31,493	22,761
Trademarks	-	1,426	4,422	1,426
Travel	19,888	22,134	74,317	32,157
Wages and benefits (note 13)	263,177	176,306	756,243	420,313
Warranty expense (note 9)	8,186	-	59,281	-
	(885,458)	(415,101)	(2,018,406)	(989,708)
Government grant	(3,653)	-	103,249	35,756
Interest expense	(34,562)	(2,251)	(189,191)	(6,502)
Research and development tax credit	-	52,655	-	52,655
<b>Income (loss) for the period</b>	\$ (902,433)	\$ 258,677	\$ (1,980,681)	\$ (315,459)
<b>Income (loss) attributable to:</b>				
Shareholders of the Company	\$ (902,433)	\$ 48,934	\$ (1,980,681)	\$ (439,382)
Non-controlling interest	-	209,743	-	123,923
	\$ (902,433)	\$ 258,677	\$ (1,980,681)	\$ (315,459)
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified subsequently to income</b>				
Foreign currency translation	\$ (5,426)	\$ 5,124	\$ 27,339	\$ 3,949
<b>Total comprehensive income (loss) for the period</b>	\$ (907,859)	\$ 263,801	\$ (1,953,342)	\$ (311,510)
<b>Comprehensive income (loss) attributable to:</b>				
Shareholders of the Company	\$ (907,859)	\$ 51,445	\$ (1,953,342)	\$ (437,445)
Non-controlling interest	-	212,356	-	125,935
	\$ (907,859)	\$ 263,801	\$ (1,953,342)	\$ (311,510)
<b>Basic income (loss) per share</b>	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)
<b>Diluted income (loss) per share</b>	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)
<b>Weighted average number of common shares outstanding:</b>				
Basic	84,132,826	25,000,000	81,994,745	25,000,000
Diluted	84,132,826	25,000,000	81,994,745	25,000,000

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

**International Wastewater Systems Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Operating activities</b>		
Loss for the period	\$ (1,980,681)	\$ (315,459)
Adjustments for:		
Depreciation	70,898	29,633
Unrealized foreign exchange	(11,271)	(11,096)
Share-based payments	93,506	-
Accrued interest expense and accretion	189,370	6,502
Changes in non-cash working capital items:		
Receivables	184,892	(638,618)
Prepaid expenses	(71,750)	(12,581)
Inventory	229,149	(502,049)
Accounts payable and accrued liabilities	44,205	1,030,185
Deferred revenue	(253,424)	(60,178)
Warranty provisions	41,483	1,494
<b>Net cash used in operating activities</b>	<b>(1,463,623)</b>	<b>(472,167)</b>
<b>Investing activities</b>		
Deposits	5,483	-
Acquisition of equipment	-	(221,353)
<b>Net cash provided by (used in) investing activities</b>	<b>5,483</b>	<b>(221,353)</b>
<b>Financing activities</b>		
Proceeds from loans payable	608,968	789,474
Repayment of loans payable	(708,685)	(43,280)
Funds advanced from related party	11,048	-
Repayment of loans receivable	43,455	-
Proceeds on exercise of stock options	18,750	-
Proceeds on exercise of warrants	69,180	-
Proceeds on private placement, net of costs	1,475,238	-
<b>Net cash provided by financing activities</b>	<b>1,517,954</b>	<b>746,194</b>
<b>Net change in cash</b>	<b>59,814</b>	<b>52,674</b>
<b>Impact of exchange rate changes on cash</b>	<b>1,394</b>	<b>15,045</b>
<b>Cash, beginning of period</b>	<b>367,812</b>	<b>255,913</b>
<b>Cash, end of period</b>	<b>\$ 429,020</b>	<b>\$ 323,632</b>

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

## International Wastewater Systems Inc.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

Unaudited

	Number of shares	Share capital	Reserves	Currency translation reserve	Non-controlling interest	Deficit	Total
<b>Balance, December 31, 2014</b>	<b>25,000,000</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ (3,180)</b>	<b>\$ 55,686</b>	<b>\$ (1,575,125)</b>	<b>\$ (1,522,615)</b>
Currency translation adjustment	-	-	-	3,949	-	-	3,949
Non-controlling interest	-	-	-	-	123,923	(123,923)	-
Loss for the period	-	-	-	-	-	(315,459)	(315,459)
<b>Balance, September 30, 2015</b>	<b>25,000,000</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 769</b>	<b>\$ 179,609</b>	<b>\$ (2,014,507)</b>	<b>\$ (1,834,125)</b>
<b>Balance, December 31, 2015</b>	<b>80,870,000</b>	<b>\$ 5,421,804</b>	<b>\$ 551,753</b>	<b>\$ (15,782)</b>	<b>\$ -</b>	<b>\$ (5,335,741)</b>	<b>\$ 622,034</b>
Common shares issued	8,000,000	1,600,000	-	-	-	-	1,600,000
Share issue costs	-	(250,235)	125,473	-	-	-	(124,762)
Warrants issued to acquire loan	-	-	111,800	-	-	-	111,800
Warrants exercised	387,000	69,180	-	-	-	-	69,180
Fair value of warrants exercised	-	55,900	(55,900)	-	-	-	-
Stock options exercised	125,000	18,750	-	-	-	-	18,750
Fair value of stock options exercised	-	30,203	(30,203)	-	-	-	-
Stock options expired	-	-	(30,203)	-	-	30,203	-
Share-based payments	-	-	93,506	-	-	-	93,506
Currency translation adjustment	-	-	-	27,339	-	-	27,339
Loss for the period	-	-	-	-	-	(1,980,681)	(1,980,681)
<b>Balance, September 30, 2016</b>	<b>89,382,000</b>	<b>\$ 6,945,602</b>	<b>\$ 766,226</b>	<b>\$ 11,557</b>	<b>\$ -</b>	<b>\$ (7,286,219)</b>	<b>\$ 437,166</b>

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

---

# International Wastewater Systems Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Three and Nine months Ended September 30, 2016

(Expressed in Canadian Dollars)

Unaudited

---

### 1. Nature and continuance of operations

International Wastewater Systems Inc. (the "Company" or "IWS") was incorporated under the Business Corporations Act (British Columbia) on February 4, 2011. The Company's shares are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "IWS". The Company provides wastewater heat exchange products and services. The registered office of the Company is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, V3C 6L4.

International Wastewater Heat Exchange Systems Inc. ("IWHES"), was incorporated under the Business Corporations Act (British Columbia) on May 30, 2011. On October 27, 2015, the Company completed the acquisition (the "Acquisition") of IWHES pursuant to a share exchange agreement dated September 4, 2015 (the "Agreement"). The Acquisition constituted a reverse takeover ("RTO"). Upon completion of the Acquisition, the Company changed its name from Amana Copper Ltd. to International Wastewater Systems Inc.

These unaudited condensed consolidated interim financial statements of the Company have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they fall due for the foreseeable future. For the nine months ended September 30, 2016 the Company incurred a loss of \$1,980,681 (nine months ended September 30, 2015 - \$315,459). As of September 30, 2016 the Company has a deficit of \$7,286,219 (December 31, 2015 - \$5,335,741) and a working capital deficiency of \$(464,467) (December 31, 2015 - working capital of \$570,630). The Company has not generated positive cash flows from operations and additional financings will be required to maintain operations for the near term. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

The Company will continue to pursue opportunities to raise additional capital through equity markets and/or debt to fund its operating activities; however, there is no assurance of the success or sufficiency of these initiatives. The Company's ability to continue as a going concern is dependent upon it securing the necessary working capital to eventually generate positive cash flows either from operations or additional financing. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

### 2. Significant accounting policies

#### *Statement of compliance*

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of November 29, 2016, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2015. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2016 could result in restatement of these unaudited condensed consolidated interim financial statements.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**2. Significant accounting policies (continued)**

*Change in accounting policies*

Amendments to IAS 16 – Property, Plant and Equipment (“IAS 16”) and IAS 38 – Intangibles (“IAS 38”) were issued in May 2014 and prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. At January 1, 2016, the Company adopted these amendments and there was no material impact on the Company’s unaudited condensed consolidated interim financial statements.

*New standards not yet adopted and interpretations issued but not yet effective*

IFRS 15 - Revenue from Contracts with Customers - Establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Management is currently assessing the impact of the new standard.

IFRS 9 – Financial instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Management is currently assessing the impact of the new standard.

IFRS 16, Leases (“IFRS 16”) was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if the Company is also applying IFRS 15. The Company has not yet assessed the impact of adoption.

**3. Receivables**

	<b>As at September 30, 2016</b>	<b>As at December 31, 2015</b>
GST recoverable (Canada)	\$ 96,984	\$ 107,832
VAT recoverable (UK)	10,303	13,056
Other receivables	70,977	12,338
Trade receivables	26,035	288,963
	<b>\$ 204,299</b>	<b>\$ 422,189</b>

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**4. Inventory**

	As at September 30, 2016	As at December 31, 2015
Materials and supplies	\$ 278,220	\$ 130,750
Work-in-progress	82,487	464,686
	<b>\$ 360,707</b>	<b>\$ 595,436</b>

**5. Equity investment**

During the year ended December 31, 2015, the Company acquired a 40% interest in Sharc Caledonia Limited ("Caledonia") for £4,000 (\$7,817). As the Company exerts significant influence over Caledonia but does not control it, the investment is accounted for as an equity investment.

The Company's unrecognized share of the loss for the nine months ended September 30, 2016 was \$36,873 for a balance at September 30, 2016 of \$98,862 (December 31, 2015 - \$48,470).

The following table presents a continuity of the equity investment:

Balance, December 31, 2014	\$ -
Acquisition	7,817
Loss from equity investment	(7,817)
Balance, December 31, 2015 and September 30, 2016	\$ -

The table below discloses selected financial information for Caledonia on a 100% basis:

	As at September 30, 2016	As at December 31, 2015
Current assets	\$ 33,328	\$ 375,557
Non-current assets	1,097,537	1,312,170
Current liabilities	(8,796)	(212,059)
Non-current liabilities	(1,344,596)	(1,602,207)
Revenue	26,398	-
Total comprehensive loss	(125,981)	(140,718)

**6. Equipment**

Cost	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2014	\$ 42,443	\$ 20,702	\$ 6,299	\$ 17,854	\$ 87,298
Additions	3,637	7,224	163,126	1,171	175,158
Currency translation adjustment	-	-	3,451	-	3,451
Balance, December 31, 2015	46,080	27,926	172,876	19,025	265,907
Currency translation adjustment	-	-	(29,489)	-	(29,489)
Balance, September 30, 2016	\$ 46,080	\$ 27,926	\$ 143,387	\$ 19,025	\$ 236,418



**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**6. Equipment (continued)**

<b>Accumulated Depreciation</b>	<b>Equipment and furniture and fixtures</b>	<b>Computer hardware</b>	<b>Computer software</b>	<b>Leasehold improvements</b>	<b>Total</b>
Balance, December 31, 2014	\$ 4,244	\$ 5,694	\$ 6,299	\$ 1,785	\$ 18,022
Depreciation for the year	8,091	10,242	81,562	3,688	103,583
Balance, December 31, 2015	\$ 12,335	\$ 15,936	\$ 87,861	\$ 5,473	\$ 121,605
Depreciation for the period	5,259	4,946	57,839	2,854	70,898
Currency translation adjustment	-	-	(20,238)	-	(20,238)
Balance, September 30, 2016	\$ 17,594	\$ 20,882	\$ 125,462	\$ 8,327	\$ 172,265

<b>Carrying Value</b>	<b>Equipment and furniture and fixtures</b>	<b>Computer hardware</b>	<b>Computer software</b>	<b>Leasehold improvements</b>	<b>Total</b>
Balance, December 31, 2015	\$ 33,745	\$ 11,990	\$ 85,015	\$ 13,552	\$ 144,302
Balance, September 30, 2016	\$ 28,486	\$ 7,044	\$ 17,925	\$ 10,698	\$ 64,153

**7. Loans payable**

(i) During the year ended December 31, 2015 IWWS received a loan of \$40,814 (£20,000) from a shareholder of IWWS. The loan accrued interest at a rate of 6% per annum and was payable on March 24, 2016. The outstanding balance of the loan and accrued interest as at September 30, 2016 was \$37,210.

(ii) During the year ended December 31, 2015 IWWS received a loan of \$102,035 (£50,000) from an unrelated company. The loan accrues interest at a rate of 12.5% per annum and is payable on April 17, 2020. The loan must be repaid in monthly payments of £1,125 with the first payment required on June 17, 2015. An arrangement fee of £1,000 was paid prior to the loan being advanced. The loan is guaranteed by the CEO of IWWS. During the nine months ended September 30, 2016, the Company made payments totalling \$18,660 (£10,125), of which \$7,123 (£3,865) related to interest and \$11,537 (£6,260) related to principal. The balance of the loan as at September 30, 2016 is \$68,271 (£39,997), of which \$23,043 is recognized as short-term.

(iii) In March 2016, the Company entered into an agreement with an arm's length private lender to loan the Company an aggregate of \$400,000.

The loan is secured against the assets of the Company, bears interest at a rate of 2% per month and carries a commitment fee equal to 4% of the loan. The loan matures and becomes payable in 3 months and may be prepaid by the Company at any time prior to the maturity date. In consideration for the loan, the Company issued an aggregate of 500,000 share purchase warrants (valued at \$103,500) exercisable into 500,000 common shares at a price of \$0.28 per common share. The warrants are exercisable for three years and are subject to an acceleration clause in the event that the shares of the Company trade at a price of \$0.56 or greater for a period of 20 consecutive days with an average daily trading volume of a minimum 100,000 shares during the same 20-day period. During the first 12 months of the term of the warrants, the exercise price is subject to a downward adjustment in the event that the Company undertakes an equity financing for aggregate gross proceeds of not less than \$400,000. In such event, the exercise price of the warrants shall be adjusted to a price equal to the price of at which securities are sold.

The grant date fair value of \$103,500 was assigned to the warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 129.28% which is based on historical volatility, risk-free rate of return of 0.56% and an expected maturity of 5 years. During the period, the warrants were repriced as a result of the private placement (see note 10 (i)) resulting in an incremental increase in value of \$8,300.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**7. Loans payable (continued)**

(iii) (continued) In June 2016 and subsequently in July 2016, the loan was extended for an additional month for a fee of \$15,000 and \$15,000 respectively. The loan was repaid in August 2016.

(iv) In May 2016, the Company received a \$70,000 loan from a company controlled by a director of IWHEs. The loan was unsecured, non-interest bearing and due on demand. The loan was repaid in August 2016.

(v) In June 2016, the Company entered into an agreement to factor trade receivables of \$184,968 for a expected term of 45 days with an interest rate of 3% for a term of 45 days. The loan was repaid in September 2016.

	Nine months ended September 30, 2016	Year ended December 31, 2015
Balance, beginning of period	\$ 137,048	\$ 2,119,236
Proceeds from loans, net of costs	620,016	642,849
Repayment of loans	(708,685)	(2,634,625)
Interest and accretion on loans	77,570	9,912
Foreign exchange	(20,468)	(324)
Balance, end of period	105,481	137,048
Less: non-current portion	(82,438)	(75,570)
	\$ 23,043	\$ 61,478

**8. Deferred revenue**

	Nine months ended September 30, 2016	Year ended December 31, 2015
Balance, beginning of year	\$ 265,280	\$ 85,678
Revenue recognized	(864,673)	(85,678)
Sales contracts	628,437	265,280
Currency translation adjustment	(17,188)	-
	\$ 11,856	\$ 265,280

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**9. Warranty provisions**

The Company has recognized warranty provisions for projects that have been completed.

	Nine months ended September 30, 2016	Year ended December 31, 2015
Balance, beginning of year	\$ 24,011	\$ -
Warranty provisions recognized	46,485	47,500
Warranty expenses incurred	(5,002)	(23,489)
	\$ 65,494	\$ 24,011
Less: non-current portion	(55,278)	(24,011)
	\$ 10,216	\$ -

**10. Share capital**

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2014 and September 30, 2015	25,000,000	\$ 4
Balance, December 31, 2015 and September 30, 2016	80,870,000	\$ 5,421,804
Common shares issued (i), (ii)	8,000,000	1,600,000
Share issue costs (i), (ii)	-	(250,235)
Warrants exercised (note 12)	387,000	69,180
Fair value of warrants exercised (note 12)	-	55,900
Stock options exercised (note 11)	125,000	18,750
Fair value of stock options exercised (note 11)	-	30,203
Balance, September 30, 2016	89,382,000	\$ 6,945,602

(i) On August 22, 2016, the Company closed the first tranche of a non-brokered private placement pursuant to which the Company issued 4,800,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$960,000. In connection with the placement, the Company paid finder's fees and expenses of \$77,100 and issued 384,000 finders' warrants, each warrant exercisable at a price of \$0.20 for a period of two years from the date of issue. All securities distributed pursuant to the placement are subject to a statutory hold period of four months and a day from the date of issuance.

The fair value of the \$62,054 was assigned to the 384,000 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 109.93% which is based on historical volatility, risk-free rate of return of 0.55% and an expected maturity of 2 years.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**10. Share capital (continued)**

(ii) On September 2, 2016, the Company closed the final tranche of a non-brokered private placement pursuant to which the Company issued 3,200,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$640,000. In connection with the placement, the Company paid finder's fees and expenses of \$41,600 and issued 208,000 finders' warrants, each warrant exercisable at a price of \$0.20 for a period of two years from the date of issue. All securities distributed pursuant to the placement are subject to a statutory hold period of four months and a day from the date of issuance.

The fair value of the \$63,419 was assigned to the 208,000 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 114.09% which is based on historical volatility, risk-free rate of return of 0.59% and an expected maturity of 2 years.

c) Escrow shares

In connection with the RTO, 47,000,000 common shares were placed into escrow with 10% released on the day after closing of the Acquisition and 15% released every six months thereafter. At September 30, 2016 35,250,000 shares were held in escrow (December 31, 2015 – 42,300,000).

**11. Stock options**

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014 and September 30, 2015	-	\$ -
Balance, December 31, 2015	6,575,000	\$ 0.47
Exercised (i)	(125,000)	0.15
Issued (ii)	5,460,000	0.30
Cancelled	(5,700,000)	0.50
Expired	(125,000)	0.15
Balance, September 30, 2016	6,085,000	\$ 0.31

(i) The weighted average common share price on date of exercise was \$0.27.

(ii) On July 12, 2016, the Company granted 5,460,000 incentive stock options to certain directors, officers, employees and consultants with each option exercisable into one common share of the Company at an exercise price of \$0.30 per share for a period of five years. The options vest 20% each six months of service. The grant date fair value of \$1,372,644 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 124.32% which is based on historical volatility, risk-free rate of return of 0.60% and an expected maturity of 5 years.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**11. Stock options (continued)**

The following table reflects the actual stock options issued and outstanding as of September 30, 2016:

<b>Expiry date</b>	<b>Exercise price (\$)</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number of options outstanding</b>	<b>Number of options vested (exercisable)</b>
October 27, 2020	0.42	4.08	500,000	500,000
July 12, 2021	0.30	4.78	5,460,000	-
May 15, 2022	0.15	5.62	125,000	125,000
	0.31	4.74	6,085,000	625,000

**Share-based payments**

During the nine months ended September 30, 2016, the Company recognized share-based payments of \$93,506 (nine months ended September 30, 2015 - \$nil) relating to the cancellation of non-vested stock options.

**12. Warrants**

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Balance, December 31, 2014 and September 30, 2015	-	\$ -
Balance, December 31, 2015	1,200,000	\$ 0.14
Issued (notes 7(iii), 10 (i) and 10 (ii))	1,092,000	0.24
Exercised	(387,000)	0.18
Balance, September 30, 2016	1,905,000	\$ 0.17

The following are the warrants outstanding at September 30, 2016:

<b>Number of Warrants</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
983,000	0.14	June 30, 2017
80,000	0.14	July 16, 2017
384,000	0.20	August 22, 2018
208,000	0.20	September 2, 2018
250,000	0.20	March 21, 2019
1,905,000	0.17	

---

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

---

**13. Related party transactions**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers and directors.

During the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015), the Company incurred the following charges with key management personnel:

- (i) Consulting fees of \$55,323 and \$146,328 (\$nil) to companies controlled by directors and officers of the Company.
- (ii) Wages and benefits of \$85,448 and \$246,056 (\$43,189 and \$129,567) to the CEO, director of the Company and a director of IWHES.
- (iii) Accounting fees of \$nil and \$4,000 (\$6,000 and \$18,000) to a company controlled by a director of IWHES.
- (iv) Share-based payments of \$225,616 and \$77,076 (\$nil) was recognized in connection with the vesting of 5,460,000 options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of \$2,511 and \$8,009, included in cost of sales (\$nil) and additional cost of sales of \$nil and \$1,017 (\$nil) due to a company controlled by a director of IWWS.

Included in accounts payable is \$112,276 (December 31, 2015 - \$54,979) due to related parties.

At September 30, 2016, included in receivables is \$389 (December 31, 2015 - \$288,963) due from Caledonia.

**Loans receivable**

During the year ended December 31, 2015 the Company advanced \$80,000 to the CEO of the Company. During the nine months ended September 30, 2016, \$40,000 was repaid. The advance bears interest at a rate of 3% per annum and is due on demand. In addition there is an advance of \$24,702 (December 31, 2015 - \$24,702) to the CEO which is non-interest bearing and is due on demand.

**14. Commitment**

The Company entered into a lease agreement commencing March 1, 2014 for a two year term at an annual rental rate of \$65,791 with the option to renew the lease for an additional 2 year term. During the nine months ended September 30, 2016, the Company renewed the lease for a one year term at an annual rate of \$65,542 with the option to renew the lease for an additional 2 year term. In the event of failure to reach an agreement on base rent prior to commencement of the renewed term, the Company will provide ninety days notice to vacate the property plus 3 months' rent at a rate of 110% of the base rate.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2016**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**15. Segmented information**

The Company currently operates in one reportable operating segment, currently being wastewater heat recovery systems and services.

Geographic information as at September 30, 2016 is as follows:

	Canada	United Kingdom	Total
<b>Assets</b>			
Inventory	\$ 337,263	\$ 23,444	\$ 360,707
Equipment	17,031	47,122	64,153
	\$ 354,294	\$ 70,566	\$ 424,860

Geographic information as at December 31, 2015 is as follows:

	Canada	United Kingdom	Total
<b>Assets</b>			
Inventory	\$ 557,150	\$ 38,286	\$ 595,436
Equipment	62,860	81,442	144,302
	\$ 620,010	\$ 119,728	\$ 739,738

Geographic information for the nine months ended September 30, 2016 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 864,673	\$ 144,780	\$ 1,009,453
Cost of sales	(577,380)	(308,406)	(885,786)
Gross Margin	287,293	(163,626)	123,667
Loss for the period	\$ (1,385,023)	\$ (595,658)	\$ (1,980,681)

Geographic information for the nine months ended September 30, 2015 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 308,346	\$ 1,272,093	\$ 1,580,439
Cost of sales	(281,613)	(706,486)	(988,099)
Gross Margin	26,733	565,607	592,340
Loss for the period	\$ (62,556)	\$ (252,903)	\$ (315,459)

**16. Subsequent events**

(i) Subsequent to September 30, 2016, 87,500 common shares were issued pursuant to consulting agreement entered into. Under the terms of the agreement, the Company will issue two additional tranches of common shares (87,500 shares per tranche) in January and April 2017.

(ii) Subsequent to September 30, 2016, the Company issued 332,711 common shares and 75,000 warrants to settle amounts payable of £77,236 (\$129,757). Each warrant is exercisable at a price of \$0.45 for a period of 2 years from the date of issue. The warrants are subject to an acceleration clause in the event that the shares of the Company trade at a price of \$0.56 or greater for a period of 20 consecutive days with an average daily trading volume of a minimum 100,000 shares during the same 20-day period.

---

## **International Wastewater Systems Inc.**

**Notes to Condensed Consolidated Interim Financial Statements**

**Three and Nine months Ended September 30, 2016**

**(Expressed in Canadian Dollars)**

**Unaudited**

---

### **16. Subsequent events (continued)**

(iii) Subsequent to September 30, 2016, the Company announced a Joint Venture agreement (“JV”) with Environmental Technology Solutions (“ETS”) of Australia. IWS and ETS have jointly established SHARC Energy Systems Australasia Pty Ltd., a JV company through which IWS and ETS will design, build, operate and maintain IWS’s proprietary thermal heat recovery equipment in Australia and New Zealand under the SHARC and PIRANHA brands.

(iv) Subsequent to September 30, 2016, the Company announced a Memorandum of Understanding with Beijing Ruiyaoli Thermal Technology Co., Ltd., (“BRTT”) of Beijing, China whereby IWS will provide BRTT with a non-exclusive license to market and sell IWS’s proprietary thermal heat recovery equipment in China under the SHARC and PIRANHA brands (“China License Agreement”).

The China License Agreement is structured as a licensing fee that BRTT will pay to IWS for each unit sold in China. Prior to launching the IWS products in China, BRTT and IWS will work jointly to install SHARC and PIRANHA demonstration projects for BRTT’s clients. The China Licensing Agreement requires BRTT to guarantee the quality of all IWS products manufactured, marketed and sold in China, conforming to IWS’s global quality control standards.

BRTT has developed its own intellectual property for thermal recovery technology, and in addition to the China Licensing Agreement, the two companies will collaborate on the advancement of next generation thermal recovery technology. License fees for other products developed by IWS will be agreed by the companies on an individual product basis.