

**BLUE GOLD WATER TECHNOLOGIES LTD.  
(Formerly Golden Cross Resources Inc.)**

**Condensed Interim Consolidated Financial Statements (Unaudited)**

**For The Six Months Ended March 31, 2013 and 2012**

## **NOTICE TO READER**

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 financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## **BLUE GOLD WATER TECHNOLOGIES LTD.**

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(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS**

Blue Gold Water Technologies Ltd. (the "Company") was incorporated in British Columbia under the Business Corporations Act on June 20, 2006 under the name Golden Cross Resources Inc. The Company intends to focus on the new business of water remediation and tailings processing. The Company is currently still engaged in the acquisition, exploration, development and production of mineral properties. The Company's principal office is located at Suite 804 – 750 West Pender Street, Vancouver, BC, V6C 2T7.

The Company has not yet determined whether its mineral property contains ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production or proceeds from the sale of all or an interest in its mineral claims.

On November 21, 2012, the Company entered into an amalgamation agreement with Blue Gold Tailing Technologies Ltd. ("BGTTL") to acquire BGTTL and its water remediation and tailings processing business. The Company now intends to focus on the business of water remediation and tailings processing. See Note 7.

These condensed unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent upon its ability to obtain financing on reasonable terms and to attain profitable operations from the mineral properties or the proceeds from the disposition of those properties. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be substantially less than the amounts recorded on the statements of financial position. These condensed unaudited interim consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

These condensed unaudited interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company does not currently have revenue-generating properties and has incurred a loss of \$491,721 for the six months ended March 31, 2013 (March 31, 2012 – loss of \$150,789). As at March 31, 2013, the Company had an accumulated deficit of \$2,032,184 (September 30, 2012 - \$1,540,463). These conditions along with other matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption.

The Company's ability to execute its work plan, meet its administrative overhead obligations, discharge its liabilities and fulfill its commitments as they come due is dependent upon its success in obtaining additional debt or equity financing and, ultimately, on attaining future profitable operations.

The Company estimates it has sufficient working capital to cover administrative expenses for the next twelve months. The Company is actively pursuing funds for project development and to cover additional administrative and other operational expenses in connection with the acquisition of BGTTL. While management has been successful in raising additional finances in the past, there can be no assurance it will be able to do so in the future.

In the event the Company is unable to arrange appropriate financing, the carrying value of the Company's assets could be subject to material adjustment. Furthermore, certain market conditions may cast significant doubt upon the validity of the going concern assumption.

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### **1. NATURE OF OPERATIONS (continued)**

These financial statements do not reflect any additional adjustments to the recoverability and classification of certain recorded asset amounts, classification of certain liabilities and changes to the statements of loss and comprehensive loss that might be necessary if the Company was unable to continue as a going concern.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

#### **Statement of compliance**

These condensed unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), specifically, they have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The condensed unaudited interim consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited financial statements for the year ended September 30, 2012.

The accounting principles applied in the preparation of these financial statements included herein have been applied consistently for each of the periods presented. These condensed unaudited interim consolidated financial statements have been authorized for issuance by the Company’s board of directors on May 22, 2013.

#### **Basis of preparation**

These condensed unaudited interim consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. They are presented in Canadian dollars unless otherwise noted.

#### **Principles of consolidation**

These condensed unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Golden Cross Acquisitions Inc. All intercompany transactions and balances have been eliminated on consolidation.

#### **Significant accounting judgments, estimates and assumptions**

The preparation of the Company’s condensed unaudited interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. The condensed unaudited interim consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both current and future periods.

Significant assumptions about the future and other sources of judgements and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Determination of the recoverability of the carrying value of exploration and evaluation assets;

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

- Fair value measurements for financial instruments and share-based compensation and other equity-based transactions;
- Recognition and valuation of provisions for restoration and environmental liabilities; and
- Recoverability and measurement of deferred tax assets and liabilities.

#### **Exploration and evaluation assets**

Exploration and evaluation costs include the acquisition costs of mineral interests and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenses incurred before the Company has obtained the legal rights to explore an area and prior to determination of the feasibility of mining operations are expensed as incurred. Government tax credits received are deducted from exploration expenditure.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

#### **Share-based payments**

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of share-based payments is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When options are exercised, their fair value is reclassified from reserves to share capital.

#### **Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

#### ***Financial assets***

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are measured at fair value with changes in carrying value being included in profit or loss.

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

#### ***Financial assets (continued)***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and subsequently measured at amortized cost less any provisions for impairment. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost using the effective interest rate method. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of net loss.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

*De-recognition of financial assets* - A financial asset is derecognized when the contractual right to the asset's cash flows expires, or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

#### ***Financial liabilities and equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations.

*Other financial liabilities* - This category includes amounts due to related parties and trade payables and other liabilities, all of which are recognized at amortized cost. The Company classified its accounts payable and accrued liabilities as other financial liabilities.

#### ***De-recognition of financial liabilities***

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

*Financial liabilities and equity (continued)*

*Share purchase warrants*

The Company bifurcates units consisting of common shares and share purchase warrants using the residual value approach, whereby it measures the common share component of the unit at fair value using market prices as input values and then allocates the residual value of the units over the fair value of the common shares to the warrant component. The value of the warrant component is credited to reserves.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

**Impairment of assets**

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**Income taxes**

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

***Current income tax (continue)***

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

***Deferred income tax***

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Restoration and environmental obligations**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets. The Company evaluated its restoration costs to be \$Nil as at March 31, 2013 and September 30, 2012.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

**Share Capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**Basic and diluted loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions including the exercise of options and warrants that would be anti-dilutive

The calculation also excludes common shares that are being held in escrow at period end where the terms of release are dependent on requirements other than the passage of time.

**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

**IFRS 9 “Financial Instruments”**

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. This new standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that this standard will have on the financial statements.

**IFRS 10 “Consolidated Financial Statements”**

IFRS 10, Consolidated Financial Statements (“IFRS 10”) was issued by the IASB on May 12, 2011 and will replace IAS 27, Consolidated and Separate Financial Statements (“IAS 27”), and SIC-12, Consolidation – Special Purpose Entities (“SIC-12”). Concurrent with IFRS 10, the IASB issued IFRS 11, Joint Ventures; IFRS 12, Disclosures of Involvement with Other Entities; IAS 27, Separate Financial Statements, which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; IAS 28, Investments in Associates and Joint Ventures, which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of IFRS 10 on its financial statements.

**IFRS 11 “Joint Arrangements”**

IFRS 11, Joint Arrangements (“IFRS 11”), introduces new accounting requirements for joint arrangements, replacing IAS 31, Interests in Joint Ventures. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Company is assessing the impact of IFRS 11 on its financial statements.

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**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

**IFRS 12 “Disclosure of Interest in Other Entities”**

IFRS 12, Disclosure of Interest in Other Entities (“IFRS 12”), was issued by the IASB on May 12, 2011. The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities, and replaces existing disclosure requirements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is assessing the impact of IFRS 12 on its financial statements.

**IFRS 13 “Fair Value Measurement”**

IFRS 13, Fair Value Measurement (“IFRS 13”) was issued by the IASB on May 16, 2011. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value. The new standard is effective for annual periods on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard on its financial statements.

**IFRIC 20 “Stripping costs in the Production Phase of a Surface Mine”**

October 24, 2011 the IASB has issued IFRIC Interpretation 20 clarifying when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 applies to annual periods on or after January 1, 2013, with earlier application permitted.

**IAS 1 – Presentation of Financial Statements**

The standard was amended in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

**IAS 32 – Financial Instruments, Presentation**

The standard was amended to clarify the requirements for offsetting financial assets and liabilities. The right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

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**4. CASH AND CASH EQUIVALENTS**

The components of cash and cash equivalents are as follows:

|                                    | March 31,<br>2013 | September 30,<br>2012 |
|------------------------------------|-------------------|-----------------------|
| Cash at bank                       | \$ 163,824        | \$ 838,295            |
| Guaranteed investment certificates | -                 | 500,000               |
|                                    | <u>\$ 163,824</u> | <u>\$ 1,338,295</u>   |

**5. OTHER RECEIVABLES**

Other receivables consist of HST receivable, interest receivable and other non-trade receivables. They are non-interest bearing, unsecured with no stated repayment terms.

**6. NOTES RECEIVABLE**

As at March 31, 2013, the Company had advanced a total of \$3,454,345 to BGTTL, Blue Gold Holdings Ltd. and BG Holdings Ltd. ("Blue Gold Group") pursuant to several promissory notes dated between May 2, 2012 and March 27, 2013. The notes receivable are repayable without interest within one year from the date of issuance. If Blue Gold Group fails to repay the Company within the one year term, interest will start to accrue on the amount owing at a rate of 21% per annum compounded annually. The notes receivable are secured by general security agreements with a floating charge and security interest on all BGTTL's assets, rights, interests and properties.

The notes receivable were issued to the Blue Gold Group in connection with a letter of intent whereby the Company and the Blue Gold Group are to effect a business combination. See Note 7. The notes receivable are measured at amortized cost using the effective interest method. During the six months ended March 31, 2013, a discount of \$77,509 (2011 - \$nil) has been recorded.

|                                       | Six Months Ended<br>March 31, 2013 | Year Ended<br>September 30, 2012 |
|---------------------------------------|------------------------------------|----------------------------------|
| Promissory notes, beginning of period | \$ 1,385,006                       | \$ -                             |
| Additions during the period           | 1,852,070                          | 1,602,275                        |
| Discount                              | (321,433)                          | (278,081)                        |
| Amortization of discount              | 243,924                            | 60,812                           |
| Promissory notes, end of period       | <u>\$ 3,159,567</u>                | <u>\$ 1,385,006</u>              |
| Principal balance of notes receivable | \$ 3,454,345                       | \$ 1,602,275                     |
| Accumulated amortization of discount  | (294,778)                          | (217,269)                        |
|                                       | <u>\$ 3,159,567</u>                | <u>\$ 1,385,006</u>              |

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### **7. AMALGAMATION**

By agreement dated November 21, 2012 and subsequent amendments, the Company together with its wholly owned subsidiary Golden Cross Acquisition Inc., and BGTTL entered into an amalgamation agreement whereby the Company agreed to amalgamate with BGTTL in accordance with the following material terms:

- Each of the 101,726,888 issued and outstanding common shares of BGTTL immediately before the effective date shall be exchanged for 0.373549223 of the Company ("Golden Cross") shares. Accordingly, a total of 38,000,000 Golden Cross shares (on a post-consolidated basis) will be issued. The Golden Cross shares held by BGTTL's principals at the effective date shall be subject to escrow provisions and released at a rate of 10% at the date of first trading on a Canadian stock exchange after the amalgamation and 15% every 6 months thereafter;
- Up to a further 9,000,000 Golden Cross shares (on a post-consolidated basis) will be issuable to individuals designated by BGTTL's directors. These shares are earn-out shares to be released to the holders based on cumulative cash flow of the amalgamated company;
- The amalgamated company will appoint new directors;
- The Company may complete a private placement of up to 21,428,572 units at a price of no less than \$0.14 per unit for gross proceeds of approximately \$3,000,000. Each unit shall consist of one common share (on a pre-consolidated basis) and ½ share purchase warrant entitling the holder to purchase for each warrant one common share (on a pre-consolidation basis) for two years at a price to be determined;
- The amalgamation is subject to finder's fees of up to 3,000,000 common shares of Golden Cross on a post-consolidation basis;
- The Company will complete a 1 for 2 common shares consolidation before the effective date of the amalgamation.
- The amalgamation is to be completed on or before May 31, 2013.
- The amalgamation is subject to shareholder approval of the respective companies and regulatory approval;

On March 21, 2013, the Company obtained shareholder approval to complete its acquisition of BGTTL at the Annual General and Special Meeting. The shareholders of the Company also approved the following special business:-

- (1) A share consolidation at a ratio of 1 new share for every 2 current issued and outstanding shares; and
- (2) The continuance of the Company from the Province of British Columbia into the Province of Ontario, if and at such a time as the directors of the Company determine it is desirable.

During a special meeting held on March 28, 2013, the shareholders of BGTTL voted unanimously in favour of the amalgamation.

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**8. EXPLORATION AND EVALUATION ASSETS****Holy Cross Property**

On September 26, 2006, the Company entered into a property purchase agreement with Aegean Marine Consultants Ltd. ("Aegean") pursuant to which the Company acquired a 100% interest in the Holy Cross mineral resource property located in the Omineca Mining Division of British Columbia, Canada, in consideration of a cash payment of \$25,000 and issuance of 5,000,000 common shares of the Company with a value of \$12,500.

**Acquisition costs**

|                        | March 31,<br>2013 | September 30,<br>2012 |
|------------------------|-------------------|-----------------------|
| Balance, end of period | \$ 37,500         | \$ 37,500             |

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**Exploration and evaluation expenditures**

No exploration and evaluation expenditures were incurred or charged to operations during the six months ended March 31, 2013 (2012 - \$3,556 for geological consulting).

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                               | March 31,<br>2013 | September 30,<br>2012 |
|-------------------------------|-------------------|-----------------------|
| Accounts payable              | \$ 40,979         | \$ 12,257             |
| Amount due to related parties | 200               | 6,447                 |
|                               | \$ 41,179         | \$ 18,704             |

Accounts payable and accrued liabilities are non-interest bearing, unsecured and with no stated repayment terms.

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### **10. SHARE CAPITAL**

#### **Authorized**

Unlimited number of common shares without par value.

#### **Issued and fully paid**

During the six months ended March 31, 2013:

The Company completed a private placement of 9,250,253 units at \$0.14 per unit for total proceeds of \$1,295,036. Each unit consists of one common share and one-half of one transferable common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one additional common share at a price of \$0.18 per share for a period of two years. The Company paid finders' fees of \$42,817 and issued 169,050 warrants. The finder's warrants were valued at a total of \$24,739 using the Black-Scholes option pricing model with risk free interest rates of 1.09% per annum, expected stock price volatility of 144%, expected dividend yield of 0% and expected life of 2 years.

During the year ended September 30, 2012, the Company:

a) Completed a private placement of 8,000,000 units at \$0.075 per unit for total proceeds of \$600,000 in February 2012. Each unit consists of one common share and one transferable common share purchase warrant entitling the holder thereof to acquire one additional common share at a price of \$0.10 per share for a period of five years. 140,000 of these units were issued to a person related to the Company's chief financial officer.

b) Completed a private placement of 10,412,774 units at \$0.14 per unit for total proceeds of \$1,457,788 in tranches from June to August of the fiscal year 2012. Each unit consists of one common share and one-half of one transferable common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one additional common share at a price of \$0.18 per share for a period of two years. The units were bifurcated; the shares component was valued at a fair value of \$1,350,645, and the residual value of \$107,143 was allocated to the warrants component. 300,000 of these units were issued to directors or companies controlled by directors.

The Company paid finders' fees of \$45,808 and issued 315,000 finders' warrants having the same terms as the private placement warrants. The finder's warrants were valued at a total of \$36,701 using the Black-Scholes option pricing model with risk free interest rates of 0.99% to 1.20% per annum, expected stock price volatility of 143% to 151%, expected dividend yield of 0% and expected life of 2 years.

c) Issued 3,100,000 shares for warrants exercised for total proceeds of \$155,000. 18,500 of these warrants were exercised by a party related to a director of the Company.

#### **Stock options**

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant.

The changes in options during the six months ended March 31, 2013 and year ended September 30, 2012 are as follows:

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**10. SHARE CAPITAL (continued)****Stock options (continued)**

|  | March 31, 2013       |  | Sept. 30, 2012       |  |
|--|----------------------|--|----------------------|--|
|  | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding, beginning of period           | 1,300,000            | \$ 0.16                                  | 1,400,000            | \$ 0.18                                  |
| Options granted                                    | -                    | -  | 500,000              | 0.14                                     |
| Options expired/forfeited                          | (1,300,000)          | 0.16                                     | (600,000)            | 0.18                                     |
| Options outstanding and exercisable, end of period | -                    | \$ -                                     | 1,300,000            | \$ 0.16                                  |

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the estimated fair value of the stock options granted. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

**Share Purchase Warrants**

The changes in warrants during the six months ended March 31, 2013 and year ended September 30, 2012 are as follows:

|   | March 31, 2013        |  | Sept. 30, 2012        |  |
|---|-----------------------|--|-----------------------|--|
|   | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price |
| Warrants outstanding, beginning of period           | 16,220,387            | \$ 0.16                                  | 5,799,000             | \$ 0.17                                  |
| Warrants granted                                    | 4,794,177             | 0.18                                     | 13,521,387            | 0.13                                     |
| Warrants exercised                                  | -                     | -  | (3,100,000)           | 0.05                                     |
| Warrants outstanding and exercisable, end of period | 21,014,564            | \$ 0.16                                  | 16,220,387            | \$ 0.16                                  |

The weighted average contractual life of the warrants is 2.22 years.

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**10. SHARE CAPITAL (continued)****Share Purchase Warrants (continued)**

The following table summarizes the warrants outstanding at March 31, 2013:

| Number of Warrants | Exercise Price | Expiry Date       |
|--------------------|----------------|-------------------|
| 2,699,000          | 0.30           | May 19, 2013      |
| 8,000,000          | 0.10           | February 28, 2017 |
| 1,628,266          | 0.18           | June 27, 2014     |
| 1,296,023          | 0.18           | August 17, 2014   |
| 2,597,097          | 0.18           | August 30, 2014   |
| 4,331,372          | 0.18           | October 19, 2014  |
| 462,803            | 0.18           | November 6, 2014  |
| 21,014,561         |                |                   |

**11. RELATED PARTY TRANSACTIONS**

(a) The following amounts due to related parties are included in accounts payable and accrued liabilities:

|  | Mar. 31,<br>2013 | Sept. 30,<br>2012 |
|--|------------------|-------------------|
| Amount due to a private company controlled by an officer | \$ -             | \$ 2,800          |
| Amount due to a director                                 | 200              | 3,647             |
|  | \$ 200           | \$ 6,447          |

The amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

(b) The compensation of management personnel during the six months ended March 31, 2013 and 2012:

|  | 2013      | 2012      |
|--|-----------|-----------|
| Consulting fees paid to a director   | \$ -      | \$ 17,812 |
| Financial consulting fees paid to a private company controlled by an officer | 12,900    | 7,800     |
|  | \$ 12,900 | \$ 25,612 |

Key management personnel were not paid post-retirement benefits, termination benefits or other long-term benefits during the six months ended March 31, 2013 and 2012.



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### **12. FINANCIAL RISK MANAGEMENT**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

The Company's secondary exposure to risk is on its notes receivable. The Company has entered into an amalgamation agreement with the Blue Gold Group, the notes receivable debtors and an amendment agreement (see Note 13), and upon amalgamation the notes receivable will be eliminated, hence effectively reducing any credit risk. The Company has further secured the notes by a general security agreement with a floating charge and security interest on all of Blue Gold Group's assets, rights, interests and properties. The amalgamation agreement is subject to shareholder and regulatory approval, which the Company is actively pursuing.

The Company's other exposure to risk is on its other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at March 31, 2013, the Company had a working capital of \$3,303,691 (September 30, 2012 - \$2,718,400). The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

As at March 31, 2013, all of the Company's non-derivative financial liabilities are due within one year.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of six months or less and are therefore exposed to interest rate fluctuations on renewal.

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**12. FINANCIAL RISK MANAGEMENT (continued)****Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit. The Company's capital was \$3,341,191 as at March 31, 2013 (September 30, 2012 – \$2,755,900) with an increase in the amount of capital of \$585,291 during the six months ended March 31, 2013.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares or dispose of assets. Management reviews the capital structure on a regular basis to ensure that the Company's capital management objectives are achieved.

There were no changes in the Company's approach to capital management during the six months ended March 31, 2013. The Company is not subject to any externally imposed capital requirements.

**Classification of financial instruments**

Financial assets included in the statements of financial position are as follows:

|                           | March 31,<br>2013   | September 30,<br>2012 |
|---------------------------|---------------------|-----------------------|
| Cash and cash equivalents | \$ 163,824          | \$ 1,338,295          |
| Loans and receivables:    |                     |                       |
| Notes receivable          | 3,159,567           | 1,385,006             |
| Other receivables         | 21,479              | 13,803                |
|                           | <u>\$ 3,344,870</u> | <u>\$ 2,737,104</u>   |

Financial liabilities included in the statements of financial position are as follows:

|  | March 31,<br>2013 | September 30,<br>2012 |
|--|-------------------|-----------------------|
| Other financial liabilities:             |                   |                       |
| Accounts payable and accrued liabilities | \$ 40,979         | \$ 12,257             |
| Due to related parties                   | 200               | 6,447                 |
|  | <u>\$ 41,179</u>  | <u>\$ 18,704</u>      |

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**12. FINANCIAL RISK MANAGEMENT (continued)****Fair value**

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy 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.

Cash and cash equivalents are classified as level 1. Notes receivables and all other financial assets and liabilities are classified as level 3, and their classification has not changed during the six months ended March 31, 2013 and fiscal year of 2012.

Notes receivable were valued using the effective interest rate method and an estimated interest rate of 21% compounded annually. Other receivables' and accounts payable and accrued liabilities' fair value is estimated to be their carrying value due to their short term nature.

**13. SUBSEQUENT EVENTS**

- a) On May 7, 2013, the Company announced that it had completed the first tranche of a non-brokered private placement of 7,671,735 units (on a pre-consolidated basis) at \$0.14 per unit, raising a total of \$1,074,043. Each unit consists of one common share and one-half of one transferable common share purchase warrant with each whole warrant entitling the holder thereof to acquire one additional common share at a price of \$0.19 per share for a period of two years from closing of the offering. Finder's fees totalling \$56,380 were paid and 56,000 finders' warrants with the same terms as the units were issued.
- b) On May 13, 2013, the Company announced that it had completed the second tranche of a non-brokered private placement of 2,258,182 units (on a pre-consolidated basis) at \$0.14 per unit, raising a total of \$316,145. Each unit consists of one common share and one-half of one transferable common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one additional common share at a price of \$0.19 per share for a period of two years from closing of the offering. Finder's fees totalling \$19,328 were paid and 127,344 finders' warrants with the same terms as the units were issued.
- c) On May 19, 2013, 2,699,000 warrants on a pre-consolidated basis were expired.
- d) Effective May 21, 2013, the Company has changed its name to Blue Gold Water Technologies Ltd. and consolidated its common shares on the basis of one new post-consolidation common shares for each two pre-consolidation common shares. As a result, the outstanding common shares of the Company were reduced to approximately 28,692,223.
- e) The common shares of Blue Gold Water Technologies Ltd. begin trading on a consolidated basis on May 21, 2013 under the symbol BGO.
- f) The Company advanced a further \$350,000 to Blue Gold Group pursuant to two promissory notes with similar terms as described in Note 6.

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**13. SUBSEQUENT EVENTS (continued)**

- g) On May 24, 2013, the Company announced that it had completed the third tranche of a non-brokered private placement of 446,429 units (on a post-consolidated basis) at \$0.28 per unit, raising a total of \$466,429. Each unit consists of one common share and one-half of one transferable common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one additional common share at a price of \$0.38 per share for a period of two years from closing of the offering.
- h) On May 27, 2013, the Company announced that it has granted incentive stock options to purchase a total of 950,000 common shares at an exercise price of \$0.48 per share exercisable for 5 years from the date of grant to certain directors, officers and consultants of the Company in accordance with the provisions of its stock option plan.