INTERNATIONAL WASTEWATER SYSTEMS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of International Wastewater Systems Inc. (the "Company" or "IWS") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2016. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended December 31, 2016 and 2015, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the year ended December 31, 2016 are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at April 27, 2017 unless otherwise indicated.

The consolidated financial statements for the year ended December 31, 2016, have been prepared using accounting policies consistent with 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").

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of IWS's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations is available on SEDAR at **www.sedar.com**.

Caution Regarding Forward-Looking Statements

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause IWS's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Description of Business

The Company 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").

During the year ended December 31, 2014 the Company acquired 51% of IWWS (UK) Ltd. ("IWWS"), in July 2015 the Company acquired an additional 9% and concurrent with the Acquisition the Company acquired the remaining 40% interest.

Highlights

- The Company received the 2016 AHR Expo® Innovation Award for Green Building Innovation. The AHR Expo® is the world's largest HVACR (Heating, Ventilating, Air Conditioning and Refrigeration) convention. The annual AHR Expo® Innovation Awards competition honors the most inventive and original products, systems and technologies showcased at each years show in the categories of: building automation; cooling; green building; heating; indoor air quality; plumbing; refrigeration; software; tools & instruments; and ventilation. IWS was chosen by a panel of third-party judges from ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning Engineers) who evaluated all award entries based on innovative design, creativity, application value and market impact.

- The Company launched its inaugural European project, a SHARC installation at Borders College, located in the south east of Scotland and with 5,500 students. The SHARC heat recovery system at Borders College intercepts waste water from a sewer close to the local treatment works operated by Scottish Water. The system uses a heat pump to amplify the natural warmth of waste water and the heat produced is being sold to Borders College under a 20-year purchase agreement, producing savings in energy, costs and carbon emissions.

- In March 2016, the Company announced its inaugural project in Australasia, a SHARC wastewater heat recovery system to be installed at a facility operated by the Australian Wool Testing Authority in Melbourne.

- In May 2016, the Company announced collaboration with the city of Fier, Albania ("Fier"). IWS and Fier have agreed to collaborate on a strategic plan to develop District Energy Networks utilizing IWS's SHARC wastewater heat exchange system along with the integration of sewage treatment capabilities. IWS intends to install District Energy Networks around the city that include treatment plants capable of treating 30 million litres of sewage per day. IWS technology will recycle the waste heat to provide a green, low cost heating and cooling supply for the city of Fier.

- In June 2016, the Company announced it completed the in-house design of the newest and largest SHARC wastewater heat exchange system, the model 880 ("SHARC 880"). The SHARC 880 offers the highest capacity of any SHARC system designed and built by IWS to date. The SHARC 880 handles a flow rate of up to 1500 gallons per minute ("GPM"), a capacity increase of three-times when compared to existing SHARC models with flow rates of 100 GPM to 500 GPM. In-house testing is now underway and will be completed in the next 90 days. Following completion of the design and test phase, production will be completed at IWS headquarters near Vancouver. The unit is scheduled to be installed and tested at a wastewater heat exchange project within a District Heating Network ("DHN") in Vancouver. The DHN currently serves 4.3 million square feet (approximately 400,000 square meters) of residential, commercial, and institutional space with plans for future expansion.

- In August 2016, the Company announced a series of wastewater heat recovery projects to be installed in Vancouver in partnership with the public and private sectors.

  Metro Vancouver ("Metro Vancouver"), a partnership of 21 municipalities, one Electoral Area and one Treaty First Nation, has identified its inaugural wastewater heat recovery project with IWS at The South East False Creek Neighborhood Energy Utility ("NEU"), a large wastewater heat recovery project supplying a District Heating Network. The NEU began operations in 2010 and currently provides space heating and hot water for 4,300,000 square feet (395,000 m2) of residential, commercial, and institutional space. Expansion plans are in place to serve new developments in the neighborhood including the Great Northern Way campus lands, a university campus jointly owned by the University of British Columbia, Simon Fraser University, British Columbia Institute of Technology and Emily Carr University. The project at the NEU will mark the first installation of the SHARC 880. The NEU installation will include two SHARC 880 systems working in tandem, a deployment that is indicative of IWS's growing market for large and utility-scale wastewater heat recovery projects.

  IWS also announced a project with The British Columbia Housing Management Commission ("BC Housing") a crown corporation in the province of British Columbia. BC Housing works in partnership with approximately 800 housing providers – mostly non-profit and housing co-operatives – over 98,000 households in 200 communities across the province. Following a comprehensive review of BC Housing's property management portfolio, IWS and BC Housing jointly selected the initial buildings to be retrofitted with IWS's PIRANHA technology.

- On August 22, 2016, the Company announced the completion of 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 warrants, each warrant exercisable at a price of $0.20 for a period of two years from the date of issue.

- On August 25, 2016, the Company announced a joint venture with RENEW Energy Partners LLC ("RENEW"). The Joint Venture will initially build projects in California for which RENEW is committing funding of US$60 million over five years, for the purpose of funding capital expenditures for one thousand PIRANHA thermal heat recovery systems ("PIRANHA") to be built, installed and operated exclusively by the Company.

  RENEW is engaged in developing and funding energy and water efficiency retrofits and on-site clean energy projects through the use of innovative structures such as an Energy Services Agreement (ESA) or Power Purchase Agreement (PPA). Combining RENEW's project finance expertise with IWS's capabilities in the manufacturing, installation and servicing of thermal heat recovery equipment, enables the Joint Venture to offer a full suite of services for energy and water conservation projects and on-site clean energy projects. The Joint Venture aims to expand the implementation of energy efficiency and on-site clean energy projects throughout the United States.

  The purpose of the program is to provide capital to fund turnkey installation and on-going operations and maintenance of PIRANHA systems for qualified residential and commercial buildings under a standardized Thermal Energy Purchase Agreement ("TEPA") developed by RENEW. Under the terms of the TEPA, customers will enter into long-term supply agreements with no capital investment.

  The proposed schedule for the deployment of 1,000 PIRANHA systems in California in the next 5 years is estimated as follows:

  - Approximately 50 PIRANHA Systems in the first 12 months of the PROGRAM;
  - Approximately 120 PIRANHA Systems in the second 12 months of the PROGRAM;
  - Approximately 240 PIRANHA Systems in the third 12 months of the PROGRAM;
  - Approximately 300 PIRANHA Systems per year thereafter.

  IWS and RENEW will establish a special purpose vehicle ("SPV") to own the individual PIRANHA projects financed by the program. The SPV will sign a master agreement with IWS for the exclusive design, build and commissioning of PIRANHA systems and for the operation and maintenance services throughout the life of the systems.

  The SPV will be the investing and operating entity for the Joint Venture. RENEW and IWS will jointly participate in the project returns from energy sales through cash flow distributions from the SPV, with the related terms of distribution to be included in a definitive agreement between IWS and RENEW.

- On September 2, 2016, the Company announced the completion of 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 tranche, the Company paid finder's fees and expenses of $41,600 and issued 208,000 warrants, each warrant exercisable at a price of $0.20 for a period of two years from the date of issue.

- On October 6, 2016, the Company announced the establishment of an Advisory Board consisting of industry leaders from the renewable energy, construction and real estate sectors. Initially the Advisory Board consisted of Mr. Bruno Thiemann and Mr. David Hatherton. On October 21, 2016, the Company announced the addition of Dr. Hadi Dowlatabadi and Mr. Pär Dalin to the Advisory Board. See press releases of October 6, 2016 and October 21, 2016 for detailed biographies of each member.

- On October 13, 2016, the Company announced IWWS will form a strategic alliance with Scottish Water Horizons Ltd. ("Scottish Water Horizons"), the commercial subsidiary of Scottish Water, a public water utility owned 100% by the Scottish Government.

  Scottish Water serves approximately 5 million residential customers and 150,000 business customers in Scotland, and is the sole provider of water and waste water services to an area of over 30,000 square miles, a third of the area of Britain. Scotland has a coastline of over 6,800 miles, with a small and relatively dispersed population which requires a large number of small water and waste water treatment plants. Every day Scottish Water supplies 1.34 billion litres of drinking water and takes away 847 million litres of waste water from customers and treats it before returning it to the environment.

  Scottish Water Horizons is mandated to drive Scottish Water's green agenda, developing renewable energy projects and leveraging commercial value from Scottish Water's assets to contribute to a greener and better connected Scotland. Scottish Water Horizons and SHARC Energy are joining forces to help businesses and public organizations reduce heating costs and carbon emissions. The companies have confirmed their intention to establish a strategic alliance to expand and accelerate the deployment of Sewage Heat Recovery systems around Scotland ("Strategic Alliance").

  The Strategic Alliance will support the Scottish Government's ambitious renewable heat and carbon reduction targets for 2020. It is the result of 2 years of informal collaboration between IWWS and Scottish Water Horizons, which has created a £20 million ($32.4 million) pipeline of potential installations across Scotland that when deployed would generate 170 GWHs per year of heating and cooling to displace the fossil fuel currently used.

  Scottish Water Horizons has estimated that up to 750 such systems would need to be installed by 2020 to enable Scotland to achieve its carbon savings targets.

- On October 16, 2016, the Company announced a Joint Venture agreement ("JV") with Environmental Technology Solutions ("ETS") of Australia, a leading provider of energy efficiency and sustainability solutions with offices in Canberra and Melbourne.

  IWS and ETS have jointly established SHARC Energy Systems Australasia Pty Ltd., a JV company through which IWS and ETS will design, build, operate and maintain IWS's proprietary thermal heat recovery equipment in Australia and New Zealand under the SHARC and PIRANHA brands.

  ETS is uniquely positioned in the region with the ability to manufacture and assemble custom equipment in Australasia using IWS's intellectual property. Through its regional networks ETS has generated significant interest from potential customers for various commercial and industrial applications of IWS products.

- On November 21, 2016, the Company announced a Memorandum of Understanding with Beijing Ruibaoli Thermal Technology Co., Ltd., ("BRTT") of Beijing, China whereby IWS will provide BRTT with a non-exclusive license to market and sell IWS's proprietary thermal heat recovery equipment in China under the SHARC and PIRANHA brands ("China License Agreement").

  BRTT is a leader in the manufacturing and installation of wastewater heat exchange systems in China with a track record of successful projects including the Beijing South Train Station (1.5 million square feet), Beijing Kunlun Hall (1.1 million square feet) and the Shenyang District Energy System (3.5 million square feet). Led by its President, Mr. Qu Yuxiu, BRTT has installed thermal heat recovery projects in 17 Chinese provinces and 20 cities, serving over 50 million square feet of new and retro-fit real estate projects.

  The China License Agreement is structured as a licensing fee that BRTT will pay to IWS for each unit sold in China. BRTT estimates sales of 1,000 PIRANHA units in the first year of the China License Agreement. Prior to launching the IWS products in China, BRTT and IWS will work jointly to install SHARC and PIRANHA demonstration projects for BRTT's clients. The China Licensing Agreement requires BRTT to guarantee the quality of all IWS products manufactured, marketed and sold in China, conforming to IWS's global quality control standards.

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

- 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 of $38,288.

  Subsequently, 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 in April 2017 on the same terms as the brokered placement described below.

- On December 23, 2016, the Company announced the upcoming installation of a PIRANHA thermal heat recovery system at the Andina Brewing Company ("Andina") in Vancouver, Canada. Andina is completing construction on a 13,700-square-foot facility in Vancouver that includes its production headquarters along with a retail outlet and tasting room to serve clients. The PIRANHA will recycle heat captured from the hot water that is used in Andina's brewing operations. IWS will supply a 5 Ton / 80,000Btu/h PIRANHA system that will offset the gas-fired steam generator providing economic savings and a reduction in CO_2 emissions.

- On January 5, 2017, the Company announced the that Mr. Steve Moddemeyer, Mr. Qu Yuxiu and Mr. Alfred Ng, have joined as members of the IWS Advisory Board. See press release of January 5, 2017 for detailed biographies of each member.

- On February 7, 2017, the Company announced a partnership with Prospect Silicon Valley, a California-based urban technology accelerator ("Prospect Silicon Valley"). Prospect Silicon Valley focuses on the commercialization of urban technologies for sustainable, smart cities. They bring government, corporations and academia together with pioneering companies to accelerate innovations in transportation, energy and buildings.

Multi-partner projects are developed by Prospect Silicon Valley to bring next-generation approaches to the fore, and to assist early adopters in public sector applications. Prospect Silicon Valley has worked successfully with local governments in California to pilot advanced urban technologies, resulting in over 150 million lbs. of CO2 reductions committed over the next ten years.

Through this partnership, IWS will have access to Prospect Silicon Valley's network of property owners, trade groups and strategic partners in the California buildings sector. IWS will work jointly with Prospect Silicon Valley in the planning and execution of the Company's commercialization strategy, targeting early adopters of IWS's wastewater heat exchange technology in the California market.

- On February 27, 217 and April 7, 2017, the Company completed a brokered private placement in two tranches pursuant to which the Company issued an additional 5,076,850 units at a price of $0.30 per share 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.

- On March 2, 2017, the Company announced that it is currently collaborating with a licensed marijuana cultivator operating an industrial growing facility in the United States ("Cannabis Cultivation Facility").

  The collaboration enables IWS and the Cannabis Cultivation Facility to exchange data and evaluate the application of IWS's thermal energy exchange technology in an industrial marijuana growing facility.

- On April 12, 2017, the Company announced that it has completed the installation of a SHARC thermal energy exchange system at the NEU in Vancouver under the collaboration with Metro Vancouver which was originally announced in August 2016.

Overall Performance

The consolidated statements of financial position as of December 31, 2016, indicate a cash position of $373,430 (December 31, 2015 - $367,812) and total current assets of $1,230,157 (December 31, 2015 - $1,543,110). Current liabilities at December 31, 2016, total $893,243 (December 31, 2015 - $972,480).

Working capital, which is current assets less current liabilities, is $336,914 (December 31, 2015 – working capital of $570,630).

During the year ended December 31, 2016, the Company reported net loss of $4,491,026 ($0.05 basic and diluted loss per share) on revenue of $1,019,021 and a gross margin of $204,570. This compared to a net loss of $3,267,212 ($0.04 basic and diluted loss per share) for the year ended December 31, 2015 on revenue of $1,838,729 and a gross margin of $(66,553).

Selected Annual Financial Information

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Net loss	(4,491,026)	(3,267,212)	(1,397,581)
Basic and Diluted Loss Per Share	(0.05)	(0.04)	(0.06)
	As at December 31, 2016	**As at December 31, 2015**	**As at December 31, 2014**
Total assets	1,273,233	1,694,095	735,147
Long-term liabilities	63,373	99,581	-

Summary of Quarterly Results

A summary of selected information for each of the seven most recent quarters is as follows:

Three Months Ended	Total Revenue ($)	Income (loss) Total ($)	Income (loss) Per Share ($)	Total Assets ($)
December 31, 2016	9,568	(2,510,345)	(0.03)	1,273,233
September 30, 2016	59,202	(902,433)	(0.01)	1,242,422
June 30, 2016	924,773	299,028	0.00	1,082,378
March 31, 2016	25,478	(1,377,276)	(0.02)	1,693,610
December 31, 2015	258,290	(2,951,753)	(0.04)	1,694,095
September 30, 2015	1,403,360	258,677	0.01	2,147,834
June 30, 2015	177,388	(314,949)	(0.01)	885,360

Information has not been reported for quarters prior to the company becoming a reporting issuer where the Company did not prepare financial statements.

Discussion of Operations

<u>Three months ended December 31, 2016 compared with three months ended December 31, 2015</u>

IWS's net loss totaled $2,510,345 for the three months ended December 31, 2016, with basic and diluted loss per share of $0.03. This compares with net loss of $2,951,753 with basic and diluted income per share of $0.04 for the three months ended December 31, 2015. The decrease of $441,408 in net loss was principally because:

- For the three months ended December 31, 2016, revenue decreased by $248,722, cost of sales decreased $988,518 and the gross margin increased $606,690. The decreases were due to their being no contracts completed by IWHES in the three months ended December 31, 2016.
- For the three months ended December 31, 2016, consulting expenses decreased by $43,240. The increase is attributable to the increased activity of the Company's consultants and the increased capital markets activities of the Company.
- For the three months ended December 31, 2016, the Company had $1,486,983 in share-based payments versus $180,143 in the comparable period. The share-based payments were the result of the vesting of stock options granted to certain directors, officers, employees and consultants.
- For the three months ended December 31, 2015, the Company incurred $1,157,642 in listing expense. The listing expense is a non-cash expense related to the consideration in the RTO less the net assets acquired.
- For the three months ended December 31, 2016, warranty expenses increased by $309,617. The increase is attributable to increased warranty expenses incurred on IWWS projects.

Year ended December 31, 2016 compared with year ended December 31, 2015

IWS's net loss totaled $4,491,026 for the year ended December 31, 2016, with basic and diluted loss per share of $0.05. This compares with net loss of $3,267,212 with basic and diluted income per share of $0.04 for the year ended December 31, 2015. The increase of $1,223,814 in net loss was principally because:

- For the year ended December 31, 2016, revenue decreased by $819,708, cost of sales decreased $1,090,831 and the gross margin increased $271,123. The decreases were due to their being many IWHES contracts in progress at December 31, 2016 which are expected to be completed and recorded in revenue in 2017.
- For the year ended December 31, 2016, consulting expenses increased by $210,131. The increase is attributable to the increased activity of the Company's consultants and the increased capital markets activities of the Company.
- For the year ended December 31, 2016, the Company had $1,580,489 in share-based payments versus $180,143 in the comparable period. The share-based payments were the result of the vesting of stock options granted to certain directors, officers, employees and consultants.
- For the year ended December 31, 2015, the Company incurred $1,157,642 in listing expense. The listing expense is a non-cash expense related to the consideration in the RTO less the net assets acquired.
- For the year ended December 31, 2016, wages and benefits increased by $390,514. The increase is attributable to increased wages and benefits in IWWS and IWHES due to the increased activity.
- For the year ended December 31, 2016, interest expense increased by $178,455. The increase is attributable the interest and accretion recorded on loans payable in the current period.
- For the year ended December 31, 2016, warranty expenses increased by $368,898. The increase is attributable to increased warranty expenses incurred on IWWS projects.

Liquidity and Financial Position

As at December 31, 2016, the Company's cash balance was $373,430 (December 31, 2015 - $367,812) and the Company had working capital of $336,914 (December 31, 2015 – working capital of $570,630).

As of December 31, 2016 the Company had 92,327,544 common shares issued and outstanding, 1,730,000 warrants outstanding that would raise $300,970 if exercised in full (see "Subsequent Events" below) and 6,085,000 options outstanding that would raise $1,866,750 if exercised in full. The Company does not know when or if the warrants or options will be exercised.

Cash used in operating activities was $2,430,989 for the year ended December 31, 2016. Operating activities were affected by the net loss of $4,491,026 partially offset by non-cash expenses of $1,913,155 and a positive change in non-cash working capital balances of $146,882 largely because of a decrease in inventory and receivables offset by a decrease in deferred revenue.

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 $120,000, $43,223 and $6,743, respectively ($20,000, $65,857 and $nil) to companies controlled by directors and officers of the Company and a director of IWHES (Yaron Conforti, Russ Burton and Daryle Anderson).

(ii) Wages and benefits of $156,000, $90,000 and $91,5611 respectively ($156,926, $15,000 and $83,757, respectively) to the CEO, director and a director of IWHES (Lynn Mueller, Daryle Anderson and Russ Burton) of the Company.

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

(iv) Share-based payments of $1,303,204 ($427,980) was recognized in connection with the vesting of 5,460,000 options granted to directors and officers of the Company and directors of the subsidiaries as follows:

	Year ended December 31, 2016 ($)	Year ended December 31, 2015 ($)
Lynn Mueller	970,847	110,613
Daryle Anderson	55,477	6,321
Yaron Conforti	56,989	66,712
Paul Lee	53,460	6,321
Mark McCooey	55,477	6,321
Russ Burton	55,477	115,846
Ian Craft	53,460	115,846
John Williams	2,017	-
Total	**1,303,204**	**427,980**

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 (Ian Craft).

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

	December 31, 2016 ($)	December 31, 2015 ($)
Lynn Mueller	3,304	629
Daryle Anderson	60,000	-
Yaron Conforti	3,065	4,890
Company controlled by Ian Craft	68,360	49,460
Total	**134,729**	**54,979**

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.

Share Capital

As of the date of this MD&A, the Company had 98,234,894 (December 31, 2016 - 80,995,000) issued and outstanding common shares.

Warrants outstanding for the Company at the date of this MD&A were as follows:

Warrants	Expiry Date	Exercise Price
670,000	June 30, 2017	$0.14
384,000	August 22, 2018	$0.20
208,000	September 2, 2018	$0.20
75,000	October 21, 2018	$0.45
127,625	December 23, 2018	$0.30
303,763	February 27, 2019	$0.30
7,352,183	February 27, 2019	$0.40

Stock options outstanding for the Company at the date of this MD&A were as follows:

Options	Expiry Date	Exercise Price
500,000	October 27, 2020	$0.42
5,460,000	July 12, 2021	$0.30
125,000	May 15, 2022	$0.15

As at the date of this MD&A 21,150,000 (December 31, 2015 - 28,200,000) shares were held in escrow (December 31, 2015 - 42,300,000).

Subsequent Events

(i) Subsequent to December 31, 2016, 87,500 common shares were issued pursuant to 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, 393,000 warrants were exercised for proceeds of $55,020.

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

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.

The Company has not applied the following new standards and amendments to standards that have been issued but are not yet effective:

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

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

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

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.

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.

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.

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.

Risks and Uncertainties

Manufacturing Risks

For the successful development of the Company's manufacturing operations, the Company will require maintenance of production equipment, hiring and retaining of managerial personnel and skilled labour and maintaining of desirable levels of production. There can be no assurance that the Company will be able to achieve and sustain these goals. The Company's future success also depends on its ability to successfully achieve expected manufacturing capacity in a cost-effective and efficient manner. If the Company cannot do so, it may be unable to achieve and sustain profitability. The Company's ability to achieve expected production capacity is subject to significant risks and uncertainties, including the following: (a) delays and cost overruns as a result of a number of factors, many of which may be beyond the Company's control, such as its ability to secure successful contracts with equipment vendors, (b) failure to effectively break in new equipment, (c) delays or denial of required approvals by relevant government authorities, (d) unavailability of manufacturing inputs; and (e) failure to execute its expansion plans effectively.

Regulatory Risks

The activities of the Company will be subject to intense regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Change in Laws, Regulations and Guidelines

The Company's operations will be subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of untreated waste water but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Lack of Operating History

The Company has only recently started to carry on its business. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. The failure by the Company to meet any of these conditions could have a materially adverse effect on the Company and may force it to reduce, curtail, or discontinue operations. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations. The Company may not successfully address all of the risks and uncertainties or successfully implement its existing and new products and services. If the Company fails to do so, it could materially harm its business and impair the value of its common stock, resulting in a loss to shareholders. Even if the Company accomplishes these objectives, the Company may not generate the anticipated positive cash flows or profits. No assurance can be given that the Company can or will ever be successful in its operations and operate profitably.

Reliance on Management and Key Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as information technology, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Additional Financing

The Company's future capital requirements depend on many factors, including its ability to market products successfully, cash flows from operations, locating and retaining talent, and competing market developments. The Company's business model requires spending money in order to generate revenue. Based on the Company's current financial situation, the Company may have difficulty continuing operations at the current level, or at all, if it does not raise additional financing in the near future.

In order to execute the Company's business plan, the Company will require some additional equity and/or debt financing to undertake capital expenditures. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures could limit the Company's operations and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Company Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital or to pursue business opportunities, including potential acquisitions. If adequate funds are not obtained, the Company may be required to reduce, curtail, or discontinue operations. There is no assurance that the Company's existing cash flow will be adequate to satisfy its existing operating expenses and capital requirements.

Competition

There is potential that the Company will face intense competition from numerous other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Because of early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Intellectual Property Risks

The Company's ability to compete largely depends on the superiority, uniqueness, and value of its intellectual property and technology, including both internally-developed technology and the ability to acquire patent protection and/or trademark protection. To protect its proprietary rights, the Company will rely on a combination of trademark, copyright, and trade secret laws, trademark and patent applications, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, certain risks may reduce the value of the Company's intellectual property. The Company's applications for trademarks and copyrights relating to its business may not be granted, and if granted, may be challenged or invalidated. There is no guarantee that issued trademarks and registered copyrights will provide the Company with any competitive advantages. The Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of its technology and may not prevent the development and design by others of products or technology similar to, competitive with, or superior to those the Company develops. There is a risk that another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products.

New Market Risks

Extracting heat from raw sewage flows is a relatively new market and its long-term growth prospects are uncertain. Should the raw sewage heat market fail to expand, it would have a materially adverse effect on our business and financial position.

Product Development Risks

The development of additional products is subject to the risks of failure inherent in the development of new, state of the art products, laboratory devices and products based on new technologies. These risks include: (i) delays in product development or manufacturing; (ii) unplanned expenditures for product development or manufacturing; (iii) failure of new products to have the desired effect or an acceptable accuracy profile; (iv) emergence of superior or equivalent products; (v) failure by any potential collaborative partners to successfully develop products; and (vi) the dependence on third parties for the manufacture, development and sale of the Company's products. Because of these risks, our research and development efforts or those of potential collaborative partners may not result in any commercially viable products. If a significant portion of these development efforts is not successfully completed, or any products are not commercially successful, we are less likely to generate significant revenues, or become profitable. The failure to perform such activities could have a material adverse effect on the Company's business, financial condition and results of its operations.

The areas in which we plan to commercialize, distribute, and/or sell products involves rapidly developing technology. There can be no assurance that we will be able to establish ourselves in such fields, or, if established, that we will be able to maintain our market position, if any. There can be no assurance that the development by others of new or improved products will not make our present and future products, if any, superfluous or obsolete.

Product Liability

The devices and products that we intend to develop may expose us to potential liability from personal injury claims by end-users of the product. We intend to carry product liability insurance to protect us against the risk that in the future a product liability claim or product recall could materially and adversely affect our business. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our intended products. We cannot assure you that if and when we commence distribution of our product that we will be able to obtain or maintain adequate coverage on acceptable terms, or that such insurance will provide adequate coverage against all potential claims. Moreover, even if we maintain adequate insurance, any successful claim could materially and adversely affect our reputation and prospects, and divert management's time and attention. If we are sued for any injury allegedly caused by our future products our liability could exceed our total assets and our ability to pay the liability.

Product Defects

The Company's products are complex and, accordingly, they may contain defects or errors, particularly when first introduced or as new versions are released. We may not discover such defects or errors until after a product has been released and used by end-customers. Defects and errors could materially and adversely affect our reputation, result in significant costs to us or the termination of an agreement, delay planned release dates and impair our ability to sell our products in the future. The costs incurred in correcting any product defects or errors may be substantial and could adversely affect our operating margins. Furthermore, there can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to claims that our products are defective or that some function or malfunction of our products caused or contributed to damages. While we attempt to minimize this risk by incorporating provisions into our standard agreements that are designed to limit our exposure to potential claims of liability, we are not always able to negotiate such protections. In addition, no assurance can be given that all claims will be barred by the contractual provisions limiting liability or that the provisions will be enforceable. We may be liable for failure regarding the use of our products or services. A significant liability claim against us could have a material adverse effect on our operating results and financial position

Reliance on Key Inputs

The Company's business will be dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

Management of Growth

The Company has, and may in the future, experience rapid growth and development in a relatively short period of time by aggressively marketing its products and services. The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Litigation

The Company may be forced to litigate, enforce, or defend its intellectual property rights, protect its trade secrets, or determine the validity and scope of other parties' proprietary rights. Such litigation would be a drain on the financial and management resources of the Company which may affect the operations and business of the Company.

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for Company Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

The Market Price of Company Shares May Be Subject to Wide Price Fluctuations

The market price of Company Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Company Shares.

Environmental and Employee Health and Safety Regulations

The Company's operations will be subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disclosure of Internal Controls

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP (IFRS).

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.