



*A Company Specializing in Environmental Protection and Remediation Technologies*

**CONSOLIDATED FINANCIAL STATEMENTS  
AND NOTES  
FOR THE YEARS ENDED DECEMBER 31, 2018  
AND 2017**

## CONTENTS

	<b>Page</b>
Auditor's report	-
Consolidated statements of financial position	1
Consolidated statements of shareholders' equity (deficit)	2
Consolidated statements of loss and comprehensive loss	3
Consolidated statements of cash flows	4
Notes to the consolidated financial statements	5 - 28

## Independent Auditor's Report

---

### To the Shareholders of Current Water Technologies Inc.:

#### Opinion

We have audited the consolidated financial statements of Current Water Technologies Inc. and its subsidiary (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statements of loss and comprehensive loss, shareholders' equity (deficit) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred a net loss of \$4,791,072 during the year ended December 31, 2018 and, as of that date, had an accumulated deficit of \$27,084,009. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Emphasis of Matter - Restated Comparative Information

We draw attention to Note 20 to the consolidated financial statements, which explains that certain comparative information for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended December 31, 2017, excluding the adjustments that were applied to restate certain comparative information as described in Note 20, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2018.

As part of our audit of the consolidated financial statements for the year ended December 31, 2018, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2017. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

#### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Giacomo Angelini.

*MNP LLP*

Waterloo, Ontario

May 6, 2019

Chartered Professional Accountants

Licensed Public Accountants

**CURRENT WATER TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

Expressed in Canadian Dollars		<b>As at December 31, 2018</b>	<b>As at December 31, 2017</b> (Restated note 20)
	<b>ASSETS</b>		
<b>CURRENT</b>			
Cash and cash equivalents		\$ 97,687	\$ 124,480
Accounts receivable (note 6)		167,691	28,686
Inventories (note 7)		385,014	554,511
Prepaid expenses		<u>88,190</u>	<u>5,940</u>
		738,582	713,617
<b>Deposit - Acquisition of Pumptronics incorporated</b>		-	100,000
<b>PROPERTY, PLANT AND EQUIPMENT</b> (note 8)		153,103	34,057
<b>INTANGIBLE ASSETS</b> (note 9)		<u>13,902</u>	<u>26,649</u>
		<u>\$ 905,587</u>	<u>\$ 874,323</u>
	<b>LIABILITIES</b>		
<b>CURRENT</b>			
Accounts payable and accrued liabilities		\$ 673,505	\$ 199,791
Deferred revenue		<u>674,229</u>	<u>702,352</u>
		1,347,734	902,143
<b>LOANS PAYABLE</b>		<u>44,790</u>	-
		<u>1,392,524</u>	<u>902,143</u>
	<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>CAPITAL STOCK</b> (note 10)		19,588,211	16,222,878
<b>SHARES TO BE ISSUED</b> (note 10)		-	80,000
<b>WARRANT RESERVE</b> (note 10)		656,039	267,321
<b>CONTRIBUTED SURPLUS</b>		6,352,822	5,694,918
<b>DEFICIT</b>		<u>(27,084,009)</u>	<u>(22,292,937)</u>
		<u>(486,937)</u>	<u>(27,820)</u>
		<u>\$ 905,587</u>	<u>\$ 874,323</u>

**APPROVED ON BEHALF OF THE BOARD:**



Gene Shelp, Director



Edward Tsang, Director

*(The accompanying notes form an integral part of these financial statements)*

**CURRENT WATER TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)**

Expressed in Canadian Dollars	Common shares Number	Common shares Amount	Common shares to be issued	Warrant reserve	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficit)
<b>Balance - Jan 1, 2017</b>	<b>110,203,919</b>	<b>\$15,706,401</b>	<b>\$ -</b>	<b>\$ 276,066</b>	<b>\$ 5,299,532</b>	<b>\$ (20,999,848)</b>	<b>\$ 282,151</b>
Net loss for the year	-	-	-	-	-	(1,293,089)	(1,293,089)
Share-based payments	-	-	-	-	314,518	-	314,518
Private placement	6,150,000	615,000	-	-	-	-	615,000
Share issue cost	-	(98,523)	-	72,123	-	-	(26,400)
Shares to be issued	-	-	80,000	-	-	-	80,000
Expiration of warrants	-	-	-	(80,868)	80,868	-	-
<b>Balance - Dec. 31, 2017</b>	<b>116,353,919</b>	<b>\$16,222,878</b>	<b>\$80,000</b>	<b>\$267,321</b>	<b>\$5,694,918</b>	<b>\$(22,292,937)</b>	<b>\$(27,820)</b>
Net loss for the year	-	-	-	-	-	(4,791,072)	(4,791,072)
Share-based payments	-	-	-	-	531,774	-	531,774
Private placements	20,925,619	2,896,500	(80,000)	-	-	-	2,816,500
Share issue cost	-	(218,487)	-	-	-	-	(218,487)
Warrants	-	(583,918)	-	583,918	-	-	-
Expiration of warrants	-	-	-	(195,200)	195,200	-	-
Options exercised	1,350,000	205,070	-	-	(69,070)	-	136,000
Shares issued upon acquisition of Pumphtronics (note - 5)	12,000,000	1,066,168	-	-	-	-	1,066,168
<b>Balance - Dec. 31, 2018</b>	<b>150,629,538</b>	<b>\$ 19,588,211</b>	<b>-</b>	<b>\$ 656,039</b>	<b>\$ 6,352,822</b>	<b>\$(27,084,009)</b>	<b>\$(486,937)</b>

*(The accompanying notes form an integral part of these financial statements)*

**CURRENT WATER TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Expressed in Canadian Dollars

	<b>2018</b>	<b>2017</b> <b>(Restated note 20)</b>
<b>REVENUE</b>	\$ <u>2,435,027</u>	\$ <u>532,439</u>
<b>EXPENSES</b>		
Direct operating expenses	\$ 3,122,298	\$ 1,141,690
General and administrative expenses (note 15)	1,137,474	331,745
Depreciation and amortization (notes 8 and 9)	56,753	37,575
Share-based payments	531,774	314,518
Impairment on acquisition of Pumptronics (note 5)	<u>2,377,800</u>	<u>-</u>
	<u>7,226,099</u>	<u>1,825,528</u>
<b>NET LOSS AND COMPREHENSIVE LOSS BEFORE INCOME TAXES</b>	\$ (4,791,072)	\$ (1,293,089)
<b>INCOME TAXES (note 17)</b>	<u>-</u>	<u>-</u>
<b>NET LOSS AND COMPREHENSIVE LOSS AFTER INCOME TAXES</b>	\$ <u>(4,791,072)</u>	\$ <u>(1,293,089)</u>
<b>Basic and diluted loss per share</b>	\$ <u>(0.03)</u>	\$ <u>(0.01)</u>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<u>146,269,083</u>	<u>113,441,704</u>

*(The accompanying notes form an integral part of these financial statements)*

**CURRENT WATER TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Expressed in Canadian Dollars

	<b>2018</b>	<b>2017</b> <i>(Restated note 20)</i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (4,791,072)	\$ (1,293,089)
Add: Items not involving an outlay of cash		
Depreciation on tangible assets	44,006	10,652
Amortization on intangible assets	12,747	26,924
Impairment on acquisition of Pumptronics	2,377,800	-
Share-based payments	531,774	314,518
<b>CHANGES IN NON-CASH WORKING CAPITAL</b>		
(Increase) decrease in accounts receivable	(34,622)	62,556
Decrease (increase) in inventories	220,237	(290,226)
(Increase) decrease in prepaid expenses	(78,210)	1,000
Increase in accounts payable and accrued liabilities	127,117	94,852
(Decrease) increase in deferred revenue	<u>(28,121)</u>	<u>599,602</u>
Cash used in operating activities	<u>(1,618,344)</u>	<u>(473,211)</u>
<b>INVESTING ACTIVITIES</b>		
Investment in Pumptronics	(1,100,000)	(100,000)
Acquisition of property, plant and equipment	<u>(52,039)</u>	<u>(16,988)</u>
Cash used in investing activities	<u>(1,152,039)</u>	<u>(116,988)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of loans payable	(19,292)	-
Proceeds from issuance of shares and warrants (net of share issue cost)	2,762,882	588,600
Proceeds from shares and warrants to be issued (net of share issue cost)	<u>-</u>	<u>80,000</u>
Cash flow from financing activities	<u>2,743,590</u>	<u>668,600</u>
<b>Net change in cash and cash equivalents during the year</b>	(26,793)	78,401
<b>Cash and cash equivalents, beginning of the year</b>	<u>124,480</u>	<u>46,079</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 97,687</u>	<u>\$ 124,480</u>

*(The accompanying notes form an integral part of these financial statements)*

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**1. DESCRIPTION OF BUSINESS**

**Corporate information**

Current Water Technologies Inc. (the 'Company'), is incorporated under the Ontario Business Corporations Act and is a publically traded company whose common shares are listed under the symbol "WATR" on the TSX Venture Exchange. Previously the Company's name was Enpar Technologies Inc. under the symbol "ENP" on the TSX Venture Exchange and changed its name effective January 2, 2018. The Company is engaged in the development of environmental technologies. The Company currently markets its products throughout the world and in this regard the Company has signed a number of marketing and distribution agreements with various parties granting exclusive rights to these parties for the sale of the Company's various technologies in specific geographic regions. The Company's corporate head office and principal place of business is located at 70 Southgate Drive, Unit 4, Guelph, Ontario, Canada N1G 4P5.

**Going concern**

These consolidated financial statements have been prepared under the assumption that the Company is a going concern. This assumption, among other things, contemplates that the Company will be able to realize on its assets and discharge its liabilities in the normal course of operations. The Company has incurred a loss during the current year in the amount of \$4,791,072 (2017: \$1,293,089) resulting in an accumulated deficit of \$27,084,009 (2017: \$22,292,937), working capital of (\$609,152) (2017: (\$188,526)) and generated a negative cash flow from operations in the amount of \$1,618,344 (2017: \$473,211). The Company has been able to fund these operating losses mainly by raising equity; however, there can be no assurance that the Company will be able to do so in the future. As such, there is material uncertainty relating to these conditions that cast significant doubt concerning the Company's ability to continue as a going concern. Should the going concern assumption be proven to be invalid, adjustments to the carrying amounts of certain assets would be material.

**Basis of preparation and statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements of Current Water Technologies Inc. were approved for issuance by the Board of Directors on May 6, 2019. The policies applied in these consolidated financial statements are based on IFRS's issued and outstanding as of December 31, 2018.

These financial statements are presented in Canadian dollars, which is our presentation and functional currency. These financial statements have been prepared using the historical cost basis except for certain financial instruments that have been evaluated at fair value. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

These consolidated financial statements incorporate the financial statements of Current Water Technologies Inc. and its subsidiary, Pumptronics Incorporated over which Current Water Technologies Inc. has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**2. ADOPTION OF NEW ACCOUNTING POLICIES**

***Standards and interpretations effective in the current period***

**(i) IFRS 15 Revenue from contracts with customers**

Effective January 1, 2018, the Company has adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15) using the modified retrospective approach. Comparative information has not been restated and continues to be reported under IAS 18 Revenue and IAS 11 Construction Contracts. The Company used the practical expedient to apply IFRS 15 only to contracts not completed at January 1, 2018. In addition, the Company used the practical expedient to reflect the aggregate effect of all contract modifications that occurred before January 1, 2018, for the purposes of identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations. There has not been an impact to the consolidated statement of financial position or consolidated statement of loss and comprehensive loss as a result of the adoption of IFRS 15.

**Identification of a contract with a customer**

When determining the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in a given period.

The Company accounts for a contract when it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified, and collectability of consideration is probable.

**Identifying performance obligations in a contract and allocating revenue**

For most of the Company's contracts, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project. Consequently, the entire contract is accounted for as one performance obligation. Less frequently, however, the Company may provide several distinct goods or services as part of a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The expected cost plus a margin approach is typically used to estimate the standalone selling price of each performance obligation. To determine the appropriate margin, management considers margins for comparable services under similar contracts in similar markets.

**Determining the transaction price**

Variable consideration for contracts related to change orders approved as to scope but unapproved as to price, is included in estimated revenue to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company estimates variable consideration at the most likely amount it expects to be entitled. Estimates of variable consideration are based on historical experience, anticipated performance, and management's best judgment based on the information available at the time.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**2. ADOPTION OF NEW ACCOUNTING POLICIES – continued:**

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the change either creates new, or changes existing, enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of these contract modifications on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. However, if a contract modification is for distinct goods and services from the existing contract and the pricing of the contract modification reflects the standalone selling pricing of the additional goods or services, then the contract modification is treated as a separate contract.

Due to the nature of many of the Company's performance obligations, the estimation of total revenue and costs at completion is complex, subject to many variables, and requires significant judgment. These areas of measurement uncertainty are discussed further in the Critical accounting judgments, estimates and assumptions section. Any changes to the estimates of forecasted revenue and total costs are recognized on a cumulative basis, which recognizes in the current period the cumulative effect of the changes based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's performance obligations.

When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

**Performance obligations satisfied over time**

The Company typically transfers control of goods or services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience. As a result of control transferring over time, revenue for fixed fee contracts is recognized based on the extent of progress towards completion of the performance obligation. The Company generally uses the cost-to-cost measure of progress for its contracts because it best reflects the transfer of an asset to the customer which occurs as costs are incurred on the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill contracts may include labour, materials, subcontractor, and other direct costs, as well as an allocation of indirect costs.

**Revenue Recognition**

The Company receives revenue on construction contracts to construct treatment units, which is specifically negotiated for the construction of an asset or combination of assets. All construction contracts are fixed-price contracts. Revenue on contracts to construct treatment units are recorded on the basis of percentage of completion of individual contracts. That portion of the total contract price applicable to contract expenditures incurred and work performed is accrued on the basis of engineering estimates of the percentage of completion. As these long term contracts extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts requiring the revision become known.

The Company receives revenue on short term contracts to construct commercial pumping solutions. All pump-related contracts are fixed-price contracts.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
**(Canadian dollars, except per share amounts)**

**2. ADOPTION OF NEW ACCOUNTING POLICIES – continued:**

The Company receives service revenue related to the certain service contracts for maintaining water treatment units and pumping solutions.

**Presentation of Contract Balances**

Accounts receivables are amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains an expected credit loss to provide for the estimated amount of receivables that will not be collected in accordance with IFRS 9.

Deferred revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

**(ii) IFRS 9 Financial Instruments (“IFRS 9”)**

On January 1, 2018, the Company adopted IFRS 9 financial instruments (“IFRS 9”) in place of IAS 39 Financial Instruments: Recognition and Measurements (“IAS 39”). In accordance with the transitional provision, the Company applied IFRS 9 on a retrospective basis.

The adoption of IFRS 9 has resulted in a change in accounting policy in two areas, classification and measurement and impairment.

**Classification and measurement**

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity’s business model and the nature of the cash flows of the asset. Under IFRS 9 all financial instruments are initially measured at fair value which is consistent with IAS 39. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost. For financial liabilities, IFRS 9 is substantially the same as was previously included in IAS 39. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a solely payment of principal and interest (“SPPI”) test to be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of a financial instrument are solely payments of principal and interest. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL. Debt instruments that are managed on a hold to collect and for sale basis are classified as FVOCI. Debt instruments that are managed on a hold to collect basis are classified as amortized cost.

All equity instrument financial assets are classified at initial recognition as FVTPL unless they are not held for short-term profit taking intent and an irrevocable designation is made to classify the instrument as FVOCI for equities.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
**(Canadian dollars, except per share amounts)**

**2. ADOPTION OF NEW ACCOUNTING POLICIES – continued:**

As a result of the adoption of IFRS 9, the fair value through profit or loss, available-for-sale (“AFS”), held-to-maturity (“HTM”), and loans and receivables have been replaced with the following classifications:

- Amortized cost: Financial assets measured at amortized cost are debt financial instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses.

Consistent with IAS 39, cash and cash equivalents and accounts receivable are recorded at amortized cost. These financial assets were previously classified as loans and receivables under IAS 39.

- FVTPL: Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking.
- Non-trading financial assets are also mandatorily measured at fair value if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. Trading and non-trading financial instruments valued at FVTPL are remeasured at fair value as at the statement of financial position date.

Financial instruments may be designated at FVTPL that would otherwise fall into a different accounting category. As was the case under IAS 39, the FVO designation, once made, is irrevocable and can only be applied if reliable fair values are available.

Consistent with IAS 39, the Company does not have any financial assets that are measured at FVTPL.

- FVOCI: Debt financial instruments measured at FVOCI are non-derivative financial assets with contractual cash flows that meet the SPPI test and are managed on a hold to collect and for sale basis. Subsequent measurement of debt instruments classified at FVOCI under IFRS 9 operates in a similar manner to AFS debt securities under IAS 39, except that the expected credit loss (“ECL”) impairment model must be applied to these instruments under IFRS 9. As a result, FVOCI debt instruments are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, FVOCI debt instruments are remeasured at fair value through OCI, with the exception that both related foreign exchange gains or losses and changes in ECL allowances are recognized in the statement of loss and comprehensive loss.

Consistent with IAS 39, the Company does not have any financial assets that are measured at FVOCI.

The adoption of IFRS 9 did not have an impact on the Company’s classification and measurement of financial assets and liabilities and on the retrospective adoption date of January 1, 2018, there was no change in the carrying value of the financial instruments on transition from IAS 39.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**2. ADOPTION OF NEW ACCOUNTING POLICIES – continued:**

**Impairment**

Impairment of financial assets under IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, contract assets, lease receivables, debt investments measured at FVOCI, loan commitments that are not designated as FVTPL and financial guarantee contracts not designed as FVTPL. The Company applies this model to its accounts receivable. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information (“FLI”) is incorporated into the estimation of ECL allowances, which involves significant judgment. The calculation of ECL allowances is based on the expected value of the probability-weighted scenarios to measure expected cash shortfalls, discounted at the effective interest rate.

Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears or greater is automatically considered impaired.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery.

For accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires lifetime ECLs to be recognized from initial recognition. The adoption of IFRS 9 has not resulted in an adjustment to opening deficit.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these consolidated financial statements have been applied consistently to all periods presented in these financial statements other than the adoption of new standards disclosed in note 2.

**(a) Key accounting estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are used when accounting for items such as share-based payments and warrants, impairment of long-lived assets, percentage of completion on contracts, onerous contracts, collectability of receivables, inventory obsolescence and business combinations. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES – continued:**

i) Measurement of share-based payments and warrants

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options and warrants granted at the grant date. This model requires the input of a number of assumptions including expected dividend yields, expected stock volatility, expected time until exercise, expected forfeitures, and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve uncertainties based upon market conditions generally outside the control of the Company. If other assumptions were used, the fair value of share-based payments and warrants could be significantly impacted.

ii) Impairment of long-lived assets

The Company reviews these long-lived assets for objective evidence of impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparison of the assets carrying amount to the assets recoverable amount which is the greater of fair value less cost to sell and value in use. Value in use is measured as the expected future discounted cash flows expected to be derived from the asset. If the carrying value exceeds the recoverable amount, the asset is written down to the recoverable amount.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

iii) Percentage of completion of contracts

The percentage of completion of jobs in progress at the end of the year requires management to estimate the percentage of work done at each reporting period. The estimates are made based on the best information available and are adjusted at each reporting period.

iv) Onerous contracts

The Company enters into percentage of completion contracts in the ordinary course of its business. When the unavoidable cost of meeting the obligations under these contracts exceeds the associated expected future net benefits, an onerous contract provision is recognized. The calculation of this provision involves the use of estimates including, but not limited to, contract gross margin, and the effect of labour hours related to learning curves of production and the timing of achieving certain operational efficiencies. These actual results can vary significantly from these estimates with consequent variability in the amounts of the provision recorded. The onerous contract provision is calculated by taking the expected future costs that will be incurred under the contract and deducting any estimated revenues. The company has recorded nil provision associated with onerous contracts during the year end December 31, 2018 (2017- nil).

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES – continued:**

v) Collectability of receivables

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the expected credit losses, management makes assumptions about the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Company develops a number of assumptions as follows:

- The period over which the Company is exposed to credit risk
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on receivables during their expected lives
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

vi) Inventory obsolescence

Inventories are valued at the lower of cost and net realizable value. Inventory is reviewed monthly to ensure the carrying value does not exceed net realizable value. The company also assesses inventory for slow moving items. Where inventory aging indicates the value may not be realized or cost exceeds net realizable value, a write-down is recognized. The write-down may be reversed if the circumstances which caused it no longer exist.

vii) Business combinations

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets and liabilities acquired, the most significant estimates relate to the valuation of intangibles assets, goodwill and property plant and equipment.

**(b) Cash and cash equivalents:**

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid and having an initial term of less than 90 days.

**(c) Research and development:**

Research and development activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. The costs of developing new products are capitalized as deferred development costs, if they meet the development capitalization criteria under IFRS. These criteria include the ability to measure development costs reliably, the product is technically, and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. To date all of the research and development costs have been expensed. Investment tax credits and government assistance relating to expensed research and development costs are applied to reduce the relevant expense.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES - continued:**

**(d) Inventories:**

Inventory is measured at the lower of cost or net realizable value. Cost is determined using the first in first out method. Work in process includes direct costs, direct labour and overheads.

**(e) Property plant and equipment:**

Property plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives at the following annual rates:

Office furniture and fixtures	- 20% declining-balance basis
Equipment	- 20% declining-balance basis
Computer hardware	- 30% declining-balance basis
Automotive	- 20% declining-balance basis
Leasehold improvements	- 5 years on a straight-line basis
Demonstration units	- 5 years on a straight-line basis

Gains and losses on disposals of property, plant, and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statement of loss and comprehensive loss.

**(f) Intangible assets:**

Patents and rights to technology are carried at cost less accumulated amortization. Amortization is provided using the following annual rates:

Patents	- 6 years on a straight-line basis
Rights to technology	- 6% declining-balance basis

**(g) Income taxes:**

Income tax on the profit or loss consists of current and deferred tax. Income tax expense 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. The Company uses the asset and liability method to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, which does not affect accounting or taxable profit, and;
- goodwill not deductible for tax purposes.

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

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES - continued:**

**(h) Foreign currency translation:**

Transactions denominated in foreign currencies other than the Company's functional currency of Canadian dollars are translated at exchange rates in effect at the dates of the transactions. When the transaction is settled, at the actual cost of the foreign currency, any difference in the exchange rate is booked to the corresponding expense account. At year-end, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at exchange rate in effect at the end of the year. Statement of loss items are translated at exchange rates prevailing at the transaction dates. Exchange gains and losses are included in the statement of loss.

**(i) Share-based payments:**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with options vesting over a period of eighteen months and at prices equal to or greater than the closing market price on the day preceding the date the options were granted less any applicable discount.

The fair value of share purchase options granted is recognized as an expense with a corresponding increase in equity. The fair value for share purchase options granted to employees or those providing services similar to those provided by a direct employee is measured at the vesting date and each tranche is recognized using the accelerated method basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted. The fair value for share purchase options granted to non-employees for services provided is measured at the date the services are received. The fair value of the share purchase options granted is measured at the fair value of the services received, unless the fair value of services received cannot be estimated reliably, in which case the fair value of the share purchase options is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

**(j) Related party transactions:**

Transactions with related parties which occur in the normal course of business are recorded at the amount of consideration established and agreed to by the related parties.

**(k) Loss per share:**

Basic loss per share (LPS) is computed by dividing net loss available to owners of the Company by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing net loss available to owners of the Company by the weighted average number of Common Shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options and warrants, if not anti-dilutive.

**(l) Impairment of non-financial assets:**

The Company's tangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Long-lived assets that are not amortized are subject to an annual impairment assessment.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES - continued:**

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. 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.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's (or its cash-generating unit's) carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment of goodwill is not reversed.

**(m) Leases:**

Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received, if any, are recognized as an integral part of the total lease expense over the term of the lease.

**(n) Investment tax credits:**

As a result of incurring scientific research and development expenditures, management has estimated that there will be non-refundable federal and refundable and non-refundable provincial investment tax credits receivable following the completion of an audit process by tax authorities. Investment tax credits are recorded when received or when there is reasonable assurance that the credits will be realized. Upon recognition, amounts will be recorded as a reduction of research and development expenditures.

**(o) Business combinations:**

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

**(p) Segment reporting:**

Segment reporting is based on the Company's divisional operations. The breakdown by division mirrors the Company's internal reporting systems. Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation and assessing its performance.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**3. SIGNIFICANT ACCOUNTING POLICIES - continued:**

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

**IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.

IFRS 16 will be applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

The Company has leases in place as disclosed in note 16. On transition to IFRS 16, the Company will elect to apply the practical expedient to only transition contracts which were previously identified as leases. The Company will also elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company is currently finalizing the quantitative assessment of the impact of the adoption of this new standard.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**5. ACQUISITION OF SUBSIDIARY**

On January 8th, 2018, Current Water Technologies acquired 100% of the Class B shares of Pumptronics Inc. ("Pumptronics") for a total purchase price of \$2,266,168. Cash consideration totaling \$1,200,000 included \$700,000 cash paid on the date of closing, \$100,000 by way of credit of the deposit previously paid by the Company to the vendor, and payment of \$400,000 by issuance of a non interest bearing promissory note to the vendor or as the vendor may direct. The balance was settled through the issue of 12,000,000 common shares of the Company. The primary reason for the purchase is expected synergies.

The table below represents the fair market values of assets and liabilities transferred as a result of the transaction:

Deposit	100,000
Cash	700,000
Promissory note	400,000
Common shares	<u>1,066,168</u>
Total consideration	2,266,168
Accounts receivable	104,383
Inventory	63,329
Prepaid expenses	4,040
Property, plants and equipment	111,013
Bank indebtedness	(762)
Loans payable	(64,082)
Accounts payable and accrued liabilities	<u>(329,553)</u>
Fair market value of net assets	<u>(111,632)</u>
Loss on acquisition	<u>(2,377,800)</u>

Loans payable relate to vehicle loans, bearing interest at rates from 1.97% to 2.99%, maturing from February 2021 to September 2022, and secured by the vehicles financed.

On acquisition, it was determined that the fair value of the Pumptronics intangible assets was nil and as a result, the Company recorded the difference from consideration paid and fair value of net assets acquired on acquisition, \$2,377,800, to the statement of loss and comprehensive loss.

**6. Account receivable**

	<b>2018</b>	<b>2017</b>
Trade receivables	\$ 290,564	\$ 28,686
Allowance for doubtful accounts	<u>(122,873)</u>	<u>-</u>
	<u>\$ 167,691</u>	<u>\$ 28,686</u>

The Company applies the simplified approach to trade receivables by making provision for the full amounts of account receivable and recognizes a loss allowance provision based on lifetime ECLs. The loss allowance provision is based on the Company's historical collection, loss experience and incorporates forward looking factors, where appropriate.

During the year, \$7,570 trade receivables were written off and the Company recorded an allowance provision for \$122,873 on the remaining trade receivables. There have not been any recoveries from the collection of cash flows previously written off.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**7. INVENTORIES**

	<b>2018</b>	<b>2017</b> (Restated note 20)
Raw materials	\$ 385,014	\$ 536,500
Warehouse supplies	<u>-</u>	<u>18,011</u>
	<u>\$ 385,014</u>	<u>\$ 554,511</u>

The cost of inventories recognized as an expense and included in direct operating expenses is \$1,638,458 (2017 – 863,872). The cost of inventories recognized as an expense and included in direct operating expenses due to a write-down to net realizable value is \$18,296 (2017 - \$nil).

**8. PROPERTY, PLANT AND EQUIPMENT**

	<u><b>COST</b></u>					<b>Total</b>
	<b>Office furniture and fixtures</b>	<b>Equipment</b>	<b>Computer hardware</b>	<b>Automotive</b>	<b>Leasehold improvements &amp; demo units</b>	
<b>January 1, 2017</b>	\$ 62,199	\$ 74,433	\$ 93,546	\$ -	\$ 364,170	\$ 594,348
<b>Additions</b>	<u>-</u>	<u>16,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,988</u>
<b>December 31, 2017</b>	62,199	91,421	93,546	-	364,170	611,336
<b>Transfer on Acquisition</b>	-	19,164	-	91,849	-	111,013
<b>Additions</b>	<u>9,861</u>	<u>39,179</u>	<u>2,999</u>	<u>-</u>	<u>-</u>	<u>52,039</u>
<b>December 31, 2018</b>	<u>\$ 72,060</u>	<u>\$ 149,764</u>	<u>\$ 96,545</u>	<u>\$ 91,849</u>	<u>\$ 364,170</u>	<u>\$774,388</u>

	<u><b>ACCUMULATED DEPRECIATION</b></u>					<b>Total</b>
	<b>Office furniture and fixtures</b>	<b>Equipment</b>	<b>Computer hardware</b>	<b>Automotive</b>	<b>Leasehold improvements &amp; demo units</b>	
<b>January 1, 2017</b>	\$ 52,980	\$ 65,856	\$ 87,073	\$ -	\$360,718	\$ 566,627
<b>Depreciation</b>	<u>1,844</u>	<u>3,414</u>	<u>1,942</u>	<u>-</u>	<u>3,452</u>	<u>10,652</u>
<b>December 31, 2017</b>	54,824	69,270	89,015	-	364,170	577,279
<b>Depreciation</b>	<u>2,461</u>	<u>25,048</u>	<u>1,809</u>	<u>33,555</u>	<u>-</u>	<u>44,006</u>
<b>December 31, 2018</b>	<u>\$ 57,285</u>	<u>\$ 94,318</u>	<u>\$ 90,824</u>	<u>\$ 33,555</u>	<u>\$ 364,170</u>	<u>\$ 621,285</u>

	<u><b>Net Book Value</b></u>					
<b>December 31, 2017</b>	<u>\$ 7,375</u>	<u>\$ 22,151</u>	<u>\$ 4,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,057</u>
<b>December 31, 2018</b>	<u>\$ 14,775</u>	<u>\$ 119,786</u>	<u>\$ 5,721</u>	<u>\$ 78,294</u>	<u>\$ -</u>	<u>\$ 153,103</u>

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**9. INTANGIBLE ASSETS**

**COST**

	<b>Patents</b>	<b>Rights to Technology</b>	<b>Total</b>
January 1, 2017	\$ 545,983	\$ 10,000	\$ 555,983
Additions	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2017	545,983	10,000	\$ 555,983
Additions	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2018	<u>\$ 545,983</u>	<u>\$ 10,000</u>	<u>\$ 555,983</u>

**ACCUMULATED AMORTIZATION**

	<b>Patents</b>	<b>Rights to Technology</b>	<b>Total</b>
January 1, 2017	\$ 495,538	\$ 6,872	\$ 502,410
Amortization	<u>26,736</u>	<u>188</u>	<u>26,924</u>
December 31, 2017	522,274	7,060	\$ 529,334
Amortization	<u>12,571</u>	<u>176</u>	<u>12,747</u>
December 31, 2018	<u>\$ 534,845</u>	<u>\$ 7,236</u>	<u>\$ 542,081</u>

**NET BOOK VALUE**

December 31, 2017	<u>\$ 23,709</u>	<u>\$ 2,940</u>	<u>\$ 26,649</u>
December 31, 2018	<u>\$ 11,138</u>	<u>\$ 2,764</u>	<u>\$ 13,902</u>

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**10. CAPITAL STOCK**

Capital stock consists of the following:

Authorized: Unlimited common shares  
Unlimited number of preferred shares

To date, the Company has not issued any preferred shares.

Common shares issued:	<u>Number of Shares</u>	<u>\$ Amount</u>
Balance, January 1, 2017	110,203,919	\$ 15,706,401
Private placement (note 10(i))	2,650,000	265,000
Private placement (note 10(ii))	3,500,000	350,000
Less: Share issue costs	-	(33,400)
Less: Warrants valuation	-	(65,123)
Balance, December 31, 2017	<u>116,353,919</u>	<u>16,222,878</u>
Acquisition Pumptronics (note 5)	12,000,000	1,066,168
Private placement (note 10(iii - v))	17,896,333	2,684,450
Options exercised	1,350,000	205,070
Private placement (note 10(vi))	3,029,286	212,050
Less: Share issue costs	-	(218,487)
Less: Warrants valuation	-	(583,918)
Balance, December 31, 2018	<u>150,629,538</u>	<u>\$ 19,588,211</u>

  

Warrants issued:	<u>Number of Warrants</u>	<u>\$ Amount</u>
Balance, January 1, 2017	9,020,834	\$ 276,066
Private placements – warrants	3,075,000	65,123
Finders warrants	264,000	7,000
Expired	<u>(3,687,500)</u>	<u>(80,868)</u>
Balance, December 31, 2017	8,672,334	267,321
Private placements – warrants	11,625,447	583,918
	-	-
Expired	<u>(5,333,334)</u>	<u>(195,200)</u>
Balance, December 31, 2018	<u>14,964,447</u>	<u>\$ 656,039</u>

- (i) On March 27, 2017, the Company closed a non-brokered private placement to accredited investors for 2,650,000 units at a price of \$0.10 per unit for gross proceeds of \$265,000. Each unit consists of one common share and half a share purchase warrant for a total of 1,325,000 warrants. Each purchase warrants entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.15 per common share. The Company paid no commission on this private placement. A total of \$25,573 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 66%, risk free interest rate of 1.00% and expected life of 2 years. All securities issued under, or in connection with, the Offering are subject to a four-month hold period under applicable Canadian securities laws.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
**(Canadian dollars, except per share amounts)**

**10. CAPITAL STOCK – continued:**

- (ii) On September 28, 2017, the Company closed a non-brokered private placement to accredited investors for 3,500,000 units at a price of \$0.10 per unit for gross proceeds of \$350,000. Each unit consists of one common share and half a share purchase warrant for a total of 1,750,000 warrants. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.15 per common share. The Company paid a commission of \$26,400 on this private placement. A total of \$39,550 is allocated as value of the warrants attached to the units. In addition, 264,000 finders warrants were issued with an exercise price of \$0.15. Each warrant entitles the holder to purchase one common share of the Company for \$0.15 on or before September 28, 2019. The fair value of the finders warrants issued was \$7,000 and has been included in the share issuance costs. The value of the shareholder and finders warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 72%, risk free interest rate of 1.00% and expected life of 2 years. All securities issued under, or in connection with, the Offering are subject to a four-month hold period under applicable Canadian securities laws.
  
- (iii) On January 8, 2018 to facilitate the acquisition of Pumphtronics Inc., the Company closed an initial tranche non-brokered private placement to accredited investors for 8,834,001 units at a price of \$0.15 per unit for gross proceeds of \$1,325,100. Each Unit consists of one common share and half a share purchase warrant for 4,416,998 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.25 per common share. A total of \$115,976 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 101.04%, risk free interest rate of 1.00% and expected life of 2 years.
  
- (iv) On February 2, 2018, the Company closed the second tranche of a non-brokered private placement to accredited investors for 6,003,332 units at a price of \$0.15 per unit for gross proceeds of \$900,500. Each unit consists of one common share and half a share purchase warrant for 3,001,666 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.25 per common share. A total of \$244,139 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 113.59%, risk free interest rate of 1.00% and expected life of 2 years.
  
- (v) On February 17, 2018, the Company closed the third and final tranche of a non-brokered private placement to accredited investors for 3,059,000 units at a price of \$0.15 per unit for gross proceeds of \$458,850. Each unit consists of one common share and half a share purchase warrant for 1,529,500 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.25 per common share. A total of \$123,848 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 108.81%, risk free interest rate of 1.00% and expected life of 2 years.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**10. CAPITAL STOCK – continued:**

- (vi) On November 29, 2018, the Company closed the first tranche of a non-brokered private placement to accredited investors for 3,029,286 units at a price of \$0.07 per unit for gross proceeds of \$212,050. Each Unit consists of one common share and half a share purchase warrant for 1,514,643 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of \$0.12 per common share. A total of \$36,773 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 108.36%, risk free interest rate of 1.00% and expected life of 2 years.
- (vii) Basic loss per share was calculated on the basis of the weighted average number of common shares outstanding for the year. Fully dilutive loss per share has not been disclosed as the exercise of the common share purchase options and warrants outstanding as at December 31, 2018 and 2017 (11,275,000 and 12,725,000 options respectively and 14,964,447 and 8,672,334 warrants respectively) would have an anti-dilutive effect.

(a) Stock incentive plan

Approved by the shareholders on July 8, 2008 and pursuant to Policy 4.4 of the TSX Venture Exchange, the Company maintains a Stock Incentive Plan for designated officers, directors, consultants and employees. Each stock option entitles the holder to one common share. Under the terms of the plan the term of the options shall not exceed ten years. The Option price of any shares in respect of which an option may be granted under the Plan shall be not less than the closing price of the Company's common shares on the TSX Venture Exchange on the last day of trading immediately preceding the date of the grant less any applicable discount, provided that where the common shares have not traded for a period of twenty days (20) preceding the date of grant, the Option price shall be determined based upon the average between the closing bid and asked prices for the five days (5) immediately preceding the date of grant. Options vest over a period of 18 months after the grant date, with 25% vesting immediately and an additional 25% vesting every six months. A summary of the status of the outstanding and exercisable stock options under the Stock Incentive Plan is presented below:

	Options	Weighted average exercise price
Outstanding, January 1, 2017	12,900,000	\$ 0.11
Granted, April 21, 2017	5,775,000	0.10
Expired	(5,950,000)	0.11
Outstanding, December 31, 2017	12,725,000	\$ 0.10
Exercised, January 4, 2018	(550,000)	0.10
Granted, January 19, 2018	750,000	0.15
Exercised, March 17, 2018	(800,000)	0.10125
Granted, April 1, 2018	500,000	0.15
Granted, April 26, 2018	750,000	0.20
Granted, November 14, 2018	800,000	0.10
Cancelled, April-June, 2018	(900,000)	0.10
Cancelled, September 1, 2018	(750,000)	0.20
Cancelled, September 1, 2018	(750,000)	0.10
Outstanding, December 31, 2018	11,775,000	\$ 0.11

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**10. CAPITAL STOCK – continued:**

The following table summarizes information about the options outstanding at December 31, 2018:

Exercise price	Options outstanding and exercisable	Remaining contractual life in years	Weighted Average Exercise price
\$ 0.10	10,525,000	4.07	
\$ 0.15	1,250,000	4.04	
	<u>11,775,000</u>	<u>4.13</u>	<u>\$0.11</u>

The following table summarizes information about the options outstanding at December 31, 2017:

Exercise price	Options outstanding and exercisable	Remaining contractual life in years	Weighted Average Exercise price
\$ 0.10	11,175,000	5.11	
\$0.10125	800,000	0.21	
\$ 0.15	750,000	1.53	
	<u>12,725,000</u>	<u>4.59</u>	<u>\$0.10</u>

In determining the expense for the share based payments during the period, the fair value of the options were estimated using a Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: For quarter 1 options dividend yield of 0%, expected volatility of 108.81% (2017 - 60-73%), risk-free interest rate of 2.23% (2017 - 1.46%), expected life of 2 years (2017 - 2-10 years) and weighted average fair value of \$0.20 per option. For quarter 2 options dividend yield of 0%, expected volatility of 108% (2017 - 60-73%), risk-free interest rate of 1% (2017 - 1.46%), expected life of 2 years (2017 - 2-10 years) and weighted average fair value of \$0.12 per option. For quarter 4 options dividend yield of 0%, expected volatility of 108.36% (2017 - 60-73%), risk-free interest rate of 2.27% (2017 - 1.46%), expected life of 2 years (2017 - 2-10 years) and weighted average fair value of \$0.03 per option. The expected volatility rate was determined based on the annual volatility for the equivalent number of the option's life in years preceding the grant date using weekly calculation intervals.

(b) Warrants

The following table summarizes information about common share purchase warrants outstanding at December 31, 2018:

	Warrants outstanding	Weighted average exercise price	Weighted Average Remaining contractual life in years
Outstanding January 1, 2017	9,020,834	\$ 0.14	0.83
Issued - private placements	3,339,000	0.15	
Expired	(3,687,500)	0.14	
Outstanding December 31, 2017	<u>8,672,334</u>	<u>\$ 0.14</u>	<u>0.72</u>
Issued - private placements	11,625,447	0.22	
Expired	(5,333,334)	0.135	
Outstanding December 31, 2018	<u>14,964,447</u>	<u>\$ 0.23</u>	<u>1.35</u>

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**10. CAPITAL STOCK – continued:**

The following table summarizes information about the warrants outstanding at December 31, 2018:

Exercise price	Warrants outstanding and exercisable	Remaining contractual life in years
\$ 0.15	1,325,000	0.24
\$ 0.25	12,036,804	1.40
\$ 0.12	1,602,643	1.92
	<u>20,245,560</u>	<u>1.35</u>

The following table summarizes information about the warrants outstanding at December 31, 2017:

Exercise price	Warrants outstanding and exercisable	Remaining contractual life in years
\$ 0.135	5,333,334	0.2
\$ 0.15	1,325,000	1.24
\$ 0.15	2,014,000	1.74
	<u>8,672,334</u>	<u>0.72</u>

**11. RELATED PARTY TRANSACTIONS**

Included in general and administrative expenses are director fees paid to two directors and officers of the Company in the amount of \$2,226 (2017: \$9,000). These expenses were paid in the normal course of operations and were measured at the amounts agreed to by the related parties.

**12. COMPENSATION OF KEY MANAGEMENT AND DIRECTORS**

Key management compensation includes the Chief Executive Officer, the Chief Financial Officer and the Executive Vice President. Director fees and share-based payments include the Board of Directors:

	<b>2018</b>	<b>2017</b>
Salaries, fees and short-term benefits	\$ 95,874	\$ 58,615
Director fees	2,226	9,000
Share-based payments	<u>113,000</u>	<u>121,842</u>
	<u>\$ 211,100</u>	<u>\$ 189,457</u>

**13. CONTINGENT LIABILITIES**

Upon commercialization of the Acid Mine Drainage Technology ("AmdELTechnology"), payments shall be made annually in an amount equal to the greater of \$20,000 or 25% of the net annual after tax income of the Company, as confirmed by audited annual financial statements, until an aggregate amount of \$80,000 is paid to Dofasco Inc. The AmdEL Technology shall be commercialized when the first contract on commercial terms for its use is received. At December 31, 2018, management did not consider the AmdEL Technology to be commercialized.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**14. GEOGRAPHIC INFORMATION & SEGMENT REPORTING**

All of the Company's operations and assets are located in Canada.

Projects revenue earned by geographic region for the years ended December 31, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Canada	\$1,815,277	\$175,649
Europe	27,462	-
Asia	539,835	305,890
United States	<u>52,453</u>	<u>50,900</u>
	<u>\$2,435,027</u>	<u>\$532,439</u>

On January 8, 2018, the Company acquired Pumptronics Inc. to realize operational efficiencies and as a result, the Company now has two operating segments. Key measures used by the CODM in assessing performance and in making resource allocation decisions include revenues, gross profit and net loss.

Company's operating results are divided into two reportable operating segments. The two reportable operating segments are Current water and Pumptronics. Included in Current water is corporate activity.

**Current water segment, ("Current water")** operates in treating water and engineering, manufacturing and sales of advanced water systems.

**Pumptronics segment, ("Pumptronics")** engages in developing hydraulic fluid systems to move water and other liquids.

<b>December 31, 2018</b>	<b>Current water</b>	<b>Pumptronics</b>	<b>Total</b>
	\$	\$	\$
Revenue	760,337	1,674,690	2,435,027
Gross loss	(672,028)	(15,243)	(687,271)
Net loss	(4,424,339)	(366,733)	(4,791,072)
Total assets	539,729	365,858	905,587
Total liabilities	925,878	466,646	1,392,524

**15. EXPENSES BY NATURE**

Included in general and administrative expenses are the following:

	<b>2018</b>	<b>2017</b>
Advertising and promotion	\$ 82,140	\$ 89,920
Bank charges	15,962	3,198
Directors' fees	2,226	9,000
Filing fees	7,284	23,459
Insurance	51,415	25,731
Office	76,925	21,656
Office rent	52,728	37,003
Patents	14,531	14,388
Professional fees	348,221	74,835
Bad debts	7,570	-
Allowance for doubtful accounts	122,873	-
Salaries and benefits	319,815	19,950
Travel	18,520	6,250
Utilities	4,691	4,460
Vehicle	<u>12,573</u>	<u>1,895</u>
	<u>\$ 1,137,474</u>	<u>\$ 331,745</u>

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**16. COMMITMENTS**

Operating lease payments in 2018 were \$228,363 (2017 - \$120,787).

The company is committed under the following minimum annual lease payments for the rental of its premises:

2019	\$143,000
2020	\$143,000
2021	\$143,000
2023	\$143,000
2022	<u>\$143,000</u>
	<u>\$715,000</u>

**17. INCOME TAXES**

**a) Current Income Taxes**

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.5% (2017 - 26.5%) follows.

	<b>2018</b>	<b>2017</b>
Net loss before income taxes	\$(4,791,072)	\$(1,293,089)
Income taxes at statutory rates	(1,269,634)	(342,669)
Tax rate and other adjustments	192,009	181,480
Permanent differences	<u>772,785</u>	<u>85,821</u>
	(304,840)	(75,368)
Tax assets not recognized	<u>304,840</u>	<u>75,368</u>
	<u>\$ -</u>	<u>\$ -</u>

The company has the following deferred income tax assets:

	<b>2018</b>	<b>2017</b>
Non capital losses	\$ 3,062,311	\$2,771,681
Investments	-	35,343
Property, plant and equipment and intangibles	306,855	299,248
Capital loss	48,835	76,480
Research and development	<u>2,009,435</u>	<u>2,523,250</u>
	5,427,436	5,706,002
Tax asset not recognized	<u>(5,427,436)</u>	<u>(5,706,002)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**17. INCOME TAXES - continued:**

**b) Losses Carried Forward**

The company has loss carry-forwards in the amount of approximately \$11,556,000 (2017: \$10,457,000) available to reduce future income taxes. The potential benefit of these losses has not been recorded and will expire as follows:

2026	465,000
2027	1,480,000
2028	2,239,000
2029	1,113,000
2030	424,000
2031	1,567,000
2032	792,000
2033	699,000
2034	937,000
2035	252,000
2036	207,000
2037	231,000
2038	<u>1,150,000</u>
	<u>\$11,556,000</u>

**c) Investment Tax Credits**

As at December 31, 2018, the Company has \$1,461,040 (2017- \$1,325,000) of unclaimed investment tax credits available to reduce federal income taxes payable in future years.

**18. FINANCIAL INSTRUMENTS**

**Credit risk**

The Company's financial assets include cash and cash equivalents and accounts receivable. The Company's maximum exposure to credit risk as at December 31, 2018, is the carrying value of its financial assets. The Company manages credit risk by maintaining bank and broker accounts with reputable banks and financial institutions.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at December 31, 2018, the Company had cash and cash equivalent balances of \$97,687 (2017 - \$124,480) to settle current liabilities of \$673,505 (2017 - \$199,791) and long term liabilities of \$44,790 (2017 - nil). Of the current liabilities outstanding, \$673,505 (2017 - \$199,791) of the Company's financial liabilities have contractual maturities of less than 30 days, and are subject to normal trade terms. Of the long-term liabilities outstanding, contractual maturities range from February 2021 to September 2022.

**Interest rate risk**

The Company's debt is limited to loans payable which is comprised of automobile loans which bear interest at fixed rates. The Company therefore has limited exposure to cash flow interest rate risk.

**Foreign currency rate risk**

The Company has \$9,016 (USD \$ 6,759) of accounts receivable and \$40,718 (USD \$31,416) of accounts payable that are subject to foreign currency rate risk.

**CURRENT WATER TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2018 and 2017**  
(Canadian dollars, except per share amounts)

**18. FINANCIAL INSTRUMENTS - continued:**

**Fair value of financial instruments and hierarchy**

The book value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other liabilities all approximate their fair values as at December 31, 2018.

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. The three levels are defined as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

The company does not have any financial assets or liabilities recorded at fair value or reoccurring basis.

**19. CAPITAL MANAGEMENT**

The Company manages its capital (debt, including accounts payable and loans payable, and equity, including capital stock and contributed surplus) to ensure that the Company will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable equity balance commensurate with current operating requirements. The strategy remains unchanged from 2017. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and therefore, does not have a numeric target for its capital structure. There were no changes to the Company's approach to capital management during the year ended December 31, 2018 compared to the year ended December 31, 2017. The Company does not have any covenants respecting its capital ratios.

**20. CORRECTION OF PRIOR PERIOD BALANCE**

In the course of the preparation of the Company's consolidated financial statements for the year ended December 31, 2018, management identified a historical error in the accounting for revenue recognition with respect to the percentage of completion estimate on one of its contracts. The error related to certain raw material inventories in the amount of \$472,000 being included in cost of sales. This also resulted in a corresponding adjustment to the Company's revenue being recorded under percentage of completion. As such, management has restated its consolidated financial statements for the year ended December 31, 2017.

The following table summarizes the impact of the restatement adjustments on the Company's previously reported consolidated financial statements. There was no impact to operating, investing or financing activities in the consolidated statement of cash flows and no impact to net loss and loss per share on the statement of loss and comprehensive loss and no impact to deficit on the statement of financial position.

<b>Consolidated statement of financial position</b>	<b>As previously reported</b>	<b>Correction</b>	<b>As restated</b>
Inventory	82,511	472,000	554,511
Deferred revenue	230,352	472,000	702,352

<b>Consolidated statement of loss and comprehensive loss</b>	<b>As previously reported</b>	<b>Correction</b>	<b>As restated</b>
Revenue	\$1,004,439	\$(472,000)	\$532,439
Direct operating expense	1,613,690	(472,000)	1,141,690