



**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS AND NOTES
FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

(Expressed in Canadian Dollars)

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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, 2022 and 2021, and the consolidated statements of changes in shareholders' equity (deficiency), income (loss) and comprehensive income (loss) and cash flows for the years 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years 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 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 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 as of December 31, 2022 the Company had incurred losses in the amount of \$1,052,777 resulting in an accumulated deficit of \$29,993,335. In addition, at December 31, 2022 the Company had working capital deficiency in the amount of \$579,156. 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 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 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 financial statements, including the disclosures, and whether the 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 Kevin Ramsay.



Markham, Ontario
April 28, 2023

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2022 AND 2021

Expressed in Canadian Dollars

	As at December 31	
	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	118,674	635,301
Accounts receivable (note 5)	37,063	84,198
Inventories (note 6)	458,774	384,038
Prepaid	54,060	1,287
Current total	668,571	1,104,824
RIGHT-TO-USE ASSET (note 9)	106,294	233,846
PROPERTY, PLANT AND EQUIPMENT (note 7)	123,482	159,607
INTANGIBLE ASSETS (Patents) (note 8)	4,415	2,295
	902,762	1,500,572
CURRENT LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 12)	587,470	199,641
Deferred revenue	547,202	714,580
Lease Liability (note 17)	113,055	132,957
Loans Payable (note 10)	-	3,625
	1,247,727	1,050,803
Long term		
Lease Liability (note 17)	-	113,058
Loans Payable	-	-
Bank Loans (note 10)	120,000	120,000
	120,000	233,058
SHAREHOLDERS' DEFICIT		
CAPITAL STOCK (note 11)	20,827,916	20,827,916
Warrants (note 11)	985,520	985,520
Contributed surplus	7,714,934	7,343,833
	29,528,370	29,157,269
DEFICIT	(29,993,335)	(28,940,558)
	(464,965)	216,711
	\$ 902,762	\$ 1,500,572

Subsequent event note 22

APPROVED ON BEHALF OF THE BOARD:

"Gene Shelp"
Gene Shelp, Director

"Alex Kaszuba"
Alex Kaszuba, Director

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common shares		Warrants	Contributed Surplus	Deficit	Total
	Number	Amount				
Balance – January 1, 2021	175,629,538	\$ 19,724,565	\$ 352,846	\$ 7,230,247	\$ (27,371,864)	\$ (64,206)
Net loss/income		-			(1,568,694)	(1,568,694)
Share-based payments		-		113,586		113,586
Share issue cost		(96,250)				(96,250)
Private Placement	33,165,500	977,384	680,891			1,658,275
Warrants exercised	3,480,000	222,217	(48,217)			174,000
Balance – December 31, 2021	212,275,038	20,827,916	985,520	7,343,833	(28,940,558)	216,711
Balance – January 1, 2022	212,275,038	\$ 20,827,916	\$ 985,520	\$ 7,343,833	\$ (28,940,558)	\$ 216,711
Net loss/income					(1,052,777)	(1,052,777)
Share-based payments				371,101		371,101
Balance – December 31, 2022	212,275,038	\$ 20,827,916	\$ 985,520	\$ 7,714,934	\$ (29,993,335)	\$ (464,965)

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

**STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Expressed in Canadian Dollars	2022	2021
REVENUE - sales	\$ 2,158,266	\$ 1,182,166
EXPENSES		
Direct operating expenses	\$ 2,027,085	\$ 1,813,030
General and administrative expenses	636,100	648,230
Interest expense - long term	12,491	17,532
Depreciation and amortization	164,266	158,482
Share-based payments	371,101	113,586
	<u>\$ 3,211,043</u>	<u>\$ 2,750,860</u>
NET EARNINGS (COMPREHENSIVE LOSS) FOR THE PERIOD	<u>\$ (1,052,777)</u>	<u>\$ (1,568,694)</u>
Basic and diluted earnings (loss) per share	<u>(0.005)</u>	<u>(0.008)</u>
Weighted average number of shares outstanding – basic and diluted	<u>212,275,038</u>	<u>205,689,889</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Expressed in Canadian dollars	Year Ended 2022	December 31 2021
Operating activities		
Net earnings (loss) for the period	\$ (1,052,777)	\$ (1,568,694)
Add: Items not involving an outlay of cash		
Depreciation and amortization	164,266	158,482
Share-based payments	371,101	113,586
	\$ (517,410)	\$ (1,296,626)
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	47,135	70,591
Decrease (Increase) in inventories	(74,736)	201,220
Decrease (Increase) in prepaid expenses	(52,773)	887
Increase (Decrease) in accounts payable and accrued liabilities	387,829	(152,228)
Increase (Decrease) in deferred revenue	(167,378)	170,018
Cash flow from operating activities	\$ (377,333)	\$ (1,006,138)
Investment Activities		
Acquisition of property, plant and equipment	-	(99,264)
Investment towards Intangible assets	(2,709)	-
Proceeds on sale of property, plant and equipment	-	6,000
Cash flow from financing activities	(2,709)	\$ (93,264)
Financing activities		
Common Shares issued for cash (net share issue costs)	-	1,736,024
Bank loan proceeds	-	-
Repayment of loans payable	(3,625)	(8,362)
Reduction of Lease liability	(132,960)	(125,492)
Cash flow from financing activities	\$ (136,585)	\$ 1,602,170
Net change in cash and cash equivalents during the period	(516,627)	502,768
Cash and cash equivalents, beginning of period	635,301	132,533
Cash and cash equivalents, end of period	\$ 118,674	\$ 635,301
Non-cash investing and financing activities		
Shares issued for share issue cost	\$ -	\$ 52,275
Value of brokers warrants issued	\$ -	\$ 78,101
Interest paid in cash	\$ 16,349	\$ 27,269

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (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 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 a loss during the current year in the amount of \$1,052,777 (2021: 1,568,694) resulting in an accumulated deficit of \$29,993,335 (2021: \$28,940,558) and a working capital (deficiency) of (\$579,156) (2021: \$54,021). 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 could be material.

BASIS OF PRESENTATION 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 April 28, 2023. 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, 2022.

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 wholly-owned 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.

2. ADOPTION OF NEW ACCOUNTING POLICIES

Standards and interpretations effective in the current period

No new standards were adopted in the current year.

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 consolidated financial statements other than the adoption of new standards not requiring retrospective disclosure as 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.

(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, 2022 and 2021.

(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.

(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 over heads.

(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. Rights of Use Assets ("ROU") assets are initially recorded at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the initial recognition date. ROU assets are depreciated on a straight-line basis over the estimated useful life of the asset if the Corporation expects to take ownership of the asset at the end of the lease term, or over the lease term if the Corporation does not expect to take ownership of the asset at the end of the lease term. The lease term includes periods covered by an option to extend if the Corporation's intention is to exercise that option. ROU assets are periodically reduced by impairment losses, if any, and adjusted for re-measurements of the lease obligation. 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.

(h) **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.

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.

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 stand-alone 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.

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.

(i) FINANCIAL INSTRUMENTS

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) or amortized cost. The Company determines the classification of financial assets at initial recognition.

Financial assets at Fair-value through profit or loss

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. Realized and unrealized gains or losses from assets held at FVPTL are included in losses in the period in which they arise.

Financial assets at Fair-value through other comprehensive income

Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

Financial assets at amortized cost

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset’s contractual cash flows are comprised solely of payments of principal and interest. The Company’s accounts receivable is recorded at amortized cost as they meet the required criteria. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL. The Company’s financial liabilities include trade and other payables which are classified at amortized cost.

Impairment

IFRS 9 requires an ‘expected credit loss’ model to be applied, which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition.

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(j) GOVERNMENT ASSISTANCE – COVID:

Government assistance that the Company receives for expenses incurred are recognized in profit or loss as an offset to the expenses to which they relate in the periods in which the expenses are recognized, unless the conditions for receiving the assistance are met after the related expenses have been recognized. In that case, the assistance is recognized when it becomes receivable.

(k) LEASES:

Right of use (“ROU”) assets

ROU assets are initially recorded at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the initial recognition date. ROU assets are depreciated on a straight-line basis over the estimated useful life of the asset if the Corporation expects to take ownership of the asset at the end of the lease term, or over the lease term if the Corporation does not expect to take ownership of the asset at the end of the lease term. The lease term includes periods covered by an option to extend if the Corporation’s intention is to exercise that option. ROU assets are periodically reduced by impairment losses, if any, and adjusted for re-measurements of the lease obligation.

Lease liabilities

The lease liability is measured at the present value of the expected lease payments over the lease term, discounted at the implicit rate in the lease; if the rate cannot be determined, the incremental borrowing rate of the asset or asset grouping is used. The lease liability is increased for the passage of time and payments on the lease are offset against the lease liability. The liability is subsequently re-measured when there is a change in the lease agreement, such as a change in future lease payments or if the Corporation decides to purchase, extend or terminate the lease option. When the lease liability is re-measured, an adjustment is applied to the carrying value of the ROU asset.

(l) 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.

(m) 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 ten years, with options vesting over a period of twenty-four 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

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. ACCOUNTS RECEIVABLE

	2022	2021
Trade receivables	\$ 81,727	\$ 133,382
Allowance for doubtful accounts	\$ (44,664)	\$ (49,184)
CEWS receivable (note 11)	\$ -	
	\$ 37,063	\$ 84,198

The Company applies the simplified approach to trade receivables by making provision for the full amounts of accounts 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.

The Company provided an allowance for doubtful accounts provision of \$44,664 (2021: \$49,184) on the remaining trade receivables.

6. INVENTORIES

	2022	2021
Raw materials	\$ 458,774	\$ 372,038
Finished Goods	\$ -	\$ 12,000
	<u>\$ 458,774</u>	<u>\$ 384,038</u>

The cost of inventories recognized as an expense and included in direct operating expenses is \$1,117,833 (2021: \$843,764).

7. PROPERTY, PLANT AND EQUIPMENT

	Cost January 1, 2022	Accumulated Amortization January 1, 2022	Additions (disposal)	Depreciation	Impairment loss	Net December 31, 2022
Office furniture and fixtures	\$ 72,118	\$ 64,495	\$ -	\$ 1,525	\$ -	\$ 6,098
Equipment	201,822	119,231	-	16,518	-	66,073
Computer hardware	143,689	101,654	-	12,611	-	29,424
Automotive	85,849	58,491	-	5,471	-	21,887
Leasehold improvements	313,298	313,298	-	-	-	-
Demonstration units	50,872	50,872	-	-	-	-
	<u>\$ 867,648</u>	<u>\$ 708,041</u>	<u>\$ -</u>	<u>\$ 36,125</u>	<u>\$ -</u>	<u>\$ 123,482</u>

	Cost January 1, 2021	Accumulated Amortization January 1, 2021	Additions (disposal)	Depreciation	Impairment loss	Net December 31, 2021
Office furniture and fixtures	\$ 72,060	\$ 62,604	\$ 58	\$ 1,891	\$ -	\$ 7,623
Equipment	149,764	105,091	52,058	\$ 14,140	-	\$ 82,591
Computer hardware	96,545	93,741	47,144	\$ 7,913	-	\$ 42,035
Automotive	91,849	51,652	(6,000)	\$ 6,839	-	\$ 27,358
Leasehold improvements	313,298	313,298	-	-	-	-
Demonstration units	50,872	50,872	-	-	-	-
	<u>\$ 774,389</u>	<u>\$ 677,258</u>	<u>\$ 93,260</u>	<u>\$ 30,783</u>	<u>\$ -</u>	<u>\$ 159,607</u>

8. INTANGIBLE ASSETS

	Cost January 1, 2022	Accumulated Amortization January 1, 2022	Additions Disposals	Amortization	Impairment Loss	Net December 31, 2022
Patents	\$ 545,983	\$ 545,983	\$ 2,709	\$ 451	\$ -	\$ 2,258
Right to technology	10,000	7,705	-	138	-	2,157
	<u>\$ 555,983</u>	<u>\$ 553,688</u>	<u>\$ 2,709</u>	<u>\$ 589</u>	<u>\$ -</u>	<u>\$ 4,415</u>

	Cost January 1, 2021	Accumulated Amortization January 1, 2021	Additions Disposals	Amortization	Impairment Loss	Net December 31, 2021
Patents	\$ 545,983	\$ 545,983	\$ -	\$ -	\$ -	\$ -
Right to technology	10,000	7,558	-	147	-	2,295
	<u>\$ 555,983</u>	<u>\$ 553,541</u>	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ -</u>	<u>\$ 2,295</u>

9. RIGHT OF USE ASSET ("ROU ASSETS")

As of December 31, 2022 the Company has the following ROU assets:

	Cost January 1, 2022	Accumulated Amortization January 1, 2022	Additions Disposals	Amortization	Impairment Loss	Net December 31, 2022
Right to Use Asset	\$ 616,503	\$ 382,657		\$ 127,552		\$ 106,294

	Cost January 1, 2021	Accumulated Amortization January 1, 2021	Additions Disposals	Amortization	Impairment Loss	Net December 31, 2021
Right to Use Asset	\$ 616,503	\$ 255,105		\$ 127,552		\$ 233,846

As of December 31, 2022 the total net base rent paid of \$124,094 on the lease was offset against the Lease liability adjusted for interest expense of \$10,064. Right to Use Asset are depreciated on straight line basis over the remaining term of the lease. A total of \$10,064 in interest expense based on 5.95% discount rate was expensed and included in bank charges and interest.

10. BANK LOANS

During the prior years, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. The outbreak of coronavirus has impacted the company's business resulting in reduction of sales revenue for the current year. As a result of the outbreak the Company has applied and obtained bank loans financing totaling \$120,000 under the terms of the Canada Emergency Business Account ('CEBA'). The loans are government guaranteed, non-interest bearing loans until December 31, 2022 (subsequently extended to December 31, 2023). If 75% of the loan is repaid by December 31, 2022 (subsequently

extended to December 31, 2023) the remaining 25% balance will be forgiven. If the loans are not repaid by December 31, 2022 (subsequently extended to December 31, 2023) the loans will bear interest at an annual rate of 5% per annum and will be due in full by December 31, 2025.

11. CAPITAL STOCK

- (a) Capital stock consists of 212,275,038 common shares outstanding as at December 31, 2022. An unlimited number of common shares and an unlimited number of preferred shares are authorized. To date the Company has not issued any preferred shares. The following are share issuances and cancellations for the most recently completed financial year.

Common shares issued:

	# of shares	\$ amount
Balance December 31, 2021	212,275,038	20,827,916
Balance December 31, 2022	<u>212,275,038</u>	<u>\$ 20,827,916</u>

The following table summarizes information about warrants issued and outstanding as at December 31, 2022:

	Warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
Outstanding January 1, 2021	25,540,000	0.05	4.29
Issued - private placements	35,090,500	0.07	2.18
Exercised	(3,480,000)	0.05	3.32
Outstanding December 31, 2021	<u>57,150,500</u>	<u>0.06</u>	<u>2.61</u>
Outstanding December 31, 2022	<u>57,150,500</u>	<u>0.06</u>	<u>1.61</u>

In determining the value of the warrants issued related to the private placements during the prior year, the fair value of the warrants were estimated using a Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility ranging from 150%, risk-free interest rate of 0.05% and expected life of 3 years.

- i) On March 5, 2021 the Company closed the first tranche of a private placement ("Private Placement") by issuing 24,820,000 units at \$0.05 per unit for gross proceeds of \$1,241,000. Each Unit is comprised of one Common Share in the capital stock of the Company and one Share Purchase Warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.07 per Share, which is exercisable for a period of three (3) years from the date of closing. \$16,975 cash were paid in finder's fees and 339,500 Share Purchase Warrants were issued.
- ii) On March 10, 2021 the Company closed the second tranche of a private placement ("Private Placement") by issuing 7,180,000 units at \$0.05 per unit for gross proceeds of \$359,000. Each Unit is comprised of one Common Share in the capital stock of the Company and one Share Purchase Warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.07 per Share, which is exercisable for a period of three (3) years from the date of closing. \$21,000 cash, 1,165,500 shares and 1,585,500 Share Purchase Warrants were issued in finder's fees related to both Tranche 1 (March 5, 2021) and Tranche 2 (March 10, 2021).

- iii) On March 24 and March 29, 2021, warrants were exercised in the respective amounts of \$124,000 and \$50,000. The company issued 3,480,000 common shares at \$0.05 per common share.
- iv) Basic income (loss) per share was calculated on the basis of the weighted average number of common shares outstanding for the year. Fully dilutive income (loss) per share has not been disclosed as the exercise of the common share purchase options and warrants outstanding as at December 31, 2022 and 2021 would have anti-dilutive effect.

(b) Stock incentive plan

Approved by the shareholders on July 8, 2008, amended on September 25, 2000, June 5, 2008, November 29, 2013, November 28, 2014, November 27, 2015, December 17, 2021, and December 23, 2022, 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. A summary of the status of the outstanding and exercisable stock options under the Stock Incentive Plan is presented below:

The following table summarized information about the options outstanding at December 31, 2022:

	Options	Weighted average exercise price
Outstanding, December 31, 2020	14,475,000	\$ 0.06
Granted, May 31, 2021	500,000	0.06
Granted, October 4, 2021	1,000,000	0.05
Cancelled, December 31, 2021	(150,000)	0.05
Outstanding December 31, 2021	<u>15,825,000</u>	<u>\$ 0.06</u>
Granted, January 13, 2022	7,825,000	\$ 0.06
Cancelled April 23, 2022	(500,000)	\$ 0.05
Cancelled June 1, 2022	(150,000)	\$ 0.05
Cancelled July 2, 2022	(1,000,000)	\$ 0.07
Cancelled December 31, 2022	(900,000)	\$ 0.05
Outstanding December 31, 2022	<u><u>21,100,000</u></u>	<u><u>\$ 0.06</u></u>

The following table summarizes information about the options outstanding at December 31, 2022:

	Options outstanding	Remaining contractual life in years	Weighted average exercise price
\$0.05	6,775,000	9.04	
\$0.05	9,250,000	7.38	
\$0.05	1,000,000	8.76	
\$0.06	500,000	8.39	
\$0.10	3,325,000	4.31	
\$0.15	250,000	0.32	
	21,100,000	7.44	\$0.06

The following table summarizes information about the options outstanding at December 31, 2021:

	Options outstanding	Remaining contractual life in years	Weighted average exercise price
\$0.05	11,300,000	8.52	
\$0.06	500,000	9.42	
\$0.10	3,775,000	5.31	
\$0.15	250,000	1.32	
	15,825,000	7.67	\$0.06

In determining the expense for the share based payments during the 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: dividend yield of 0%, expected volatility ranging from 125% to 126% (2021: 125% to 126%), risk-free interest rate of 2% (2021: 2%) and expected life of 10 years (2021: 10 years).

12. RELATED PARTY TRANSACTIONS

Included in general and administrative expenses are officer fees paid to Officers of the Company in the amount of \$6,000 (2021: \$9,000). Included in accounts payable and accrued liabilities is \$5,000 (2021: \$1,000) payable to a Director and 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:

	2022	2021
Salaries, fees and short term benefits	\$ 83,135	\$ 98,938
Officer fees	6,000	9,000
Share-based payments	148,871	45,106
	\$ 238,006	\$ 153,044

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 Corporation, as confirmed by audited annual financial statements, until an aggregate amount of \$80,000 is paid to Dofasco Inc. The AmdEL Technology shall be considered to be commercialized when the first contract on commercial terms for its use is received. As at December 31, 2022, management did not consider the AmdEL Technology to be commercialized.

15. GEOGRAPHIC INFORMATION

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

Projects revenue earned by geographic region for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Canada	\$ 1,857,571	\$ 1,131,046
United States	285,040	51,120
Saudi Arabia	15,655	-
	\$ 2,158,266	\$ 1,182,166

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.

The 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.

December 31, 2022	Current Water \$	Pumptronics \$	Total \$
Revenue	434,203	1,724,063	2,158,266
Gross profit (loss)	(146,519)	277,700	131,181
Net income (loss)	(1,124,447)	71,670	(1,052,777)
Total assets	594,270	308,492	902,762
Total liabilities	880,925	486,802	1,367,727

16. EXPENSES BY NATURE

Included in general and administrative expenses are the following:

	2022	2021
Advertising & promotion	3,606	4,593
Bank charges and interest	3,859	9,737
Officer's fees	6,000	9,000
Filing fees	35,234	67,023
Insurance	88,522	78,578
Office expenses	92,578	90,629
Rent and occupancy	124,094	121,012
Professional fees - patents	-	-
Professional fees	125,947	116,099
Bad debts	-	(2,617)
Salaries and benefits	123,957	112,248
Travel	1,380	12,399
Utilities	16,672	15,079
Vehicle expense	15,251	14,450
	636,100	648,230

17. LEASE LIABILITY

The lease liability is measured at the present value of the expected lease payments over the lease term, discounted at the implicit rate in the lease; if the rate cannot be determined, the incremental borrowing rate of the asset or asset grouping is used. The lease liability is increased for the passage of time and payments on the lease are offset against the lease liability. The liability is subsequently re-measured when there is a change in the lease agreement, such as a change in future lease payments or if the Corporation decides to purchase, extend or terminate the lease option. When the lease liability is re-measured, an adjustment is applied to the carrying value of the ROU asset.

The Company had the following future payments related to its lease liability:

Balance at December 31, 2021	\$	246,015
Interest expense		10,064
Repayments		(143,024)
Balance at December 31, 2022	\$	<u>113,055</u>

Payments due over next 2 years	2022	113,055
	2023	-
		<u>\$ 113,055</u>

18. LOAN PAYABLE

The car loan was fully paid in the current year.

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% (2021: 26.5%) follows.

	2022	2021
Net income (loss) before income taxes	\$ (1,052,777)	\$ (1,568,694)
Income taxes at statutory rates	(278,985)	(415,704)
Tax rate and other adjustments		
Permanent differences	37,851	39,293
	<u>(241,134)</u>	<u>(378,411)</u>
Valuation allowance	241,134	376,411
	<u>\$ -</u>	<u>\$ -</u>

The company has the following deferred income tax assets:

	2021	2021
Non-capital losses	\$ 3,625,042	\$ 3,447,035
Property, plant and equipment and intangibles	297,021	255,194
Capital loss	-	48,835
Lease liability	29,960	65,194
Research and development	1,499,682	2,009,432
	<u>5,451,705</u>	<u>5,825,690</u>
Tax asset not recognized	(5,451,705)	(5,825,690)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

(b) Losses Carried Forward

The company has loss carry-forwards in the amount of approximately \$13,678,000 (2021: \$13,028,000) 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		61,000
2038		748,000
2039		56,000
2040		546,000
2041		1,442,000
2042		650,000
		\$ 13,678,000

(c) Investment Tax Credits

As at December 31, 2022, the Company has \$1,499,682 (2021: \$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, 2022, 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 due. As at December 31, 2022, the Company had cash and cash equivalent balances of \$118,674 (2021: \$635,301) to settle current liabilities of \$1,247,727 (2021: \$1,050,803) and long-term liabilities of \$120,000 (2021: \$233,058). Of the current liabilities outstanding, \$587,470 (2021: \$199,641) of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The long-term liabilities outstanding, are interest free until December 31, 2023 and if not repaid will bear interest and must be repaid before December 31, 2025.

Interest rate risk

In the fiscal year ended 2020 the Company obtained bank loans financing totaling \$120,000 under the terms of the Canada Emergency Business Account. These loans are government guaranteed, non-interest bearing up to December 31, 2023. If 75% of the loans are repaid by December 31, 2023 the remaining 25% balance will be forgiven. If still outstanding on December 31, 2023 the loans will bear interest at an annual rate of 5% and will be due in full by December 31, 2025. The company therefore has limited exposure to interest rate risk.

Foreign currency rate risk

The Company has bank balances, accounts receivable, and accounts payable that are in US dollars and therefore subject to foreign currency rate risk.

Covid 19 Risk

The Company continually monitors guidance from Health Canada as well as provincial and local health authorities to mitigate the effects of COVID-19 at its corporate office location.

Other than the macro-economic impact of inflationary pressure and supply chain challenges, operating activities at the Company's projects are continuing with no significant interruptions to date from COVID-19. The extent to which COVID-19 will impact the Company's operations in the future remains highly uncertain and cannot be accurately estimated at the present time.

Fair value of financial instruments and Hierarchy

The book value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other liabilities, and loans payable all approximate their fair values as at December 31, 2022. The Company did not hold any FVTPL financial instruments during the current year.

For disclosure purposes, 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.

As at December 31, 2022 the Company's financial instruments are cash and cash equivalents, considered to be Level 1 as the market value is readily available.

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 2021. 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 period ended December 31, 2022 compared to the year ended December 31, 2021. The Company does not have any covenants respecting its capital ratios.

22. SUBSEQUENT EVENT

On February 22, 2023 the Company granted 2,000,000 stock options to its directors, officers and employees at an exercise price of \$0.05 per share for a period of 10 years, 25% vesting four (4) months from date of grant, 25% vesting six (6) months from date of grant, 25% vesting twelve (12) months from date of grant and remaining 25% vesting eighteen (18) months from date of grant.