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**INTERNATIONAL WASTEWATER SYSTEMS INC.  
CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2017  
(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

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**Notice To Reader**

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

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

	As at March 31, 2017	As at December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 176,998	\$ 373,430
Receivables (note 3)	296,462	268,146
Prepaid expenses	41,571	61,940
Inventory (note 4)	616,149	452,674
Loans receivable (note 13)	73,241	73,967
<b>Total current assets</b>	<b>1,204,421</b>	<b>1,230,157</b>
<b>Non-current liabilities</b>		
Deposits	1,200	1,200
Equipment (note 6)	38,737	41,876
<b>Total assets</b>	<b>\$ 1,244,358</b>	<b>\$ 1,273,233</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 643,583	\$ 499,444
Loans payable (note 7)	17,222	222,008
Deferred revenue (note 8)	102,000	20,400
Warranty provisions (note 9)	151,259	151,391
<b>Total current liabilities</b>	<b>914,064</b>	<b>893,243</b>
<b>Non-current liabilities</b>		
Warranty provisions (note 9)	9,904	17,979
Loans payable (note 7)	41,694	45,394
	<b>965,662</b>	<b>956,616</b>
<b>Shareholders' equity</b>		
Share capital (note 10)	8,387,976	7,876,677
Reserves (note 11)	2,747,206	2,183,696
Currency translation reserve	35,585	36,934
Deficit	(10,892,071)	(9,780,690)
<b>Total shareholders' equity</b>	<b>278,696</b>	<b>316,617</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,244,358</b>	<b>\$ 1,273,233</b>

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

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

**Approved on behalf of the Board:**

"Lynn Mueller", Director

"Mark McCooley", Director

## International Wastewater Systems Inc.

### Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Revenues</b>	\$ -	\$ 25,478
<b>Cost of sales</b>	(139,672)	(178,612)
<b>Gross margin</b>	(139,672)	(153,134)
<b>Expenses</b>		
Accounting and legal (note 13)	42,789	59,385
Advertising and promotion	67,100	22,920
Consulting (note 13)	202,180	176,338
Depreciation (note 6)	3,139	24,875
Foreign exchange	4,832	(21,466)
Insurance	4,440	8,832
Office and miscellaneous	59,851	65,666
Regulatory and filing fees	11,571	3,966
Rent (note 13)	27,961	23,500
Repairs and maintenance	1,400	2,315
Share-based payments (notes 11, 13)	196,311	546,434
Telephone and utilities	10,489	7,931
Trademarks	-	912
Travel	23,878	32,155
Wages and benefits (note 13)	290,436	250,122
Warranty expense (note 9)	104	2,284
	(946,481)	(1,206,169)
Interest and financing expense	(18,228)	(17,973)
Loss on debt settlement (note 10)	(7,000)	-
<b>Loss for the period</b>	\$ (1,111,381)	\$ (1,377,276)
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified subsequently to income</b>		
Foreign currency translation	\$ (1,349)	\$ 17,336
<b>Total comprehensive loss for the period</b>	\$ (1,112,730)	\$ (1,359,940)
<b>Basic loss per share</b>	\$ (0.01)	\$ (0.02)
<b>Diluted loss per share</b>	\$ (0.01)	\$ (0.02)
<b>Weighted average number of common shares outstanding:</b>		
Basic	84,005,442	75,307,254
Diluted	84,005,442	75,307,254

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

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Operating activities</b>		
Loss for the period	\$ (1,111,381)	\$ (1,377,276)
Adjustments for:		
Depreciation	3,139	24,875
Unrealized foreign exchange	(1,242)	(5,565)
Share-based payments	196,311	546,434
Accrued interest expense	2,103	18,572
Shares for services	28,000	-
Loss on debt settlement	7,000	-
Changes in non-cash working capital items:		
Receivables	(28,103)	(2,983)
Prepaid expenses	20,376	23,601
Inventory	(163,064)	(81,256)
Deposits	-	5,483
Accounts payable and accrued liabilities	248,066	134,278
Deferred revenue	81,600	340,253
Warranty provisions	(8,455)	2,285
<b>Net cash used in operating activities</b>	<b>(725,650)</b>	<b>(371,299)</b>
<b>Financing activities</b>		
Proceeds from loans payable	-	384,000
Repayment of loans payable	(210,961)	(6,640)
Repayment of loans receivable	1,024	43,689
Proceeds on exercise of warrants	31,640	-
Proceeds on private placement, net of costs	706,858	-
<b>Net cash provided by financing activities</b>	<b>528,561</b>	<b>421,049</b>
<b>Net change in cash</b>	<b>(197,089)</b>	<b>49,750</b>
<b>Impact of exchange rate changes on cash</b>	<b>657</b>	<b>(324)</b>
<b>Cash, beginning of period</b>	<b>373,430</b>	<b>367,812</b>
<b>Cash, end of period</b>	<b>\$ 176,998</b>	<b>\$ 417,238</b>

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

## International Wastewater Systems Inc.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

Unaudited

	Number of shares	Share capital	Reserves	Currency translation reserve	Deficit	Total
<b>Balance, December 31, 2015</b>	<b>80,870,000</b>	<b>\$ 5,421,804</b>	<b>\$ 551,753</b>	<b>\$ (15,782)</b>	<b>\$ (5,335,741)</b>	<b>\$ 622,034</b>
Warrants issued to acquire loan	-	-	103,500	-	-	103,500
Share-based payments	-	-	546,434	-	-	546,434
Currency translation adjustment	-	-	-	17,336	-	17,336
Loss for the period	-	-	-	-	(1,377,276)	(1,377,276)
<b>Balance, March 31, 2016</b>	<b>80,870,000</b>	<b>\$ 5,421,804</b>	<b>\$ 1,201,687</b>	<b>\$ 1,554</b>	<b>\$ (6,713,017)</b>	<b>\$ (87,972)</b>
<b>Balance, December 31, 2016</b>	<b>92,327,544</b>	<b>\$ 7,876,677</b>	<b>\$ 2,183,696</b>	<b>\$ 36,934</b>	<b>\$ (9,780,690)</b>	<b>\$ 316,617</b>
Private placement	2,659,850	797,955	-	-	-	797,955
Warrant valuation	-	(338,333)	338,333	-	-	-
Share issue costs	-	(119,963)	28,866	-	-	(91,097)
Shares issued for debt	350,000	112,000	-	-	-	112,000
Shares issued for services	87,500	28,000	-	-	-	28,000
Warrants exercised	226,000	31,640	-	-	-	31,640
Share-based payments	-	-	196,311	-	-	196,311
Currency translation adjustment	-	-	-	(1,349)	-	(1,349)
Loss for the period	-	-	-	-	(1,111,381)	(1,111,381)
<b>Balance, March 31, 2017</b>	<b>95,650,894</b>	<b>\$ 8,387,976</b>	<b>\$ 2,747,206</b>	<b>\$ 35,585</b>	<b>\$ (10,892,071)</b>	<b>\$ 278,696</b>

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

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# International Wastewater Systems Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Three Months Ended March 31, 2017

(Expressed in Canadian Dollars)

Unaudited

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### 1. Nature and continuance of operations

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

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

These unaudited condensed consolidated interim financial statements of the Company have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they fall due for the foreseeable future. For the three months ended March 31, 2017 the Company incurred a loss of \$1,111,381 (three months ended March 31, 2016 - \$1,377,276). As of March 31, 2017 the Company has a deficit of \$10,892,071 (December 31, 2016 - \$9,780,690) and working capital of \$290,357 (December 31, 2016 - working capital of \$336,914). The Company has not generated positive cash flows from operations and additional financings will be required to maintain operations for the near term. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

### 2. Significant accounting policies

#### *Statement of compliance*

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

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of May XX, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2016. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2017 could result in restatement of these unaudited condensed consolidated interim financial statements.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
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**2. Significant accounting policies (continued)**

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

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

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

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

**3. Receivables**

	<b>As at March 31, 2017</b>	<b>As at December 31, 2016</b>
GST recoverable (Canada)	\$ 127,202	\$ 110,985
VAT recoverable (UK)	37,837	25,341
Holdback receivables	71,806	72,218
Trade receivables	59,617	59,602
	<b>\$ 296,462</b>	<b>\$ 268,146</b>

**4. Inventory**

	<b>As at March 31, 2017</b>	<b>As at December 31, 2016</b>
Materials and supplies	\$ 143,489	\$ 130,750
Work-in-progress	472,660	464,686
	<b>\$ 616,149</b>	<b>\$ 595,436</b>

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
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**5. Equity investment**

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

The Company's unrecognized share of the loss for the three months ended March 31, 2017 was \$10,343 for a balance at March 31, 2017 of \$114,929 (December 31, 2016 - \$104,586).

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

	As at March 31, 2017	As at December 31, 2016
Current assets	\$ 83,281	\$ 38,277
Non-current assets	1,066,943	1,312,170
Current liabilities	(38,405)	(24,125)
Non-current liabilities	(1,370,485)	(1,336,416)
Revenue	13,908	63,785
Total comprehensive loss	(25,858)	(140,289)

**6. Equipment**

Cost	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2015	\$ 46,080	\$ 27,926	\$ 172,876	\$ 19,025	\$ 265,907
Currency translation adjustment	-	-	(9,753)	-	(9,753)
Balance, December 31, 2016	46,080	27,926	163,123	19,025	256,154
Balance, March 31, 2017	\$ 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, 2015	\$ 12,335	\$ 15,936	\$ 87,861	\$ 5,473	\$ 121,605
Depreciation for the year	7,011	6,595	75,262	3,805	92,673
Balance, December 31, 2016	\$ 19,346	\$ 22,531	\$ 163,123	\$ 9,278	\$ 214,278
Depreciation for the period	1,446	742	-	951	3,139
Balance, March 31, 2017	\$ 20,792	\$ 23,273	\$ 163,123	\$ 10,229	\$ 217,417

Carrying Value	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2016	\$ 26,734	\$ 5,395	\$ -	\$ 9,747	\$ 41,876
Balance, March 31, 2017	\$ 25,288	\$ 4,653	\$ -	\$ 8,796	\$ 38,737



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## International Wastewater Systems Inc.

### Notes to Condensed Consolidated Interim Financial Statements

Three Months Ended March 31, 2017

(Expressed in Canadian Dollars)

Unaudited

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#### 7. Loans payable

(i) During the year ended December 31, 2015 IWWS received a loan of \$102,035 (£50,000) from an unrelated company. The loan accrues interest at a rate of 12.5% per annum and is payable on April 17, 2020. The loan must be repaid in monthly payments of £1,125 with the first payment required on June 17, 2015. An arrangement fee of £1,000 was paid prior to the loan being advanced. The loan is guaranteed by the CEO of IWWS. During the three months ended March 31, 2017, the Company made payments totalling \$6,145 (£3,750), of which \$2,412 (£1,472) related to interest and \$3,733 (£2,278), related to principal. The balance of the loan as at March 31, 2017 is \$58,916 (£35,506), of which \$17,222 (£10,379) is recognized as short-term.

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

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	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 267,402	\$ 137,048
Proceeds from loans	-	808,968
Repayment of loans	(213,531)	(699,559)
Interest expense	3,184	36,161
Foreign exchange	1,861	(15,216)
Balance, end of period	58,916	267,402
Less: non-current portion	(41,694)	(45,394)
	\$ 17,222	\$ 222,008

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#### 8. Deferred revenue

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	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of year	\$ 20,400	\$ 265,280
Revenue recognized	-	(907,361)
Sales contracts	81,600	662,481
	\$ 102,000	\$ 20,400

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**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
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**9. Warranty provisions**

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

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of year	\$ 169,370	\$ 24,011
Warranty provisions recognized	(8,456)	416,398
Warranty expenses incurred	-	(271,039)
Foreign exchange	249	-
	161,163	169,370
Less: non-current portion	(9,904)	(17,979)
	\$ 151,259	\$ 151,391

**10. Share capital**

a) Authorized share capital

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

**10. Share capital (continued)**

b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2015 and March 31, 2016	80,870,000	\$ 5,421,804
Balance, December 31, 2016 and March 31, 2017	92,327,544	\$ 7,876,677
Private placement (iii)	2,659,850	797,955
Warrant valuation (iii)	-	(338,333)
Share issue costs (iii)	-	(119,963)
Warrants exercised (note 12)	226,000	31,640
Shares issued for debt (i)	350,000	112,000
Shares issued for services (ii)	87,500	28,000
Balance, March 31, 2017	95,650,894	\$ 8,387,976

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

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

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

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
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**10. Share capital (continued)**

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

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

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

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

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 March 31, 2017 28,200,000 shares were held in escrow (December 31, 2016 – 28,200,000).

**11. Stock options**

	Number of stock options	Weighted average exercise price
Balance, December 31, 2015 and March 31, 2016	6,575,000	\$ 0.47
Balance, December 31, 2016 and March 31, 2017	6,085,000	\$ 0.31

The following table reflects the actual stock options issued and outstanding as of March 31, 2017:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
October 27, 2020	0.42	3.58	500,000	500,000
July 12, 2021	0.30	4.28	5,460,000	1,092,000
May 15, 2022	0.15	5.13	125,000	125,000
	0.31	4.24	6,085,000	1,717,000

**Share-based payments**

During the three months ended March 31, 2017, the Company recognized share-based payments of \$196,311 (three months ended March 31, 2016 - \$546,434) relating to the vesting terms of the stock options granted and modified.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**12. Warrants**

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	1,200,000	\$ 0.14
Issued	500,000	0.28
Balance, March 31, 2016	1,700,000	0.18
Balance, December 31, 2016	1,730,000	\$ 0.17
Issued (note 10 (iii))	2,859,338	0.39
Exercised	(226,000)	0.14
Balance, March 31, 2017	4,363,338	\$ 0.32

The following are the warrants outstanding at March 31, 2017:

Number of Warrants	Exercise Price (\$)	Expiry Date
837,000	0.14	June 30, 2017
384,000	0.20	August 22, 2018
208,000	0.20	September 2, 2018
75,000	0.45	October 21, 2018
2,659,850	0.40	February 27, 2019
199,488	0.30	February 27, 2019
4,363,338	0.32	

**13. Related party transactions**

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

During the three months ended March 31, 2017 (three months ended March 31, 2016), the Company incurred the following charges with key management personnel:

- (i) Consulting fees of \$30,000 (\$46,787) to companies controlled by directors and officers of the Company.
- (ii) Wages and benefits of \$61,500 (\$82,050) to the CEO, director of the Company and a director of IWHES.
- (iii) Accounting fees of \$nil (\$4,000) to a company controlled by a director of IWHES.
- (iv) Share-based payments of \$161,850 (\$450,568) was recognized in connection with the vesting of options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of \$nil (\$2,798) and additional cost of sales of \$2,832 (\$nil) due to a company controlled by a director of IWWS.

Included in accounts payable is \$85,816 (December 31, 2016 - \$134,729) due to related parties.

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**13. Related party transactions (continued)**

**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 March 31, 2017 the outstanding balance was \$41,832 (\$41,211). In addition there is an advance of \$27,702 (December 31, 2016 - \$27,702) to the CEO which is non-interest bearing and is due on demand.

**14. Commitment**

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

**15. Segmented information**

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

Geographic information as at March 31, 2017 is as follows:

	Canada	United Kingdom	Total
<b>Assets</b>			
Inventory	\$ 546,306	\$ 69,843	\$ 616,149
Equipment	38,737	-	38,737
	\$ 585,043	\$ 69,843	\$ 654,886

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

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

Geographic information for the three months ended March 31, 2017 is as follows:

	Canada	United Kingdom	Total
Cost of sales	-	(139,672)	(139,672)
Gross Margin	-	(139,672)	(139,672)
Loss for the period	\$ (857,902)	\$ (253,479)	\$ (1,111,381)

**International Wastewater Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three Months Ended March 31, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**15. Segmented information (continued)**

Geographic information for the three months ended March 31, 2016 is as follows:

	<b>Canada</b>	<b>United Kingdom</b>	<b>Total</b>
Revenues	\$ -	\$ 25,478	\$ 25,478
Cost of sales	-	(178,612)	(178,612)
Gross Margin	-	(153,134)	(153,134)
Loss for the period	\$ (1,028,790)	\$ (348,486)	\$ (1,377,276)

**16. Subsequent events**

(i) Subsequent to March 31, 2017, the Company completed the final tranche of a brokered private placement pursuant to which the Company issued 2,417,000 additional units at a price of \$0.30 per unit for aggregate gross proceeds of \$725,100. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share until February 27, 2019 at an exercise price of \$0.40 per share.

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

In conjunction with the closing, the Company amended the terms of the non-brokered private placement completed on December 23, 2016 to offer each participant in the non-brokered placement one warrant for each common share purchased on the same terms as the brokered placement. Accordingly, the Company issued a total of 2,275,333 warrants to purchasers from the non-brokered placement.

(ii) Subsequent to March 31, 2017, 837,000 warrants were exercised for proceeds of \$117,180.