INTERNATIONAL WASTEWATER SYSTEMS INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
International Wastewater Systems Inc.

We have audited the accompanying consolidated financial statements of International Wastewater Systems Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of International Wastewater Systems Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about International Wastewater Systems Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

April 27, 2017

International Wastewater Systems Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash	**$ 373,430**	$ 367,812
Receivables (note 7)	**268,146**	422,189
Prepaid expenses	**61,940**	42,438
Inventory (note 8)	**452,674**	595,436
Loans receivable (note 17)	**73,967**	115,235
Total current assets	**1,230,157**	1,543,110
Non-current liabilities		
Deposits	**1,200**	6,683
Equipment (note 10)	**41,876**	144,302
Total assets	**$ 1,273,233**	$ 1,694,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 499,444**	$ 645,722
Loans payable (note 11)	**222,008**	61,478
Deferred revenue (note 12)	**20,400**	265,280
Warranty provisions (note 13)	**151,391**	-
Total current liabilities	**893,243**	972,480
Non-current liabilities		
Warranty provisions (note 13)	**17,979**	24,011
Loans payable (note 11)	**45,394**	75,570
	956,616	1,072,061
Shareholders' equity		
Share capital (note 14)	**7,876,677**	5,421,804
Reserves (note 15)	**2,183,696**	551,753
Currency translation reserve	**36,934**	(15,782)
Deficit	**(9,780,690)**	(5,335,741)
Total shareholders' equity	**316,617**	622,034
Total liabilities and shareholders' equity	**$ 1,273,233**	$ 1,694,095

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

Nature and continuance of operations (note 1)
Commitment (note 18)
Subsequent events (note 22)

Approved on behalf of the Board:

"Lynn Mueller", Director

"Yaron Conforti", Director

International Wastewater Systems Inc.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Revenues	**$ 1,019,021**	$ 1,838,729
Cost of sales	**(814,451)**	(1,905,282)
Gross margin	**204,570**	(66,553)
Expenses		
Accounting and legal (note 17)	**198,072**	168,007
Advertising and promotion	**132,606**	94,911
Consulting (note 17)	**599,015**	388,884
Depreciation (note 10)	**92,673**	103,583
Foreign exchange	**(19,324)**	(2,175)
Insurance	**34,264**	16,370
Listing expense (note 5)	**-**	1,157,642
Office and miscellaneous	**222,398**	266,000
Regulatory and filing fees	**19,365**	2,589
Rent (note 17)	**99,515**	79,477
Repairs and maintenance	**2,468**	-
Share-based payments (notes 15, 17)	**1,580,489**	180,143
Telephone and utilities	**46,441**	34,276
Trademarks	**4,422**	1,766
Travel	**105,023**	78,281
Wages and benefits (note 17)	**1,039,454**	648,940
Warranty expense (note 13)	**416,398**	47,500
	(4,573,279)	(3,266,194)
Government grant	**100,638**	37,134
Interest and financing expense	**(194,838)**	(16,383)
Loss from equity investment (note 9)	**-**	(7,817)
Research and development tax credit	**-**	52,601
Loss on debt settlement (note 14)	**(28,117)**	-
Loss for the year	**$ (4,491,026)**	$ (3,267,212)
Loss attributable to:		
Shareholders of the Company	**$ (4,491,026)**	$ (3,179,138)
Non-controlling interest	**-**	(88,074)
	$ (4,491,026)	$ (3,267,212)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to income		
Foreign currency translation	**$ 52,716**	$ (12,602)
Total comprehensive loss for the year	**$ (4,438,310)**	$ (3,279,814)
Comprehensive loss attributable to:		
Shareholders of the Company	**$ (4,438,310)**	$ (3,191,740)
Non-controlling interest	**-**	(88,074)
	$ (4,438,310)	$ (3,279,814)
Basic loss per share	**$ (0.05)**	$ (0.04)
Diluted loss per share	**$ (0.05)**	$ (0.04)
Weighted average number of common shares outstanding:		
Basic	**84,005,442**	75,307,254
Diluted	**84,005,442**	75,307,254

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

International Wastewater Systems Inc.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Operating activities		
Loss for the year	**$ (4,491,026)**	$ (3,267,212)
Adjustments for:		
Depreciation	**92,673**	103,583
Unrealized foreign exchange	**19,659**	4,463
Share-based payments	**1,580,489**	180,143
Listing expense	**-**	1,157,642
Accrued interest expense	**155,467**	9,834
Shares for services	**36,750**	-
Loss on debt settlement	**28,117**	-
Changes in non-cash working capital items:		
Receivables	**114,001**	(418,362)
Prepaid expenses	**(19,795)**	(31,944)
Inventory	**134,545**	(292,626)
Deposits	**5,483**	-
Accounts payable and accrued liabilities	**277**	400,391
Deferred revenue	**(244,880)**	179,602
Warranty provisions	**157,251**	24,011
Net cash used in operating activities	**(2,430,989)**	(1,950,475)
Investing activities		
Acquisition of equipment	**-**	(175,158)
Acquisition of International Wastewater Heat Exchange Systems Inc.	**-**	1,765,052
Purchase of 9% interest in IWWS (UK)	**-**	(50,040)
Net cash provided by investing activities	**-**	1,539,854
Financing activities		
Proceeds from loans payable	**854,968**	636,794
Repayment of loans payable	**(708,765)**	(15,389)
Funds advanced to related party	**-**	(87,371)
Repayment of loans receivable	**42,245**	-
Proceeds on exercise of stock options	**18,750**	-
Proceeds on exercise of warrants	**119,180**	-
Proceeds on private placement, net of costs	**2,108,050**	-
Net cash provided by financing activities	**2,434,428**	534,034
Net change in cash	**3,439**	123,413
Impact of exchange rate changes on cash	**2,179**	(11,514)
Cash, beginning of year	**367,812**	255,913
Cash, end of year	**$ 373,430**	$ 367,812

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

Supplemental disclosure with respect to cash flows (note 21)

International Wastewater Systems Inc.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of shares	Share capital	Reserves	Currency translation reserve	Non-controlling interest	Deficit	Total
Balance, December 31, 2014	**25,000,000**	**$ 4**	**$ -**	**$ (3,180)**	**$ 55,686**	**$ (1,575,125)**	**$ (1,522,615)**
Acquisition of subsidiary shares	-	-	-	-	7,058	(57,098)	(50,040)
Common shares issued to settle loans	20,000,000	2,500,000	-	-	-	-	2,500,000
Common shares issued on reverse take-over	33,120,000	2,466,800	-	-	-	-	2,466,800
Stock options issued on reverse take-over	-	-	152,560	-	-	-	152,560
Common shares issued for referral fee	750,000	175,000	-	-	-	-	175,000
Common shares and stock options issued to acquire remaining interest of IWWS (UK)	2,000,000	280,000	219,050	-	25,330	(524,380)	-
Share-based payments	-	-	180,143	-	-	-	180,143
Currency translation adjustment	-	-	-	(12,602)	-	-	(12,602)
Non-controlling interest	-	-	-	-	(88,074)	88,074	-
Loss for the year	-	-	-	-	-	(3,267,212)	(3,267,212)
Balance, December 31, 2015	**80,870,000**	**$ 5,421,804**	**$ 551,753**	**$ (15,782)**	**$ -**	**$ (5,335,741)**	**$ 622,034**
Common shares issued	10,275,333	2,282,600	-	-	-	-	2,282,600
Share issue costs	-	(300,023)	125,473	-	-	-	(174,550)
Shares and warrants issued for debt	332,711	139,739	18,135	-	-	-	157,874
Shares issued for services	87,500	36,750	-	-	-	-	36,750
Warrants issued to acquire loan	-	-	111,800	-	-	-	111,800
Warrants exercised	637,000	119,180	-	-	-	-	119,180
Fair value of warrants exercised	-	111,800	(111,800)	-	-	-	-
Stock options exercised	125,000	18,750	-	-	-	-	18,750
Fair value of stock options exercised	-	46,077	(46,077)	-	-	-	-
Stock options expired	-	-	(46,077)	-	-	46,077	-
Share-based payments	-	-	1,580,489	-	-	-	1,580,489
Currency translation adjustment	-	-	-	52,716	-	-	52,716
Loss for the year	-	-	-	-	-	(4,491,026)	(4,491,026)
Balance, December 31, 2016	**92,327,544**	**$ 7,876,677**	**$ 2,183,696**	**$ 36,934**	**$ -**	**$ (9,780,690)**	**$ 316,617**

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

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 consolidated 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 year ended December 31, 2016 the Company incurred a loss of $4,491,026 (year ended December 31, 2015 - $3,267,212). As of December 31, 2016 the Company has a deficit of $9,780,690 (December 31, 2015 - $5,335,741) and working capital of $336,914 (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

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").

The policies applied in these consolidated financial statements are based on IFRSs issued and outstanding as of December 31, 2016. The Board of Directors approved these financial statements on April 27, 2017.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company balances and transactions, income and expenses have been eliminated upon consolidation.

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Principles of consolidation (continued)

The subsidiaries of the Company are as follows:

Company	Location	December 31, 2016 Ownership %	December 31, 2015 Ownership %
International Wastewater Heat Exchange Systems Inc.	Canada	100%	100%
IWWS (UK) Ltd. ("IWWS")	United Kingdom	100%	100%
Green Sharc Limited (1)	United Kingdom	100%	-
Sharc Energy Services (UK) Ltd. (1)	United Kingdom	100%	-
2336882 Ontario Inc. (1)	Canada	100%	100%

(1) The subsidiary was inactive at year end.

Non-controlling interests

Non-controlling interests in the Company’s previously less than wholly-owned subsidiary was classified as a separate component of equity. On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition date fair value of identifiable net assets acquired by the Company. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests’ share of changes to the subsidiary’s equity. Adjustments to recognize the non-controlling interests’ share of changes to the subsidiary’s equity are made even if this results in the non-controlling interests having a deficit balance.

Changes in the Company’s ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interests is adjusted to reflect the change in the non-controlling interests’ relative interests in the subsidiary and the difference between the adjustment to the carrying amount of non-controlling interests and the Company’s share of proceeds received and/or consideration paid is recognized directly in equity and attributed to shareholders of the Company.

Estimates, judgments and assumptions

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Significant judgments

(i) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

2. Significant accounting policies (continued)

Estimates, judgments and assumptions (continued)

Significant judgments (continued)

(ii) Functional currency

The determination of functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

(iii) Consolidation of IWWS

In April 2014, the Company entered into an investment agreement whereby the Company received 51 common shares in IWWS for 50,000 British pounds representing a 51% interest in IWWS. The Company had 25% voting rights. Management examined the guidance under IAS 27, Consolidated and Separate Financial Statements, specifically as it applies to the assessment of control when a company owns less than one-half of the voting power. Based on the examination of IAS 27, the Company concluded based on the Company’s influence on the operations of IWWS it should be fully consolidated. During 2015, the Company acquired the remaining 49% interest in IWWS.

(iv) Going concern

The preparation of the consolidated financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in note 1.

Significant estimates

(i) Warranty provisions

Warranty provisions are recognized for the future obligations to provide services for the repairs and maintenance of products sold to its customers. The Company assesses its warranty provision based on experience. Actual costs incurred may differ from those amounts estimated.

(ii) Inventories

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

(iii) Revenue recognition

The Company has service agreements with regards to some of its product sales which requires management to make judgements regarding the timing and allocation of revenue. Specifically, installation is generally not assumed to have standalone value and is often recognized on the same basis as the remainder of the service fees. However the Company defers the recognition of revenue associated with fees for service agreements or warranty costs that are built in to the original sales price and recognizes the associated revenue evenly over the term the service or warranty is provided.

2. Significant accounting policies (continued)

Estimates, judgments and assumptions (continued)

Significant estimates (continued)

(iv) Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company and IWHES is the Canadian dollar and the functional currency of IWWS is the British Pound. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

Equipment

Equipment is recorded at cost and amortized at the following rates.

Equipment	20% declining balance per annum
Furniture and fixtures	20% declining balance per annum
Computer hardware	55% declining balance per annum
Computer software	100% declining balance per annum
Leasehold improvements	5 year straight line

Equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of property, plant and equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. Significant accounting policies (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventory

Materials and supplies, work-in-progress and finished goods are measured at the lower of cost, determined on a weighted average basis, and net realizable value.

The cost of materials and supplies is comprised of the purchase price, applicable taxes and other costs incurred in bringing inventory to their present location and condition. The cost of finished goods includes cost of materials and cost of conversion. The cost of conversion includes costs directly related to the units of production, such as direct labour, and fixed and variable production overheads, based on normal operating capacity.

The net realizable value of inventory is generally considered to be the selling price in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale.

The amount of any impairment of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any impairment of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Revenue recognition

Revenue from all product sales of the Company is recognized when products are shipped to customers and ownership is transferred to customers, when the price is fixed or determinable and when the ultimate collection is reasonably assured. Customer prepayments are recorded as deferred revenue and revenue is not recognized until the shipment of goods occurs. Shipping and handling costs related to product sales are included in cost of sales.

Revenue from the rendering of services performed by the Company is recognized when the following conditions are met: amount of the revenue can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Company may sell its heating and ventilation unit and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where the Company enters into an agreement involving a bundled transaction, the Company records each of the separate components at their relative stand-alone selling price and recognizes the revenue on an appropriate basis for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. The Company determines the value of each of the components sold based on the selling price when they are sold separately. When the stand alone value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

2. Significant accounting policies (continued)

Government grants

Government assistance grants relate to funds received directly from the government to assist in the development of its business. Grants received to assist in the development of the Company have been recorded as other income and grants received for employees are credited against the related expenditures.

Warranty provision

The Company provides product warranties on certain products pursuant to the manufacturing contract, and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

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

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. 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 - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. 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 loss and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit and loss. The Company’s receivables and loans receivable are classified as loans and receivables.

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is 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 it 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 loss and comprehensive loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company’s accounts payable and accrued liabilities and loans payable are classified as other financial liabilities.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed by assuming that outstanding options, warrants and similar instruments were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

2. Significant accounting policies (continued)

Investments in associated companies

Associated companies over which the Company has significant influence are accounted for using the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received. The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated.

Objective evidence of impairment of equity investment includes:

- Significant financial difficulty of the associated companies;
- Becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or
- National or local economic conditions that correlate with defaults of the associated companies.

Recent accounting pronouncements

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 consolidated financial statements.

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

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after January 1, 2017. Pronouncements that are not applicable to the Company have been excluded from this note.

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. Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to support the development of its business and maintain the necessary corporate and administration functions to facilitate these activities. The capital of the Company consists of items included in shareholders' equity.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to raise new funds.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

4. Financial instruments

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.

The fair value of the Company's receivables, loans receivable, accounts payable and accrued liabilities and loans payable approximates their carrying values due to the short-term to maturity. The Company's cash is measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at December 31, 2016 and December 31, 2015, the Company has exposure to the British pound that is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made and balances are held in this currency. The Company has not hedged its exposure to currency fluctuations. The sensitivity of the Company's net loss to changes in the exchange rate between the Canadian dollar and the British pound resulting from a 10% change in the British pound exchange rate relative to the Canadian dollar would change the Company's net loss by approximately $38,000 (2015 - $26,000).

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. Receivables are primarily from sales or loans. The Company believes these parties to be of sound creditworthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions. As at December 31, 2016 and December 31, 2015, the Company is exposed to credit risk arising from receivables and loans receivable (note 17).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2016 and December 31, 2015, the Company is not exposed to any significant interest rate risk.

4. Financial instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through debt financing. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

5. Reverse take-over

On October 27, 2015, the Company completed the Acquisition of IWHES.

To complete the Acquisition, the following occurred:

- The Company completed a private placement prior to the Acquisition whereby the Company issued 15,000,000 common shares at a share price of $0.14. The proceeds of the private placement were included in the cash assumed on the Acquisition. In conjunction with the private placement the Company issued 1,200,000 warrants that were re-issued at the date of the Acquisition under the same terms as the originally issued warrants.

- A shareholder of IWHES cancelled their existing 7,500,000 common shares of IWHES and settled a $2,500,000 shareholder loan in exchange for 27,500,000 common shares of IWHES effective immediately prior to the closing of the Acquisition.

- The Company exchanged common shares for the shares of IWHES at a ratio of 250,000 common shares of the Company for each IWHES share. The Company issued 45,000,000 common shares for the 180 outstanding shares of IWHES at the time of the Acquisition.

- Outstanding stock options of the Company were re-issued at the date of the Acquisition under the same terms of the originally granted options for holders that continued to be on the board of directors. For holders that did not continue with the Company, the expiry date was amended to six months from the Acquisition date. There were 375,000 stock options at the Acquisition date (note 15).

- The Company entered into a referral agreement with Canaccord Genuity Ltd. whereby the Company paid a referral fee of 1,250,000 common shares of which 500,000 common shares were issued in July 2015 prior to the closing of the RTO and the remaining 750,000 were issued on closing of the Acquisition. The fair value of the 750,000 common shares was determined to be $175,000 using the share price of the private placement multiplied by the total number of referral fee shares.

As a result of the Acquisition, IWHES controlled the Company and is considered to have acquired the Company. The Company did not meet the definition of a business and the Acquisition was accounted for as the purchase of the Company's net assets by IWHES. The net purchase price was determined as an equity settled share-based payment, under IFRS 2, Share-based payment, at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the market value of the Company's common shares on the date of closing of the RTO.

The Acquisition costs related to the RTO plus the aggregate of the fair value of the consideration paid less the net assets acquired has been recognized as a listing expense in the statements of loss and comprehensive loss. These consolidated financial statements reflect the assets, liabilities and operations of IWHES since its incorporation and of the Company from October 27, 2015.

(Expressed in Canadian Dollars)

5. Reverse take-over (continued)

The fair value of net assets (liabilities) of the Company as at the date of the Acquisition was:

Cash	$ 1,615,052
Receivables	42,637
Loan receivable	150,000
Accounts payable and accrued liabilities	(170,971)
Net monetary assets acquired	$ 1,636,718

The consideration consists of 17,620,000 common shares valued at $2,466,800, 750,000 common shares issued under the referral agreement valued at $175,000 and 375,000 replacement stock options issued.

The fair value of $152,560 assigned to the 375,000 stock options as estimated by using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 124.48% which is based on historical volatility, risk-free rate of return of 0.74% and an expected maturity of 2.5 years.

Common shares issued	$ 2,641,800
Replacement options	152,560
	$ 2,794,360

Listing expense	$ 1,157,642

6. Acquisition of IWWS

During the year ended December 31, 2014 the Company entered into an investment agreement with IWWS and three unrelated individuals. Under the agreement, the Company made an initial investment into IWWS of 50,000 British Pounds in exchange for 51 common shares of IWWS, representing a 51% interest in IWWS.

In July 2015, in consideration for an additional 9% interest in IWWS the Company paid 20,000 British pounds ($50,040) to a minority shareholder. The non-controlling interest increased by $7,058 to reflect the Company's change in interest as at the date of the transaction. The difference between the amount paid and the amount by which the non-controlling interest was adjusted was recognized as a loss on purchase of interest in IWWS directly in deficit.

Concurrent with the Acquisition the Company entered into an agreement with the remaining minority shareholders to acquire the remaining 40% interest in IWWS. The Company issued to the minority shareholders a total of 2,000,000 common shares (note 14) and 500,000 options (note 15) to purchase common shares of the Company at an exercise price of $0.42 and expiring five years from closing. The fair value of the options is $219,050 using the Black-Scholes pricing model with the following assumptions: expected volatility 126.07% which is based on historical volatility; risk free interest rate 0.76%; expected dividend yield 0% and expected life of 5 years.

In addition, the Company will allocate 1,000,000 performances shares to be issued to each of the two former minority shareholders subject to IWWS meeting the following revenue milestones:

i) 250,000 performance shares to each vendor if the revenues of IWWS are greater than £3,500,000 in the year ended December 31, 2016 (not met);
ii) 350,000 Performance shares to each vendor if the revenues of IWWS are greater than £6,000,000 in the year ended December 31, 2017; and
iii) 400,000 Performance shares to each vendor if the revenues of IWWS are greater than £10,000,000 in the year ended December 31, 2018.

(Expressed in Canadian Dollars)

6. Acquisition of IWWS (continued)

As at December 31, 2015 and 2016, due to the uncertainty regarding whether the revenue milestones will be met, the Company has estimated the fair value of the performance shares to be $nil.

As at December 31, 2016 the Company holds 100% of IWWS (December 31, 2015 - 100%).

7. Receivables

	As at December 31, 2016	As at December 31, 2015
GST recoverable (Canada)	$ 110,985	$ 107,832
VAT recoverable (UK)	25,341	13,056
Holdback receivables	72,218	-
Other receivables	-	12,338
Trade receivables	59,602	288,963
	$ 268,146	$ 422,189

8. Inventory

	As at December 31, 2016	As at December 31, 2015
Materials and supplies	$ 105,301	$ 130,750
Work-in-progress	347,373	464,686
	$ 452,674	$ 595,436

9. 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 year ended December 31, 2016 was $56,116 for a balance at December 31, 2016 of $104,586 (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 December 31, 2016	$ -

(Expressed in Canadian Dollars)

9. Equity investment (continued)

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

	As at December 31, 2016	As at December 31, 2015
Current assets	$ 38,277	$ 375,557
Non-current assets	1,312,170	1,312,170
Current liabilities	(24,125)	(212,059)
Non-current liabilities	(1,336,416)	(1,602,207)
Revenue	63,785	-
Total comprehensive loss	(140,289)	(140,718)

10. 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	-	-	(9,753)	-	(9,753)
Balance, December 31, 2016	$ 46,080	$ 27,926	$ 163,123	$ 19,025	$ 256,154

Accumulated Depreciation	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
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 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

Carrying Value	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2015	$ 33,745	$ 11,990	$ 85,015	$ 13,552	$ 144,302
Balance, December 31, 2016	$ 26,734	$ 5,395	$ -	$ 9,747	$ 41,876

11. Loans payable

(i) During the year ended December 31, 2012 the Company received two loans of $95,323 and $1,278 from two companies controlled by directors of the Company. Both loans are non-interest bearing and due on demand. During the year ended December 31, 2013 these companies loaned additional funds of $45,000 and $94,950 respectively. During fiscal 2014 the Company repaid the first loan of $140,323 and the Company received additional funds of $23,008 with respect to the second loan. During the year ended December 31, 2015, the second loan was repaid.

11. Loans payable (continued)

(ii) During the year ended December 31, 2014 the Company received a loan of $2,000,000 from a shareholder of the Company. The loan is non-interest bearing and due on demand. A further $500,000 was loaned to the Company during the year ended December 31, 2015 bearing interest of 3% per annum. During the year ended December 31, 2015, the loan was repaid through the net issuance of 20,000,000 common shares (note 5).

(iii) 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 loan was repaid during the year ended December 31, 2016.

(iv) 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 year ended December 31, 2016, the Company made payments totalling $24,250 (£13,500), of which $9,030 (£5,027) related to interest and $15,220 (£8,473) related to principal. The balance of the loan as at December 31, 2016 is $62,585 (£37,784), of which $17,192 (£10,379) is recognized as short-term.

(v) 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 was secured against the assets of the Company, bore interest at a rate of 2% per month and carried a commitment fee equal to 4% of the loan. The loan was to mature and become payable in 3 months. 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 3 years. During the year, the warrants were repriced as a result of the private placement (see note 14 (ii)) resulting in an incremental increase in value of $8,300.

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. All costs associated with the loan are included in interest and financing expense on the statement of loss and comprehensive loss.

(vi) 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.

(vii) 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.

(viii) 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 outstanding balance of the loan and accrued interest as at December 31, 2016 was $204,816. The loan was repaid in March 2017.

(Expressed in Canadian Dollars)

11. Loans payable (continued)

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ 137,048	$ 2,119,236
Proceeds from loans	808,968	642,849
Repayment of loans	(699,559)	(2,634,625)
Interest expense	36,161	9,912
Foreign exchange	(15,216)	(324)
Balance, end of year	267,402	137,048
Less: non-current portion	(45,394)	(75,570)
	$ 222,008	$ 61,478

12. Deferred revenue

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ 265,280	$ 85,678
Revenue recognized	(907,361)	(85,678)
Sales contracts	662,481	265,280
	$ 20,400	$ 265,280

13. Warranty provisions

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

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ 24,011	$ -
Warranty provisions recognized	416,398	47,500
Warranty expenses incurred	(271,039)	(23,489)
	169,370	24,011
Less: non-current portion	(17,979)	(24,011)
	$ 151,391	$ -

14. 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.

(Expressed in Canadian Dollars)

14. Share capital (continued)

b) Common shares issued

	Number of common shares		**Amount**
Balance, December 31, 2014	25,000,000	$	4
Common shares issued to settle loans payable (note 11)	20,000,000		2,500,000
Common shares issued on RTO (note 5), (i)	33,120,000		2,466,800
Common shares issued for referral fee (note 5)	750,000		175,000
Common shares issued to acquire remaining interest of IWWS (note 6)	2,000,000		280,000
Balance, December 31, 2015	80,870,000		5,421,804
Common shares issued (ii), (iii), (vi)	10,275,333		2,282,600
Share issue costs (ii), (iii), (vi)	-		(300,023)
Warrants exercised (note 16)	637,000		119,180
Fair value of warrants exercised	-		111,800
Stock options exercised (note 15)	125,000		18,750
Fair value of stock options exercised	-		46,077
Shares issued for debt (iv)	332,711		139,739
Shares issued for services (v)	87,500		36,750
Balance, December 31, 2016	92,327,544	$	7,876,677

(i) Common shares issued on the RTO consists of 15,000,000 common shares issued in the private placement, 500,000 common shares issued under the referral agreement and 17,620,000 shares issued as consideration.

The issued number of common shares of IWHES up to the RTO have been adjusted to reflect the exchange ratio established in the RTO transaction of 1 common share of IWHES for 250,000 common shares of the Company.

(ii) On August 19, 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.

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.

(iii) 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 $47,662 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.

The fair value of $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.

(Expressed in Canadian Dollars)

14. Share capital (continued)

(iv) On October 21, 2016, the Company issued 332,711 common shares and 75,000 warrants, with each warrant exercisable at a price of $0.45 for a period of two years from the date of issue, to settle outstanding debt of $129,757 (£77,236). 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.

The fair value of $139,739 was assigned to the common shares based on the common share price on the date of issuance. The fair value of $18,135 was assigned to the 75,000 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 115.98% which is based on historical volatility, risk-free rate of return of 0.52% and an expected maturity of 2 years.

As a result, the Company recognized a loss on debt settlement of $28,117 on the statement of loss and comprehensive loss.

(v) On October 21, 2016, the Company issued 87,500 common shares for services. The valuation was based on the fair value of the shares issued.

(vi) On December 23, 2016, the Company closed a non-brokered private placement pursuant to which the Company issued 2,275,333 common shares at a price of $0.30 per share for aggregate gross proceeds of $682,600. In connection with the placement, the Company paid finder’s fees and expenses of $49,788.

Subsequent to December 31, 2016, the Company amended the terms of the placement to be a brokered placement which consisted of a unit at a price of $0.30 per unit. As a result, investors in the December 23, 2016 closing were issued a warrant on the same terms as the brokered placement (see note 22).

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 December 31, 2016 28,200,000 shares were held in escrow (December 31, 2015 – 42,300,000).

15. Stock options

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014	-	$ -
Issued on RTO (note 5)	375,000	0.15
Issued on acquisition of IWWS (note 6)	500,000	0.42
Issued (i)	5,700,000	0.50
Balance, December 31, 2015	6,575,000	0.47
Exercised	(125,000)	0.15
Issued (ii)	5,460,000	0.30
Cancelled (ii)	(5,700,000)	0.50
Expired	(125,000)	0.15
Balance, December 31, 2016	6,085,000	$ 0.31

(Expressed in Canadian Dollars)

15. Stock options (continued)

(i) On December 1, 2015, the Company granted 5,700,000 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 $0.50 per share for a period of five years. The options vest 20% each six months of service. The grant date fair value of $2,404,830 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 125.77% which is based on historical volatility, risk-free rate of return of 0.86% and an expected maturity of 5 years.

(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, with the first 20% vesting six months from the grant date.

These options were considered to be a modification of the previously issued and cancelled stock options (see (i) above). As a result an incremental fair value of $132,678 was assigned to the new stock options determined based on the fair value of the new options on the date of grant less the fair value of the replaced options on the modification date. The new options fair value was 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. The modified options fair value was 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 4.4 years.

The following table reflects the actual stock options issued and outstanding as of December 31, 2016:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
October 27, 2020	0.42	3.82	500,000	500,000
July 12, 2021	0.30	4.53	5,460,000	-
May 15, 2022	0.15	5.37	125,000	125,000
	0.31	4.49	6,085,000	625,000

Share-based payments

During the year ended December 31, 2016, the Company recognized share-based payments of $1,580,489 (year ended December 31, 2015 - $180,143) relating to the vesting terms of the stock options granted and modified.

(Expressed in Canadian Dollars)

16. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2014	-	$ -
Issued on RTO (note 5)	1,200,000	0.14
Balance, December 31, 2015	1,200,000	0.14
Issued (notes 11(iii) and 14 (ii), (iii) and (iv))	1,167,000	0.25
Exercised	(637,000)	0.19
Balance, December 31, 2016	1,730,000	$ 0.17

The following are the warrants outstanding at December 31, 2016:

Number of Warrants	Exercise Price ($)	Expiry Date
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
75,000	0.45	October 21, 2018
1,730,000	0.17	

17. 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 year ended December 31, 2016 (year ended December 31, 2015), the Company incurred the following charges with key management personnel:

(i) Consulting fees of $169,966 ($85,857) to companies controlled by directors and officers of the Company and a company controlled by a director of IWHES.

(ii) Wages and benefits of $337,611 ($255,683) to the CEO, director of the Company and a director of IWHES.

(iii) Accounting fees of $4,000 ($30,000) to a company controlled by a director of IWHES.

(iv) Share-based payments of $1,303,204 ($427,980) 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 $11,123 ($2,931) and additional cost of sales of $10,300 ($175,569) due to a company controlled by a director of IWWS.

Included in accounts payable is $134,729 (December 31, 2015 - $54,979) due to related parties.

(Expressed in Canadian Dollars)

17. Related party transactions (continued)

During the year ended December 31, 2015, the Company entered into an installation agreement with Caledonia whereby the Company sold a SHARC unit with associated installation services to Caledonia. In relation to the sale, the Company recognized $1,258,520 of revenue during the ended December 31, 2015. The associated costs of the project were $1,465,498 which are included in cost of sales. As the project resulted in a loss the total revenue and cost of sale of the project have been recognized. At December 31, 2016, included in receivables is $349 (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 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 December 31, 2016 the outstanding balance was $41,211 ($80,000). In addition there is an advance of $27,702 (December 31, 2015 - $27,702) to the CEO which is non-interest bearing and is due on demand.

18. 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 year ended December 31, 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.

19. Segmented information

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

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

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

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

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

(Expressed in Canadian Dollars)

19. Segmented information (continued)

Geographic information for the year ended December 31, 2016 is as follows:

	Canada	United Kingdom	Total
Revenues	$ 907,361	$ 111,660	$ 1,019,021
Cost of sales	(618,810)	(195,641)	(814,451)
Gross Margin	288,551	(83,981)	204,570
Loss for the year	$ (3,430,731)	$ (1,060,295)	$ (4,491,026)

Geographic information for the year ended December 31, 2015 is as follows:

	Canada	United Kingdom	Total
Revenues	$ 539,780	$ 1,298,949	$ 1,838,729
Cost of sales	(415,907)	(1,489,375)	(1,905,282)
Gross Margin	123,873	(190,426)	(66,553)
Loss for the year	$ (2,486,943)	$ (780,269)	$ (3,267,212)

20. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Loss before income taxes	$ (4,491,026)	$ (3,267,212)
Expected income tax recovery	(1,168,000)	(849,000)
Change in statutory rates and other	63,000	47,000
Non-deductible expenditures and non-taxable revenues	414,000	368,000
Share issue costs	(45,000)	-
Adjustment to prior year provisions versus statutory tax returns	(28,000)	83,000
Change in unrecognized deductible temporary differences	764,000	351,000
Total income tax expense (recovery)	$ -	$ -

The significant components of the Company's deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the statement of financial position are as follows:

	2016	Expiry Date Range	2015	Expiry Date Range
Temporary differences				
Mineral property costs	$ 534,000	No expiry date	$ 534,000	No expiry date
Share issue costs	140,000	2017 to 2020	30,000	2016 to 2017
Equipment	65,000	No expiry date	44,000	No expiry date
Non-capital losses:				
Canada	5,583,000	2032 to 2036	3,047,000	2032 to 2035
United Kingdom	1,385,000	No expiry date	1,035,000	No expiry date

Tax attributes are subject to review, and potential adjustment, by tax authorities.

21. Supplemental disclosure with respect to cash flows

Supplemental disclosures and non-cash transactions in the year ended December 31, 2016 include: stock options expired and exercised (note 15), warrants exercised (note 16), non-cash share issuance costs (note 14) and warrants issued to acquire loan payable (notes 11 and 16).

Supplemental disclosures and non-cash transactions in the year ended December 31, 2015 include: the settlement of loans payable (note 5), the Acquisition of IWHES (note 5), the Acquisition of IWWS (note 6), and receivables of $119,236 used to settle loans payable.

22. Subsequent events

(i) Subsequent to December 31, 2016, 87,500 common shares were issued pursuant to a consulting agreement entered into. Under the terms of the agreement, the Company will issue an additional tranche of 87,500 common shares.

(ii) Subsequent to December 31, 2016, the Company completed a brokered private placement through two tranches pursuant to which the Company issued a total of 5,076,850 units at a price of $0.30 per unit for aggregate gross proceeds of $1,523,055. 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 connection with the placement, the Company paid finder’s fees of $91,129 and issued 303,763 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.

In conjunction with the closing, the Company amended the terms of the non-brokered private placement completed on December 23, 2016 (see note 14(vi)) 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.

(iii) Subsequent to December 31, 2016, 393,000 warrants were exercised for proceeds of $55,020.

(iv) Subsequent to December 31, 2016, 350,000 common shares were issued to settle outstanding debt of $105,000.