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**INTERNATIONAL WASTEWATER SYSTEMS INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS  
THREE AND SIX MONTHS ENDED  
JUNE 30, 2017  
(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

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**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 June 30, 2017	As at December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,025,084	\$ 373,430
Receivables (note 3)	417,228	268,146
Prepaid expenses	20,538	61,940
Inventory (note 4)	537,262	452,674
Loans receivable (note 14)	73,555	73,967
<b>Total current assets</b>	<b>3,073,667</b>	<b>1,230,157</b>
<b>Non-current liabilities</b>		
Deposits	1,200	1,200
Equipment (note 6)	35,598	41,876
<b>Total assets</b>	<b>\$ 3,110,465</b>	<b>\$ 1,273,233</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 468,008	\$ 499,444
Loans payable (note 7)	17,530	222,008
Deferred revenue (note 9)	-	20,400
Warranty provisions (note 10)	153,496	151,391
<b>Total current liabilities</b>	<b>639,034</b>	<b>893,243</b>
<b>Non-current liabilities</b>		
Warranty provisions (note 10)	20,104	17,979
Loans payable (note 7)	38,474	45,394
Convertible debentures (note 8)	1,208,398	-
Deferred tax liability	272,495	-
	<b>2,178,505</b>	<b>956,616</b>
<b>Shareholders' equity</b>		
Share capital (note 11)	8,823,499	7,876,677
Reserves (note 12)	3,856,727	2,183,696
Currency translation reserve	22,254	36,934
Convertible debentures (note 8)	182,271	-
Deficit	(11,952,791)	(9,780,690)
<b>Total shareholders' equity</b>	<b>931,960</b>	<b>316,617</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,110,465</b>	<b>\$ 1,273,233</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 15)  
 Subsequent events (note 17)

**Approved on behalf of the Board:**

"Lynn Mueller", Director

"Mark McCooley", Director

## International Wastewater Systems Inc.

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

(Expressed in Canadian Dollars)

Unaudited

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>Revenues</b>	\$ 207,387	\$ 924,773	\$ 207,387	\$ 950,251
<b>Cost of sales</b>	(309,628)	(669,212)	(449,300)	(847,824)
<b>Gross margin</b>	(102,241)	255,561	(241,913)	102,427
<b>Expenses</b>				
Accounting and legal (note 14)	23,997	27,920	66,786	87,305
Advertising and promotion	45,368	38,109	112,468	61,029
Consulting (note 14)	133,325	139,965	335,505	316,303
Depreciation (note 6)	3,139	23,692	6,278	48,567
Foreign exchange	12,477	3,783	17,309	(17,683)
Insurance	3,909	10,002	8,349	18,834
Office and miscellaneous	106,638	52,599	166,489	118,265
Regulatory and filing fees	4,419	4,128	15,990	8,094
Rent (note 14)	33,868	26,739	61,829	50,239
Repairs and maintenance	9,815	-	11,215	2,315
Share-based payments (notes 12, 14)	172,362	(726,577)	368,673	(180,143)
Telephone and utilities	10,878	8,880	21,367	16,811
Trademarks	-	3,510	-	4,422
Travel	35,004	22,274	58,882	54,429
Wages and benefits (note 14)	324,026	242,944	614,462	493,066
Warranty expense (note 10)	18,067	48,811	18,171	51,095
	(937,292)	73,221	(1,883,773)	(1,132,948)
Government grant	-	106,902	-	106,902
Interest and financing expense	(21,187)	(136,656)	(39,415)	(154,629)
Loss on debt settlement (note 11)	-	-	(7,000)	-
<b>Income (loss) for the period</b>	\$ (1,060,720)	\$ 299,028	\$ (2,172,101)	\$ (1,078,248)
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified subsequently to income</b>				
Foreign currency translation	\$ (13,331)	\$ 15,429	\$ (14,680)	\$ 32,765
<b>Total comprehensive income (loss) for the period</b>	\$ (1,074,051)	\$ 314,457	\$ (2,186,781)	\$ (1,045,483)
<b>Basic income (loss) per share</b>	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.01)
<b>Diluted income (loss) per share</b>	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.01)
<b>Weighted average number of common shares outstanding:</b>				
Basic	98,390,015	80,957,912	96,074,677	80,913,956
Diluted	98,390,015	81,564,645	96,074,677	80,913,956

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**

	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>Operating activities</b>		
Loss for the period	\$ (2,172,101)	\$ (1,078,248)
Adjustments for:		
Depreciation	6,278	48,567
Unrealized foreign exchange	(7,984)	(10,023)
Share-based payments	368,673	(180,143)
Accrued interest expense	24,137	152,838
Shares for services	28,000	-
Loss on debt settlement	7,000	-
Changes in non-cash working capital items:		
Receivables	(148,368)	(30,831)
Prepaid expenses	41,402	33,821
Inventory	(83,544)	357,086
Deposits	-	5,483
Accounts payable and accrued liabilities	69,350	93,689
Deferred revenue	(20,400)	(265,280)
Warranty provisions	1,463	46,485
<b>Net cash used in operating activities</b>	<b>(1,886,094)</b>	<b>(826,556)</b>
<b>Financing activities</b>		
Proceeds from loans payable	-	623,968
Repayment of loans payable	(217,419)	(12,880)
Funds advanced from related party	-	11,440
Repayment of loans receivable	1,050	43,578
Proceeds on exercise of stock options	18,750	18,750
Proceeds on exercise of warrants	148,820	-
Proceeds on private placement, net of costs	1,400,675	-
Shares to be issued	-	30,000
Proceeds on convertible debentures, net of costs	2,186,170	-
<b>Net cash provided by financing activities</b>	<b>3,538,046</b>	<b>714,856</b>
<b>Net change in cash</b>	<b>1,651,952</b>	<b>(111,700)</b>
<b>Impact of exchange rate changes on cash</b>	<b>(298)</b>	<b>(598)</b>
<b>Cash, beginning of period</b>	<b>373,430</b>	<b>367,812</b>
<b>Cash, end of period</b>	<b>\$ 2,025,084</b>	<b>\$ 255,514</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

(Expressed in Canadian Dollars)

Unaudited

	Number of shares	Share capital	Reserves	Currency translation reserve	Convertible debenture	Deficit	Total
<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>
Shares to be issued	-	-	30,000	-	-	-	30,000
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	-
Warrants issued to acquire loan	-	-	103,500	-	-	-	103,500
Share-based payments	-	-	(180,143)	-	-	-	(180,143)
Currency translation adjustment	-	-	-	32,765	-	-	32,765
Loss for the period	-	-	-	-	-	(1,078,248)	(1,078,248)
<b>Balance, June 30, 2016</b>	<b>80,995,000</b>	<b>\$ 5,470,757</b>	<b>\$ 444,704</b>	<b>\$ 16,983</b>	<b>\$ -</b>	<b>\$ (6,383,786)</b>	<b>\$ (451,342)</b>
<b>Balance, December 31, 2016</b>	<b>92,327,544</b>	<b>\$ 7,876,677</b>	<b>\$ 2,183,696</b>	<b>\$ 36,934</b>	<b>\$ -</b>	<b>\$ (9,780,690)</b>	<b>\$ 316,617</b>
Convertible debentures, net of deferred tax	-	-	542,935	-	182,271	-	725,206
Private placement	5,076,850	1,523,055	-	-	-	-	1,523,055
Warrant valuation, net of deferred tax	-	(800,997)	800,997	-	-	-	-
Share issue costs	-	(174,960)	52,580	-	-	-	(122,380)
Shares issued for debt	350,000	112,000	-	-	-	-	112,000
Shares issued for services	87,500	28,000	-	-	-	-	28,000
Warrants exercised	1,063,000	148,820	-	-	-	-	148,820
Stock options exercised	125,000	18,750	-	-	-	-	18,750
Fair value of stock options exercised	-	92,154	(92,154)	-	-	-	-
Share-based payments	-	-	368,673	-	-	-	368,673
Currency translation adjustment	-	-	-	(14,680)	-	-	(14,680)
Loss for the period	-	-	-	-	-	(2,172,101)	(2,172,101)
<b>Balance, June 30, 2017</b>	<b>99,029,894</b>	<b>\$ 8,823,499</b>	<b>\$ 3,856,727</b>	<b>\$ 22,254</b>	<b>\$ 182,271</b>	<b>\$ (11,952,791)</b>	<b>\$ 931,960</b>

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

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# International Wastewater Systems Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2017

(Expressed in Canadian Dollars)

Unaudited

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### 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 Acquisition constituted a reverse takeover. 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 six months ended June 30, 2017 the Company incurred a loss of \$2,172,101 (six months ended June 30, 2016 - \$1,078,248). As of June 30, 2017 the Company has a deficit of \$11,952,791 (December 31, 2016 - \$9,780,690) and working capital of \$2,434,633 (December 31, 2016 - working capital of \$336,914). 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 August 28, 2017, 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, 2016. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2017 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 Six Months Ended June 30, 2017**  
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**2. Significant accounting policies (continued)**

*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 June 30, 2017</b>	<b>As at December 31, 2016</b>
GST recoverable (Canada)	\$ 135,403	\$ 110,985
VAT recoverable (UK)	35,836	25,341
Holdback receivables	90,998	72,218
Trade receivables	154,991	59,602
	<b>\$ 417,228</b>	<b>\$ 268,146</b>

**4. Inventory**

	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>
Materials and supplies	\$ 182,950	\$ 105,301
Work-in-progress	354,312	347,373
	<b>\$ 537,262</b>	<b>\$ 452,674</b>

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended June 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**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 six months ended June 30, 2017 was \$25,286 for a balance at June 30, 2017 of \$129,872 (December 31, 2016 - \$104,586).

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

	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>
Current assets	\$ 60,952	\$ 38,277
Non-current assets	1,085,995	1,312,170
Current liabilities	(18,747)	(24,125)
Non-current liabilities	(1,428,371)	(1,336,416)
Revenue	39,249	63,785
Total comprehensive loss	(63,215)	(140,289)

**6. Equipment**

<b>Cost</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	\$ 46,080	\$ 27,926	\$ 172,876	\$ 19,025	\$ 265,907
Currency translation adjustment	-	-	(9,753)	-	(9,753)
Balance, December 31, 2016	46,080	27,926	163,123	19,025	256,154
Balance, June 30, 2017	\$ 46,080	\$ 27,926	\$ 163,123	\$ 19,025	\$ 256,154

<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, 2015	\$ 12,335	\$ 15,936	\$ 87,861	\$ 5,473	\$ 121,605
Depreciation for the year	7,011	6,595	75,262	3,805	92,673
Balance, December 31, 2016	\$ 19,346	\$ 22,531	\$ 163,123	\$ 9,278	\$ 214,278
Depreciation for the period	2,892	1,484	-	1,902	6,278
Balance, June 30, 2017	\$ 22,238	\$ 24,015	\$ 163,123	\$ 11,180	\$ 220,556

<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, 2016	\$ 26,734	\$ 5,395	\$ -	\$ 9,747	\$ 41,876
Balance, June 30, 2017	\$ 23,842	\$ 3,911	\$ -	\$ 7,845	\$ 35,598

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended June 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**7. Loans payable**

(i) 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 six months ended June 30, 2017, the Company made payments totalling \$12,603 (£7,500), of which \$4,831 (£2,875) related to interest and \$7,772 (£4,625), related to principal. The balance of the loan as at June 30, 2017 is \$56,004 (£33,159), of which \$17,530 (£10,379) is recognized as short-term.

(ii) In November 2016, the Company received a loan of \$200,000. The loan was guaranteed by the CEO of the Company. The loan bore interest at a rate of 2% per month and was repayable within 60 days. The loan was repaid in March 2017.

	<b>Six months ended June 30, 2017</b>	<b>Year ended December 31, 2016</b>
Balance, beginning of period	\$ 267,402	\$ 137,048
Proceeds from loans	-	808,968
Repayment of loans	(217,419)	(699,559)
Interest expense	4,208	36,161
Foreign exchange	1,813	(15,216)
Balance, end of period	56,004	267,402
Less: non-current portion	(38,474)	(45,394)
	<b>\$ 17,530</b>	<b>\$ 222,008</b>

**8. Convertible debentures**

On May 30, 2017 and June 29, 2017, the Company issued two tranches of senior unsecured convertible debenture units with total principal amounts of \$1,320,000 and \$1,023,000, respectively. The debentures mature on May 30, 2020 and June 29, 2020, respectively, and bear interest at an annual rate of 12%. The debentures are convertible, in whole or in part, at the option of the holder at any time prior to the maturity date into common shares of the Company at a conversion price of \$0.30 per common share.

Each debenture unit consisted of one \$1,000 principal amount senior unsecured convertible debenture and 2,500 share purchase warrants, each exercisable into one common share of the Company at \$0.30 per share three years from issuance.

The Company may abridge the exercise period of the warrants at any time after the date that is four months after the closing date, by providing written notice to the warrant holders within 30 days, in the event that the volume weighted average closing price of the Company's common shares is greater than \$0.60 per common share for twenty consecutive trading days. The warrants will, unless exercised, expire on the 30th day after the Company provides such written notice to the warrant holders.

Total finders' fees of \$156,830 in cash and 388,150 finders' warrants were incurred on the issuances. Each finders' warrant is exercisable into one common share of the Company at \$0.30 per share two years from issuance. The fair value of \$35,815 was assigned to the 388,150 finders' warrants using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 102.68% which is based on historical volatility, risk-free rate of return of 0.85% and an expected maturity of 2 years.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended June 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**8. Convertible debentures (continued)**

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability, warrant and equity components. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 30%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The Company valued the warrants using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 103.03% which is based on historical volatility, risk-free rate of return of 0.93% and an expected maturity of 3 years. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the warrant and liability element calculated.

Based on this calculation, the liability components are \$1,294,941 (\$1,188,469 net of transaction costs), the warrants are \$771,705 (\$254,123 net of transaction costs) and the residual equity components are \$276,354 (\$254,123 net of transaction costs).

Accretion charges attributable to the debentures for the six months ended June 30, 2017 was \$19,929. This amount is added to the liability component on the statements of financial position and is included in interest and financing expense on the condensed consolidated interim statements of income (loss) and comprehensive income (loss).

**9. Deferred revenue**

	<b>Six months ended June 30, 2017</b>	<b>Year ended December 31, 2016</b>
Balance, beginning of year	\$ 20,400	\$ 265,280
Revenue recognized	(102,000)	(907,361)
Sales contracts	81,600	662,481
	<b>\$ -</b>	<b>\$ 20,400</b>

**10. Warranty provisions**

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

	<b>Six months ended June 30, 2017</b>	<b>Year ended December 31, 2016</b>
Balance, beginning of year	\$ 169,370	\$ 24,011
Warranty provisions recognized	10,200	416,398
Warranty expenses incurred	(8,738)	(271,039)
Foreign exchange	2,768	-
	173,600	169,370
Less: non-current portion	(20,104)	(17,979)
	<b>\$ 153,496</b>	<b>\$ 151,391</b>

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended June 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**11. 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, 2015	80,870,000	\$ 5,421,804
Stock options exercised (note 12)	125,000	18,750
Fair value of stock options exercised	-	30,203
<b>Balance, June 30, 2016</b>	<b>80,995,000</b>	<b>5,470,757</b>
Balance, December 31, 2016	92,327,544	\$ 7,876,677
Private placement (iii)	5,076,850	1,523,055
Warrant valuation (iii)	-	(800,997)
Share issue costs (iii)	-	(174,960)
Warrants exercised (note 13)	1,063,000	148,820
Stock options exercised (note 12)	125,000	18,750
Fair value of stock options exercised	-	92,154
Shares issued for debt (i)	350,000	112,000
Shares issued for services (ii)	87,500	28,000
<b>Balance, June 30, 2017</b>	<b>99,029,894</b>	<b>\$ 8,823,499</b>

(i) On January 11, 2017, the Company issued 350,000 common shares to settle outstanding debt of \$105,000. The fair value of \$112,000 was assigned to the common shares based on the common share price on the date of issuance.

As a result, the Company recognized a loss on debt settlement of \$7,000 on the unaudited condensed consolidated interim statement of loss and comprehensive loss.

(ii) On January 16, 2017, the Company issued 87,500 common shares for services. The valuation was based on the fair value of the shares issued.

(iii) On February 27, 2017, the Company closed the first tranche of a brokered private placement pursuant to which the Company issued 2,659,850 units at a price of \$0.00 per unit for aggregate gross proceeds of \$797,955. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at a price of \$0.40 for a period of two years from the date of issue.

The fair value of \$338,333 was assigned to the 2,659,850 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 108.30% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 2 years.

In connection with the placement, the Company paid finder's fees and expenses of \$91,097 and issued 199,488 finders' warrants. Each warrant is exercisable at a price of \$0.30 for a period of two years from the date of issue.

The fair value of \$28,866 was assigned to the 199,488 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 108.30% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 2 years.

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**11. Share capital (continued)**

(iv) On April 7, 2017, the Company completed the final tranche of a brokered private placement pursuant to which the Company issued 2,417,000 additional units at a price of \$0.30 per unit for aggregate gross proceeds of \$725,100. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share until February 27, 2019 at an exercise price of \$0.40 per share.

In conjunction with the closing, the Company amended the terms of the non-brokered private placement completed on December 23, 2016 to offer each participant in the non-brokered placement one warrant for each common share purchased on the same terms as the brokered placement. Accordingly, the Company issued a total of 2,275,333 warrants to purchasers from the non-brokered placement. As the Company issued an additional 104,275 finders' warrants. Each finders' warrant entitles the holder to purchase one common share until December 23, 2018 at an exercise price of \$0.30 per share.

The fair value of \$462,664 was assigned to the 4,692,333 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 99.66% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 1.7 years.

In connection with the final tranche of the placement, the Company paid finder's fees of \$31,283 and issued 104,275 finders' warrants. Each finders' warrant entitles the holder to purchase one common share until February 27, 2019 at an exercise price of \$0.30 per share.

The fair value of \$23,714 was assigned to the 231,900 finders' warrants as estimated by using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 105.67% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 1.8 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 June 30, 2017 21,150,000 shares were held in escrow (December 31, 2016 – 28,200,000).

**12. Stock options**

	Number of stock options	Weighted average exercise price
Balance, December 31, 2015	6,575,000	\$ 0.47
Exercised	(125,000)	0.15
Cancelled	(5,700,000)	0.50
Expired	(125,000)	0.15
Balance, June 30, 2016	625,000	0.37
Balance, December 31, 2016	6,085,000	\$ 0.31
Exercised	(125,000)	0.15
Balance, June 30, 2017	5,960,000	\$ 0.31

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### 12. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of June 30, 2017:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
October 27, 2020	0.42	3.33	500,000	500,000
July 12, 2021	0.30	4.04	5,460,000	1,092,000
	0.31	3.98	5,960,000	1,592,000

### Share-based payments

During the six months ended June 30, 2017, the Company recognized share-based payments of \$368,673 (six months ended June 30, 2016 - \$(180,143)) relating to the vesting terms of the stock options granted and modified.

### 13. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	1,200,000	\$ 0.14
Issued	500,000	0.28
Balance, June 30, 2016	1,700,000	0.18
Balance, December 31, 2016	1,730,000	\$ 0.17
Issued (notes 8, 11 (iii) and (iv))	14,029,221	0.36
Exercised	(1,063,000)	0.14
Balance, June 30, 2017	14,696,221	\$ 0.35

The following are the warrants outstanding at June 30, 2017:

Number of Warrants	Exercise Price (\$)	Expiry Date
384,000	0.20	August 22, 2018
208,000	0.20	September 2, 2018
75,000	0.45	October 21, 2018
127,625	0.30	December 23, 2018
7,352,183	0.40	February 27, 2019
303,763	0.30	February 27, 2019
3,300,000	0.30	May 30, 2020
231,000	0.40	May 30, 2020
2,557,500	0.30	June 29, 2020
157,150	0.40	June 29, 2020
14,696,221	0.35	

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**14. 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 six months ended June 30, 2017 (three and six months ended June 30, 2016), the Company incurred the following charges with key management personnel:

(i) Consulting fees of \$51,000 and \$81,000 (\$44,218 and \$91,005) to companies controlled by directors, officers and former officers of the Company.

(ii) Wages and benefits of \$61,500 and \$123,000 (\$78,558 and \$160,608) to the CEO, director of the Company and a director of IWHES.

(iii) Accounting fees of \$nil (\$nil and \$4,000) to a company controlled by a director of IWHES.

(iv) Share-based payments of \$142,111 and \$303,961 (\$599,108 and \$(148,540)) was recognized in connection with the vesting of options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of \$nil and \$nil (\$2,700 and \$5,498) and additional cost of sales of \$70,431 and \$73,263 (\$nil and \$1,017) due to a company controlled by a director of IWWS.

Included in accounts payable is \$107,151 (December 31, 2016 - \$134,729) due to related parties.

**Loans receivable**

During the year ended December 31, 2015 the Company advanced \$80,000 to the CEO of the Company. During the year ended December 31, 2016, \$40,000 was repaid. The advance bears interest at a rate of 3% per annum and is due on demand. As at June 30, 2017 the outstanding balance was \$42,146 (\$41,211). In addition there is an advance of \$27,702 (December 31, 2016 - \$27,702) to the CEO which is non-interest bearing and is due on demand.

**15. Commitment**

The Company entered into a lease agreement commencing March 1, 2016 for a two year term at an annual rental 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.

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**16. Segmented information**

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

Geographic information as at June 30, 2017 is as follows:

	Canada	United Kingdom	Total
<b>Assets</b>			
Inventory	\$ 454,411	\$ 82,851	\$ 537,262
Equipment	35,598	-	35,598
	\$ 490,009	\$ 82,851	\$ 572,860

Geographic information as at December 31, 2016 is as follows:

	Canada	United Kingdom	Total
<b>Assets</b>			
Inventory	\$ 409,694	\$ 42,980	\$ 452,674
Equipment	41,876	-	41,876
	\$ 451,570	\$ 42,980	\$ 494,550

Geographic information for the six months ended June 30, 2017 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 206,938	\$ 449	\$ 207,387
Cost of sales	(168,828)	(280,472)	(449,300)
Gross Margin	38,110	(280,023)	(241,913)
Loss for the period	\$ (1,592,808)	\$ (579,293)	\$ (2,172,101)

Geographic information for the six months ended June 30, 2016 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 864,673	\$ 85,578	\$ 950,251
Cost of sales	(563,101)	(284,723)	(847,824)
Gross Margin	301,572	(199,145)	102,427
Loss for the period	\$ (619,970)	\$ (458,278)	\$ (1,078,248)

**17. Subsequent events**

Subsequent to June 30, 2017, the Company issued 4,750,000 stock options at \$0.18 for a period of one year to directors, management, and employees. As well, the Company cancelled 5,110,000 stock options previously exercisable at \$0.30 until July 12, 2021.