



A Company Specializing in Environmental Protection and Remediation Technologies

**CONSOLIDATED FINANCIAL STATEMENTS
AND NOTES
FOR THE YEARS ENDED DECEMBER 31, 2019
AND 2018**

(Canadian dollars, except per share amounts)

CONTENTS

	Page
Independent Auditors' report	1
Consolidated statements of financial position	3
Consolidated statements of loss and comprehensive loss	4
Consolidated statements of changes in shareholders deficiency	5
Consolidated statements of cash flows	6
Notes to the consolidated financial statements	7 - 30

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Current Water Technologies Inc.:

Opinion

We have audited the consolidated financial statements of Current Water Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019, and the consolidated statements of income (loss) and comprehensive income (loss), the consolidated changes in shareholders' equity (deficiency) and consolidated 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 financial position of the Company as at December 31, 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audits 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 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 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.

Emphasis of Matter - comparative information

The consolidated financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 6, 2019.

We are not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2018. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that for the year ended December 31, 2019 the Company has a working capital deficit in the amount of \$582,878 and has incurred continuing losses resulting in an accumulated deficit of \$27,064,042 at December 31, 2019. 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.

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 identified above 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 in this auditor's report. 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 financial statements in accordance with IFRSs, 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 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 auditors' report is Florence Chee.

Markham, Ontario
June 11, 2020



Chartered Professional Accountants
Licensed Public Accountants

CURRENT WATER TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	ASSETS	
	<u>2019</u>	<u>2018</u>
Current		
Cash	\$ 72,264	\$ 97,687
Accounts Receivable (Note 6)	60,681	167,691
Inventory (Note 7)	397,558	385,014
Prepaid expenses	<u>2,751</u>	<u>88,190</u>
	<u>533,254</u>	<u>738,582</u>
Property, plant & Equipment (Note 8)	121,912	153,103
Intangible Assets (Note 9)	2,598	13,902
Rights of Use Asset (Note 10)	<u>488,951</u>	<u>-</u>
	<u>\$ 1,146,715</u>	<u>\$ 905,587</u>
	LIABILITIES	
Current		
Accounts payable and accrued liabilities (Note 12)	\$ 436,466	\$ 673,505
Deferred revenue	544,562	674,229
Loans payable - current portion (Note 18)	16,731	-
Lease liability (Note 17)	<u>118,373</u>	<u>-</u>
	<u>1,116,132</u>	<u>1,347,734</u>
Long term		
Loans payable (Note 18)	12,189	44,790
Lease Liability (Note 17)	<u>371,507</u>	<u>-</u>
	<u>383,696</u>	<u>44,790</u>
	SHAREHOLDERS' DEFICIENCY	
Capital Stock (Note 11)		
Common shares	19,588,211	19,588,211
Warrants reserved	583,918	656,039
Contributed surplus	<u>6,538,800</u>	<u>6,352,822</u>
	26,710,929	26,597,072
Deficit	<u>27,064,042</u>	<u>27,084,009</u>
	<u>(353,113)</u>	<u>(486,937)</u>
	<u>\$ 1,146,715</u>	<u>\$ 905,587</u>

Nature of Operations and Going Concern - Note 1
Subsequent events - Note 22

Approved on behalf of the board:

"Gene Shelp"
Gene Shelp, Director

"Nizar Kammourie"
NizarKammourie, Director

The accompanying notes form an integral part of these consolidated financial statements

**CURRENT WATER TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)**

	<u>2019</u>	<u>2018</u>
Revenue		
Sales	\$ <u>2,403,577</u>	\$ <u>2,435,027</u>
Expenses		
Direct operating expenses	\$ 1,460,320	\$ 3,122,298
General and administration expenses (Note 16)	639,385	1,137,474
Depreciation and amortization	170,048	56,753
Share based payments	<u>113,857</u>	<u>531,774</u>
	<u>2,383,610</u>	<u>4,848,299</u>
Net income (loss) before the undernoted item	<u>19,967</u>	<u>(2,413,272)</u>
Impairment on acquisition of Pumptronics	<u>-</u>	<u>(2,377,800)</u>
Net income (loss) and comprehensive income (loss) for the year	\$ <u><u>19,967</u></u>	\$ <u><u>(4,791,072)</u></u>
Net income (loss) per share - basic and diluted	\$ <u><u>0.0001</u></u>	\$ <u><u>(0.0328)</u></u>
Weighted average number of shares outstanding - basic and diluted	<u>150,629,538</u>	<u>146,269,083</u>

The accompanying notes form an integral part of these consolidated financial statements

CURRENT WATER TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	<u>Number</u>	<u>Common shares</u>		<u>Warrants</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
		<u>Amount</u>	<u>To be issued</u>				
Balance - January 1, 2018	116,353,919	\$16,222,878	\$ 80,000	\$ 267,321	\$ 5,694,918	\$(22,292,937)	\$ (27,820)
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 costs	-	(218,487)	-	-	-	-	-
Warrants	-	(583,918)	-	583,918	-	-	583,918
Expiration of warrants	-	-	-	(195,200)	195,200	-	-
Options exercised	1,350,000	205,070	-	-	(69,070)	-	1,280,930
Shares issued upon acquisition of Pumphtronics	12,000,000	1,066,168	-	-	-	-	1,066,168
Balance, December 31, 2018	<u>150,629,538</u>	<u>\$19,588,211</u>	<u>\$ -</u>	<u>\$ 656,039</u>	<u>\$ 6,352,822</u>	<u>\$(27,084,009)</u>	<u>\$ 1,460,398</u>
Balance January 1, 2019	150,629,538	19,588,211	-	\$ 656,039	\$ 6,352,822	\$(27,084,009)	\$ 1,460,398
Net income for the year	-	-	-	-	-	19,967	19,967
Share based payments	-	-	-	-	113,857	-	113,857
Expiration of warrants	-	-	-	(72,121)	72,121	-	-
Balance, December 31, 2019	<u>150,629,538</u>	<u>\$19,588,211</u>	<u>\$ -</u>	<u>\$ 583,918</u>	<u>\$ 6,538,800</u>	<u>\$(27,064,042)</u>	<u>\$ 1,594,222</u>

The accompanying notes form an integral part of these consolidated financial statements

**CURRENT WATER TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)**

	<u>2019</u>	<u>2018</u>
Cash provided by (used in) the following activities:		
Operating activities		
Net income (loss) for the period	\$ 19,967	\$(4,791,072)
Add items not requiring an outlay of cash:		
Depreciation on tangible and intangible assets	170,048	56,753
Share-based payments	113,857	531,774
Impairment on acquisition of Pumptronics	<u>-</u>	<u>2,377,800</u>
	303,872	(1,824,745)
Changes in Non-cash working capital:		
Accounts receivable	107,010	(34,622)
Inventories	(12,544)	220,237
Prepaid expenses	85,439	(78,210)
Accounts payable and accrued liabilities	(237,040)	127,117
Deferred revenue	<u>(129,667)</u>	<u>(28,121)</u>
	<u>117,070</u>	<u>(1,618,344)</u>
Investing activities		
Investment in Pumptronics (Note 5)	-	(1,100,000)
Acquisition of property, plant and equipment	<u>-</u>	<u>(52,039)</u>
	<u>-</u>	<u>(1,152,039)</u>
Financing activities		
Common shares issued for cash (net of share issue costs)	-	2,762,882
Repayment of loans payable	(15,870)	(19,292)
Repayment of Lease liability	<u>(126,623)</u>	<u>-</u>
	<u>(142,493)</u>	<u>2,743,590</u>
Net change in cash during the period	(25,423)	(26,793)
Cash, beginning of period	<u>97,687</u>	<u>124,480</u>
Cash, end of period	<u>\$ 72,264</u>	<u>\$ 97,687</u>
Non-cash investing and financing activities:		
Interest paid in cash	<u>\$ 32,013</u>	<u>\$ 8,610</u>

The accompanying notes form an integral part of these consolidated financial statements

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

1. DESCRIPTION OF BUSINESS

Corporate information

Current Water Technologies Inc. (the 'Company'), is incorporated under the Ontario Business Corporations Act and is a publicly 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 income (loss) during the current year in the amount of \$19,967 (2018: Loss \$4,791,072) resulting in an accumulated deficit of \$27,064,042 (2018: \$27,084,009) and a working capital deficiency of \$582,878 (2018: \$609,152). 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 June 11, 2020. The policies applied in these consolidated financial statements are based on IFRS's issued and effective or available for early adoption as of December 31, 2019.

These consolidated financial statements are presented in Canadian dollars, which is our presentation and functional currency. These consolidated 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 consolidated financial statements, management is satisfied that these consolidated 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. The Company owns 100% of Pumptronics.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

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, 2019 and 2018
(Canadian dollars, except per share amounts)

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, 2019 and 2018
(Canadian dollars, except per share amounts)

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, 2019 and 2018
(Canadian dollars, except per share amounts)

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 profittaking.
- 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 IAS39.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

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 designated 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.

IFRS 16 Leases

On January 1, 2019 the Company adopted IFRS 16.

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 and the company has adopted IFRS 16 for the current fiscal year ended December 31, 2019.

IFRS 16 was 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 result of adoption of IFRS 16 results in the recording of a right of use asset and corresponding liability obligation for the same amount under long term liabilities (see Note 10).

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

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.

(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.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES – continued:

(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, 2019 and 2018.

(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.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

(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.

(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
Rights of Use Assets	- straight line over the remaining term of lease

(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.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

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.

(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.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

(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.

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, 2019 and 2018
(Canadian dollars, except per share amounts)

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.

5. ACQUISITION OF SUBSIDIARY

On January 8th, 2018, Current Water Technologies acquired 100% of the Class B shares of Pumphtronics Inc. ("Pumphtronics") 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, plant	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 Pumphtronics 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. ACCOUNTS RECEIVABLE

	2019	2018
Trade receivables	\$ 109,564	\$ 290,564
Allowance for doubtful accounts	<u>(49,184)</u>	<u>(122,873)</u>
	<u>\$ 60,681</u>	<u>\$ 167,691</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, \$Nil (2018 - \$7,570) trade receivables were written off and the Company provided an allowance for doubtful accounts provision of \$49,184 (2018 - \$122,873) on the remaining trade receivables.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

7. INVENTORIES

	2019	2018
Raw materials	\$ 397,558	\$ 385,014
Warehouse supplies	-	-
	\$ 397,558	\$ 385,014

The cost of inventories recognized as an expense and included in direct operating expenses is \$906,703 (2018 – \$1,638,458). The cost of inventories recognized as an expense and included in direct operating expenses due to a write-down to net realizable value is \$Nil (2018 - \$18,296).

8. PROPERTY, PLANT AND EQUIPMENT

	COST					Total
	Office furniture and fixtures	Equipment	Computer hardware	Automotive	Leasehold improvements & demo units	
January 1, 2018	\$ 62,199	\$ 91,421	\$ 93,546	\$ -	\$ 364,170	\$ 611,336
Transfer on acquisition	-	19,164	-	91,849	-	111,013
Additions	9,861	39,179	2,999	-	-	52,039
December 31, 2018	72,060	149,764	96,545	91,849	364,170	774,388
Additions	-	-	-	-	-	-
December 31, 2019	\$ 72,060	\$ 149,764	\$ 96,545	\$ 91,849	\$ 364,170	\$ 774,388

	ACCUMULATED DEPRECIATION					Total
	Office furniture and fixtures	Equipment	Computer hardware	Automotive	Leasehold improvements & demo units	
January 1, 2018	\$ 54,824	\$ 69,270	\$ 89,015	\$ -	\$364,170	\$ 577,279
Depreciation	2,461	12,180	1,809	27,555	-	44,005
December 31, 2018	57,285	81,450	90,824	27,555	364,170	621,284
Depreciation	2,955	13,662	1,716	12,859	-	31,192
December 31, 2019	\$ 60,240	\$ 95,112	\$ 92,540	\$ 40,414	\$ 364,170	\$ 652,476

NET BOOK VALUE						
December 31, 2018	\$ 14,775	\$ 68,314	\$ 5,721	\$ 64,294	\$ -	\$ 153,103
December 31, 2019	\$ 11,820	\$ 54,652	\$ 4,005	\$ 51,435	\$ -	\$ 121,912

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

9. INTANGIBLE ASSETS

	<u>COST</u>		
	Patents	Rights to Technology	Total
January 1, 2018	\$ 545,983	\$ 10,000	\$ 555,983
Additions	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2018	545,983	10,000	\$ 555,983
Additions	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2019	<u>\$ 545,983</u>	<u>\$ 10,000</u>	<u>\$ 555,983</u>

	<u>ACCUMULATED AMORTIZATION</u>		
	Patents	Rights to Technology	Total
January 1, 2018	\$ 522,274	\$ 7,060	\$ 529,334
Amortization	<u>12,571</u>	<u>176</u>	<u>12,747</u>
December 31, 2018	534,845	7,236	\$ 542,081
Amortization	<u>11,138</u>	<u>166</u>	<u>11,304</u>
December 31, 2019	<u>\$ 545,983</u>	<u>\$ 7,402</u>	<u>\$ 553,385</u>

	<u>NET BOOK VALUE</u>		
December 31, 2018	<u>\$ 11,138</u>	<u>\$ 2,764</u>	<u>\$ 13,902</u>
December 31, 2019	<u>\$ -</u>	<u>\$ 2,598</u>	<u>\$ 2,598</u>

10. RIGHT OF USE ASSET

The Company adopted IFRS 16 - Leases (IFRS 16), which supersedes IAS 17 - Leases (IAS 17) and its interpretive guidance. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Right-of-use assets and lease liabilities will be amortized with a different pattern of expense being recognized in the statement of earnings (loss). On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate of 5.95% as of January 1, 2019. The associated right-of-use asset was measured at an amount equal to the lease liability. There were no onerous lease contracts requiring an adjustment to the right-of-use-asset at the date of initial application. The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

Right-of-use asset - increase by \$616,503
Lease liability - increase by \$604,584
Prepaid rent deposit – decrease by \$11,919

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

As of December 31, 2019 the total net base rent paid of \$143,028 on the lease was offset against the Lease liability adjusted for interest expense of \$28,324. Right to Use Asset will be depreciated on straight line basis over the remaining term of the lease. A total of \$28,324 in interest expense based on 5.93% discount rate was expensed and included in bank charges and interest.

COST

	Rights of Use Asset	Total
January 1, 2018	\$ -	\$ -
Additions	-	-
December 31, 2018	-	\$ -
Additions	<u>616,503</u>	<u>616,503</u>
December 31, 2019	<u>\$ 616,503</u>	<u>\$ 616,503</u>

ACCUMULATED AMORTIZATION

	Rights of Use Assets	Total
January 1, 2018	\$ -	\$ -
Amortization	-	-
December 31, 2018	-	\$ -
Amortization	<u>127,552</u>	<u>127,552</u>
December 31, 2019	<u>\$ 127,552</u>	<u>\$ 127,552</u>

NET BOOK VALUE

December 31, 2018	<u>\$ -</u>	<u>\$ -</u>
December 31, 2019	<u>\$ 488,951</u>	<u>\$ 488,951</u>

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

11. 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:	# shares	\$ amount
Balance, January 1, 2018	116,353,919	\$ 16,222,878
Acquisition Pumphtronics (note 5)	12,000,000	1,066,168
Private placement (note 11(i - iii))	17,896,333	2,684,450
Options exercised	1,350,000	205,070
Private placement (note 11(iv))	3,029,286	212,050
Less: Share issue costs	-	(218,487)
Less: Warrants valuation	-	(583,918)
Balance, December 31, 2018 and 2019	<u>150,629,538</u>	<u>\$ 19,588,211</u>

Warrants issued:	<u>Number of Warrants</u>	<u>\$ Amount</u>
Balance, January 1, 2018	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	14,964,447	656,039
Expired	<u>(3,339,000)</u>	<u>(72,121)</u>
Balance, December 31, 2019	<u>11,625,447</u>	<u>\$ 583,918</u>

The following table summarizes information about the warrants outstanding at December 31, 2019:

Exercise Price	Warrants outstanding and exercisable	Remaining contractual life in yrs	Weighted Avge exercise price
\$0.25	10,022,804	.0 years	
\$0.25	1,602,643	.92 years	
	<u>11,625,447</u>	<u>.17 years</u>	<u>\$0.25</u>

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

- (i) On January 8, 2018 to facilitate the acquisition of Pumptronics 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.

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, 2019 and 2018 (12,575,000 and 11,275,000 options respectively and 11,625,447 and 14,964,447 warrants respectively) would have an anti-dilutive effect.

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

(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, 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)	0.10
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, 2017	11,775,000	\$ 0.11
Expired, January 15, 2019	(2,775,000)	0.10
Expired, July 11, 2019	(1,050,000)	0.14
Granted, September 6 2019	5,200,000	0.05
Expired, September 18, 2019	(250,000)	0.10
Expired, September 19, 2019	(75,000)	0.10
Cancelled, September 30, 2019	(250,000)	0.15
Outstanding, December 31, 2019	<u>12,575,000</u>	<u>\$ 0.08</u>

The following table summarizes information about the options outstanding at December 31, 2019:

Exercise price	Options outstanding and exercisable	Remaining contractual life in years	Weighted Average Exercise price
\$ 0.05	5,200,000	9.69	
\$ 0.10	7,125,000	4.94	
\$ 0.15	250,000	3.32	
	<u>12,575,000</u>	<u>6.87</u>	<u>\$0.08</u>

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

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>

In determining the expense for the share based payments during the current year, 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 2019 options dividend yield of 0%, expected volatility of 82.51% (2018 – 108% to 108.81%), risk-free interest rate of 1.28% (2018 – 1% to 2.27%), expected life of 10 years (2018 - 2 to 10 years) and weighted average fair value of \$0.03 (2018 - \$0.03 to \$0.20) 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, 2019:

	Warrants outstanding	Weighted average exercise price	Weighted Average remaining life in years
Issued - private placements	11,625,447	0.22	
Expired	(5,333,334)	0.135	
Outstanding December 31, 2018	<u>14,964,447</u>	<u>\$ 0.14</u>	<u>1.35</u>
Expired	(3,339,000)	0.15	
Outstanding December 31, 2019	<u>11,625,447</u>	<u>\$ 0.23</u>	<u>0.18</u>

CURRENT WATER TECHNOLOGIES INC.
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

The following table summarizes information about the warrants outstanding at December 31, 2019:

Exercise price	Warrants outstanding and exercisable	Remaining contractual life in years
\$ 0.25	10,022,804	0.06
\$ 0.12	<u>1,602,643</u>	<u>0.92</u>
	<u>11,625,447</u>	<u>0.18</u>

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	3,339,000	0.24
\$ 0.25	10,022,804	1.06
\$ 0.12	<u>1,602,643</u>	<u>1.92</u>
	<u>14,964,447</u>	<u>1.35</u>

12. RELATED PARTY TRANSACTIONS

Included in general and administrative expenses are director fees paid to Officers of the Company in the amount of \$7,000 (2018: \$2,226). Included in accounts payable and accrued liabilities is \$7,000 (2018 - \$Nil) payable to an Officer of the Company. These expenses were paid/accrued in the normal course of operations and were measured at the amounts agreed to by the related parties.

13. 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:

	2019	2018
Salaries, fees and short-term benefits	\$ -	\$ 95,874
Officer fees	7,000	2,226
Share-based payments	<u>52,056</u>	<u>113,000</u>
	<u>\$ 59,056</u>	<u>\$ 211,100</u>

14. CONTINGENT LIABILITIES

Upon commercialization of the Acid Mine Drainage Technology ("AmdEL Technology"), 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, 2019 and 2018
(Canadian dollars, except per share amounts)

15. 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Canada	\$1,907,764	\$1,815,277
Europe	-	27,462
Asia	381,285	539,835
United States	114,528	52,453
	<u>\$2,403,577</u>	<u>\$2,435,027</u>

On January 8, 2018, the Company acquired Pumphtronics 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 Pumphtronics. 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.

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

December 31, 2019	Current water	Pumphtronics	Total
	\$	\$	\$
Revenue	519,239	1,884,338	2,403,577
Gross profit	444,777	498,480	943,257
Net income (loss)	246,942	(226,976)	19,966
Total assets	893,817	252,898	1,146,715
Total liabilities	1,200,436	299,392	1,499,828

16. EXPENSES BY NATURE

Included in general and administrative expenses are the following:

	<u>2019</u>	<u>2018</u>
Advertising and promotion	\$ 50,161	\$ 82,140
Bank charges and interest	38,488	15,962
Officer's fees	7,000	2,226
Filing fees	18,792	7,284
Insurance	62,972	51,415
Office	73,059	76,925
Office rent	85,651	52,728
Patents	-	14,532
Professional fees	85,651	332,385
Bad debts	-	7,570
Allowance for doubtful accounts	-	122,873
Salaries and benefits	113,721	319,815
Travel	35,703	18,520
Utilities	15,395	4,691
Vehicle	55,354	13,658
	<u>\$ 639,385</u>	<u>\$ 1,137,321</u>

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

17. RIGHT OF USE ASSET LIABILITY

The Company had the following future payments related to its right of use assets:

Balance at December 31, 2018	\$	--
Additions upon adoption of IFRS 16 at January 1, 2019		604,584
Interest expense		28,324
Repayments		<u>(143,028)</u>
Balance at December 31, 2019	\$	<u>489,880</u>

Payments due over next 5 years:

2020	\$	118,373
2021		125,493
2022		132,960
2023		<u>113,054</u>
	\$	<u>489,880</u>

18. AUTOMOBILE LOAN

The vehicle loans, bearing interest at rates from 1.97% to 2.99%, maturing from February 2021 to September 2022, and are secured by the vehicles financed. The repayment terms are as noted below:

2020	\$	16,732
2021		7,876
2022		<u>4,312</u>
	\$	<u>28,920</u>

19. 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% (2018 - 26.5%) follows.

	2019	2018
Net income (loss) before income taxes	\$ 19,967	\$(4,791,072)
Income taxes at statutory rates	5,291	(1,269,634)
Tax rate and other adjustments	31,313	192,009
Permanent differences	<u>288,901</u>	<u>772,785</u>
	325,505	(304,840)
Tax assets not recognized	<u>(325,505)</u>	<u>304,840</u>
	\$ -	\$ -

The company has the following deferred income tax assets:

	2019	2018
Non-capital losses	\$ 2,806,098	\$ 3,062,311
Property, plant and equipment and intangibles	289,934	306,855
Capital loss	48,835	48,835
Research and development	<u>2,009,435</u>	<u>2,009,435</u>
	5,154,302	5,427,436
Tax asset not recognized	<u>(5,154,302)</u>	<u>(5,427,436)</u>
Net deferred tax assets	\$ -	\$ -

CURRENT WATER TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Canadian dollars, except per share amounts)

a) Losses Carried Forward

The company has loss carry-forwards in the amount of approximately \$10,589,000 (2018: \$10,897,000) available to reduce future income taxes. The potential benefit of these losses has not been recorded and will expire as follows:

2026	157,000
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	61,000
2038	<u>661,000</u>
	<u>\$10,589,000</u>

c) Investment Tax Credits

As at December 31, 2019, the Company has \$1,461,040 (2018- \$1,461,040) of unclaimed investment tax Credits available to reduce federal income taxes payable in future years.

20. 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, 2019, 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, 2019, the Company had cash and cash equivalent balances of \$72,264 (2018 - \$97,687) to settle current liabilities of \$997,759 (2018 - \$1,347,734) and long-term liabilities of \$502,069 (2018 - \$44,790). Of the current liabilities outstanding, \$436,466 (2018 - \$673,505) 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 October 2023.

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 \$5,275 (USD \$ 4,000) of accounts receivable and \$47,651 (USD \$34,998) 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, 2019 and 2018
(Canadian dollars, except per share amounts)

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, 2019.

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.

21. 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, 2019 compared to the year ended December 31, 2018. The Company does not have any covenants respecting its capital ratios.

22. SUBSEQUENT EVENTS

- i) Subsequent to year end the Company closed a private "Private Placement") by issuing 25,000,000 units at \$0.02 per unit for gross proceeds of \$500,000. Each Unit is comprised of one Common Share in the capital stock of the Company and a one Share Purchase Warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.05 per Share, which is exercisable for a period of five (5) years from the date of closing. Of the total private placement 16,000,000 units for a total of \$320,000 were issued to insiders of the Company The Private Placement was made pursuant to the grant of a 'discretionary waiver' of the TSX Venture Exchange minimum \$0.05 pricing requirement and is subject to acceptance by the TSX Venture Exchange. All securities issued pursuant to the Private Placement will be subject to a four month and one day hold period, in accordance with applicable securities laws.
- ii) In April 2020 the Company obtained bank loans financing totaling \$80,000 under the terms of the Canada Emergency Business Account. The loan is government guaranteed, non-interest bearing up to December 31, 2022. If 75% of the loan is repaid by December 31, 2022 the remaining 25% balance will be forgiven. If still outstanding on December 31, 2022 the loan will bear interest at an annual rate of 5% and will be due in full by December 31, 2025.
- iii) Subsequent to year end, the outbreak of the novel strain of coronavirus, specifically identified as "COVID 19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID 19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiary in future periods.