



Water Ways

technologies

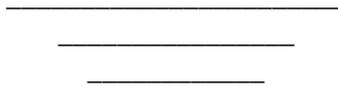
WATER WAYS TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2023

WATER WAYS TECHNOLOGIES INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	2-4
Statements of Consolidated Financial Position	5
Statements of Consolidated Comprehensive Income	6
Statements of Consolidated Changes in Shareholders' Equity	7-8
Statements of Consolidated Cash Flows	9-10
Notes to the Consolidated Financial Statements	11-40



INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
WATER WAYS TECHNOLOGIES INC.

Opinion

We have audited the consolidated financial statements of Water Ways Technologies. Inc. and its subsidiaries (formerly known as Sagittarius Capital Corporation) (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of comprehensive income (loss), changes in shareholder's equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements relevant to the 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 1C to the consolidated financial statements, which indicates that the Company incurred losses from operations, and as at December 31, 2023, the Company has an accumulated deficit of \$9,022 thousand. In addition, the Company generated negative cash flows from operating activities of \$1,378 thousand and a loss in the amount of \$3,623 thousand for the year ended December 31, 2023. As stated in Note 1C, these events and conditions, along with other matters as set forth in Note 1C, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises: Management's Discussion and Analysis for the year ended December 31, 2023.

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 the 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.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation's 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial

statements. We are responsible for the direction, supervision and performance of the Corporation audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Tel-Aviv, Israel
April 26, 2024

Ziv haft
Certified Public Accountants (Isr.)
BDO Member Firm

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

	<u>Note</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
CURRENT ASSETS:			
Cash and cash equivalents		199	1,064
Restricted Cash		14	14
Trade accounts receivable, net	2	1,288	2,402
Other accounts receivable	4	455	464
Advance payments for projects	5	83	697
Inventory	6	1,661	2,249
Total current assets		<u>3,700</u>	<u>6,890</u>
NON-CURRENT ASSETS:			
Deferred tax asset	21	-	88
Other accounts receivable		110	114
Intangible assets, net	7	175	808
Goodwill	8B	129	916
Property, plant and equipment, net	9	333	414
Total non-current assets		<u>747</u>	<u>2,340</u>
TOTAL ASSETS		<u>4,447</u>	<u>9,230</u>
CURRENT LIABILITIES:			
Short term loans, current portion of long-term loans and line of credit	11	1,860	1,745
Lease liabilities		33	17
Trade accounts payable	13	2,201	2,674
Deferred revenues		-	29
Other accounts payable	10	456	293
Total current liabilities		<u>4,550</u>	<u>4,758</u>
NON-CURRENT LIABILITIES:			
Long-term loans	11	102	239
Contingent liability		365	365
Share issuance liability		700	700
Lease liabilities		36	10
Tax liability		-	135
Convertible debenture	14B	310	406
Derivative - warrants	14D	9	839
Total non-current liabilities		<u>1,522</u>	<u>2,694</u>
SHAREHOLDERS' EQUITY (DEFICIT):			
Share capital	14	*	*
Additional paid in capital		7,540	7,307
Reserves		187	200
Retained deficit		(9,022)	(5,796)
Water Ways Technologies Inc shareholders' equity (deficit)		<u>(1,295)</u>	<u>1,711</u>
Non-controlling interest		(330)	67
Total shareholders' equity (deficit)		<u>(1,625)</u>	<u>1,778</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		<u>4,447</u>	<u>9,230</u>

* Represent an amount lower than 1 thousand.

The accompanying notes are an integral part of the financial statements.

April 26, 2024

Date of approval

“Ohad Haber”

Ohad Haber
CEO & Executive Director

“Asi Levi”

Asi Levi
CFO

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(US Dollars in thousands, except for share and per share amounts)

	<u>Note</u>	<u>Year ended December 31</u>	
		<u>2023</u>	<u>2022</u>
Revenues:	16		
Services		1,208	3,115
Products		5,414	7,694
Total revenues		<u>6,622</u>	<u>10,809</u>
Cost of revenues:	17		
Services		1,090	2,540
Products		5,140	6,481
Total cost of revenues		<u>6,230</u>	<u>9,021</u>
Gross profit		392	1,788
Sales and marketing expenses	19	1,023	1,410
Impairment of goodwill and intangibles	8	1,272	-
Expected credit loss		590	-
General and administrative expenses	18	1,890	2,458
Operating loss		<u>(4,383)</u>	<u>(2,080)</u>
Finance expenses	20	(378)	(252)
Finance income	20	54	27
Revaluation of derivatives and convertible debentures	14,20	1,036	4,311
Profit (loss) before taxes on income		<u>(3,671)</u>	<u>2,006</u>
Tax on income (recovery)	21	48	(65)
Profit (loss) for the year		<u><u>(3,623)</u></u>	<u><u>2,071</u></u>
Other comprehensive profit:			
Item that will be reclassified to profit or loss:			
Foreign currency translation differences		<u>(13)</u>	<u>(8)</u>
Total other comprehensive profit		<u>(13)</u>	<u>(8)</u>
Net comprehensive profit (loss)		<u><u>(3,636)</u></u>	<u><u>2,063</u></u>
Profit for the year attributed to:			
Non-controlling interests		(397)	4
Water Ways Technologies Inc Shareholders'		<u>(3,226)</u>	<u>2,067</u>
Profit (loss) for the year		<u><u>(3,623)</u></u>	<u><u>2,071</u></u>
Total Comprehensive profit (loss) for the year attributed to:			
Non-controlling interests		(397)	4
Water Ways Technologies Inc Shareholders'		<u>(3,239)</u>	<u>2,059</u>
Net comprehensive profit (loss)		<u><u>(3,636)</u></u>	<u><u>2,063</u></u>
Basic profit (loss) per share attributable to shareholders:		(0.0244)	0.0142
Weighted average number of common shares outstanding:		148,224,715	145,450,594
Diluted profit (loss) per share attributable to shareholders:		(0.0244)	0.0109
Weighted average number of common shares outstanding:		148,224,715	190,753,814

The accompanying notes are an integral part of the financial statements.

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(US Dollars in thousands, except for share and per share amounts)

For the year ended December 31, 2023:

	Number of Shares	Share capital	Additional paid-in capital	Retained deficit	Capital reserve for share-based payment	Currency translation adjustment	Total	Non- controlling interests	Total Shareholders' equity (deficit)
Balance at January 1, 2023	145,970,345	*	7,307	(5,796)	203	(3)	1,711	67	1,778
Net income	-	-	-	(3,226)	-	-	(3,226)	(397)	(3,623)
Other comprehensive loss:									
Exchange differences on translating foreign operation	-	-	-	-	-	(13)	(13)	-	(13)
Total comprehensive loss	-	-	-	(3,226)	-	(13)	(3,239)	(397)	(3,636)
Exercise of Options to employees and directors	400,000	-	19	-	-	-	19	-	19
Private placement, net	2,415,000	*	214	-	-	-	214	-	214
Balance at December 31, 2023	148,785,345	*	7,540	(9,022)	203	(16)	(1,295)	(330)	(1,625)

*Represent an amount lower than 1 thousand

The accompanying notes are an integral part of the financial statements.

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(US Dollars in thousands, except for share and per share amounts)

For the year ended December 31, 2022:

	Number of Shares	Share capital	Additional paid-in capital	Retained deficit	Capital reserve for share-based payment	Currency translation adjustment	Total	Non- controlling interests	Total Shareholders' equity
Balance at January 1, 2022	143,575,710	*	6,780	(7,863)	247	5	(831)	63	(768)
Net income	-	-	-	2,067	-	-	2,067	4	2,071
Other comprehensive loss:									
Exchange differences on translating foreign operation	-	-	-	-	-	(8)	(8)	-	(8)
Total comprehensive income	-	-	-	2,067	-	(8)	2,059	4	2,063
Exercise of Options to employees and directors	350,000	-	46	-	(13)	-	33	-	33
Exercise of Options to service providers	450,000	-	116	-	(31)	-	85	-	85
Shares for debt	102,320	-	22	-	-	-	22	-	22
Exercise of PP Warrants	1,426,398	-	329	-	-	-	329	-	329
Exercise of Finder Warrants	65,917	-	14	-	-	-	14	-	14
Balance at December 31, 2022	145,970,345	*	7,307	(5,796)	203	(3)	1,711	67	1,778

*Represent an amount lower than 1 thousand.

The accompanying notes are an integral part of the financial statements.

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollars in thousands)

	<u>For the year ended December 31, 2023</u>	<u>For the year ended December 31, 2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) for the year	(3,623)	2,071
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortization	265	262
Impairment of goodwill and intangibles	1,272	-
Financial income from revaluation of loans	(204)	91
Loss from sale of fixed assets	6	-
Decrease in trade accounts receivable, net	1,115	1,991
Decrease in other accounts receivable	13	213
Decrease (increase) in project advance payments	613	(697)
Decrease (increase) in inventory	588	(288)
Decrease in trade accounts payable	(474)	(1,662)
Increase (decrease) in other accounts payable	163	(216)
Change in fair value of derivative	(1,036)	(4,311)
Decrease in deferred revenues	(29)	(301)
Decrease in deferred taxes	(47)	(72)
Net cash used in operating activities	<u>(1,378)</u>	<u>(2,919)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment, net	(14)	(128)
Sale of property, plant and equipment	39	-
Change in short term deposits	-	52
Net cash generated from (used in) investing activities	<u>25</u>	<u>(76)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank loans	(1,274)	(1,529)
Receipt of bank loans	1,277	1,644
Line of credit	179	460
Lease payments	(31)	(27)
Issuance of convertible debentures, net	66	535
Issuance of shares and warrants, net	214	-
Exercise of options	19	118
Exercise of warrants	-	203
Net cash provided by (used in) financing activities	<u>450</u>	<u>1,404</u>
Effect of foreign exchange rate on cash	<u>38</u>	<u>56</u>
Decrease in cash and cash equivalents	<u>(865)</u>	<u>(1,535)</u>
Cash and cash equivalents at beginning of the year	<u>1,064</u>	<u>2,599</u>
Cash and cash equivalents at the end of the year	<u><u>199</u></u>	<u><u>1,064</u></u>

*Represent an amount lower than 1 thousand.

The accompanying notes are an integral part of the financial statements.

WATER WAYS TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - APPENDICES
(US Dollar in thousands)

APPENDIX A - AMOUNT PAID DURING THE PERIOD FOR:

	For the year ended December 31	
	2023	2022
Loan Interest	107	82
Convertible debenture interest	50	11

APPENDIX B - NON-CASH ACTIVITY:

	For the year ended December 31	
	2023	2022
Shares for debt	-	22
Recognition of Right-of-use asset and lease liability	73	-

The accompanying notes are an integral part of the financial statements.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 1 – GENERAL:

- A. Water Ways Technologies Inc. ("Water Ways", "WWT" or the "Company") was incorporated under the Business Corporations Act (Ontario) on April 20, 2007 and was classified as a Capital Pool Corporation as defined by TSX Venture Exchange ("TSX-V" or "Exchange") Policy 2.4. Water Ways Technologies Inc. is the parent company of Irri-Al-Tal Ltd. ("Irri-Al-Tal" or "IAT"), Heartnut Grove WWT Inc. ("HGWWT"), Zoryan Trade S.A. ("Zoryan") and Maravey Corporation S.A. ("Maravey"), and indirectly through Irri-Al-Tal of H.D.P Irrigation Ltd. ("H.D.P") and IRRI-AL TAL (Shanghai) Agriculture Technology Company Ltd. ("IRRI-AL TAL (Shanghai)" or "IAT Shanghai"). The Company's registered address is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1.
- Irri-Al-Tal was incorporated on October 11, 2003, under the laws of the State of Israel.
 - On March 6, 2019, Water Ways completed its qualifying transaction by completing a reverse takeover with Irri-Al-Tal.
 - On June 17, 2019, the Company acquired certain assets of Heartnut Grove Inc. ("Heartnut") and established HGWWT, a subsidiary which the Company holds 100% interest.
 - On October 27, 2019, Water Ways, through Irri-Al-Tal, established a new Israeli company, H.D.P, of which Irri-Al-Tal holds a 73% interest.
 - On February 26, 2020, H.D.P established a new wholly owned subsidiary in the Republic of China, IRRI-AL TAL (Shanghai).
 - On September 2, 2020, Water Ways acquired 52% interest in two companies, incorporated and existing in the Oriental Republic of Uruguay, Zoryan and Maravey.
- B. Water Ways is an agriculture technology company that specializes in providing water irrigation solutions to agricultural producers. The Company competes in the global irrigation water systems market with a focus on developing solutions with commercial applications in the micro and precision irrigation segments of the overall market. The Company's revenues are derived from both services and products, and revenues are primarily generated from customers in North and South America, but also include other geographies such as Europe and the Far East.
- C. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred recurring losses and negative cash flows from operating activities in the years ended December 2023 and 2022, such that as of December 31, 2023, the Company had accumulated losses of \$9,022. In addition, the Company generated negative cash flows from operating activities of \$1,378 thousand and a net loss in the amount of \$3,623 for the year ended December 31, 2023. As of the date of the issuance of these financial statements, the Company has not yet commenced generating sufficient revenues to fund its operations, and therefore depends on fundraising from new and existing investors to finance its activities.

Considering the above, the Company's dependency on external funding for its operations indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements for the year ended December 31, 2023, do not include any adjustments that might result from the outcome of these uncertainties.

- D. On October 7, 2023, the Israeli government declared a state of war due to the terror attack that was launched on the State of Israel on that day, and which still continues. At the same time, the Hezbollah organization has since been carrying out missile and rocket attacks on various areas in Israel's northern regions, targeting both military and civilian locations ("the war"). The war has led to various consequences and restrictions on the Israeli economy, including, among other things, an extensive mobilization of reserves, the evacuation of many settlements, both in the area bordering the Gaza strip and near the northern border, as well as taking actions for maintaining public safety and security, such as, among other things, imposing restrictions on gatherings, depending on the proximity thereof to the combat zones, including at workplaces and in the education system. Taking such actions caused a decline and a slowdown in the activity of the Israeli economy.

To the Company's estimation, as of December 31, 2023, the war had no material effect on the Company's financial situation and on the results of the Company's activities. Also, the Company had succeeded to maintain operational and functional continuity, including maintaining an effective staff volume and effective ongoing operations with its customers and suppliers. As of the date of the report, the war still goes on and there is uncertainty as to its duration, further development and scope.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 1 – GENERAL (CONT.):

- E. The war in Ukraine intensified on February 24, 2022, with Russia's invasion of Ukraine (the "Conflict"). The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighboring countries or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, the Company may need to consider the war's effect on certain accounting and financial reporting matters. The degree to which the Company is or will be affected by them largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The impact of the Conflict on the Company has caused delays in 2023 projects in Uzbekistan and other regional territories which conduct business with Russia and may be expected to continue to do so in unpredictable fashion. In the year ended December 31, 2023, the Company had signed three contracts with customers in Uzbekistan totaling \$7,200. The Company decided to take a conservative approach and does not recognize revenues which are reflected in the decline in revenues from projects.
- F. These consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2024.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 - MATERIAL ACCOUNTING POLICY INFORMATION:

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention except for certain financial liabilities which are measured at fair value until conversion. The Company has elected to present the statement of comprehensive income using the function of expense method.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commenced until the date control ceases. The Company controls an investee if all three elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements of the Company include the accounts of the Company and its Subsidiaries as if they formed a single entity. Any intercompany transactions were eliminated in full.

Business Combination

The consolidated financial statements of the Company include the accounts of the Company and the following subsidiaries:

<u>Entity Name</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of WWT Ownership (Direct and Indirect)</u>
Water Ways Technologies Inc.	Canada	Parent Company
Irri-Al-Tal Ltd.	Israel	100%
Heartnut Grove WWT Inc.	Canada	100%
H.D.P Irrigation Ltd.	Israel	73%
IRRI-AL TAL (Shanghai) Agriculture Technology Company Ltd.	People's Republic of China	73%
Maravey Corporation S.A. (*)	Oriental Republic of Uruguay	52%
Zoryan Trade S.A. (*)	Oriental Republic of Uruguay	52%

(*) Inactive company

Non-controlling interests

The Company recognizes any non-controlling interest in its acquisitions on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquirer's identifiable net assets. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Foreign currency

The financial statements are prepared in US Dollars (the functional currency). Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates".

Transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the statements of the financial position date.
- Expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange used to convert the related statements of financial position items i.e., at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive income.

References to "CAD\$" or "CDN\$" dollars refer to Canadian Dollars. All the amounts in the report, regardless of currency, are referenced in thousands (other than amounts relating to the exercise price of securities or per share amounts).

Use of estimates and assumptions in the preparation of the financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the year in which they are identified. Actual results could differ from those estimates.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily interchangeable items. Inventories are recognized at the lower of cost and net realizable value.

Goodwill and Impairment

Goodwill represents the excess of the costs of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. The cost of a business combination comprises the fair values of assets given, liabilities assumed and equity instruments issued. Any costs of acquisition are charged to profit or loss. Goodwill is recognized as an intangible asset with any impairment in carrying value being charged to the income statement. Goodwill is not systematically amortized and the Company reviews goodwill for impairment once a year, or more frequently if events or changes to circumstances indicate that there is an impairment.

Intangible assets

Intangible assets include internally generated capitalized development costs. Intangible assets with a finite useful life are amortized over their useful life. The amortization period and the amortization method for intangible assets are reviewed at least at each year end and adjustments, where applicable, are made on a prospective basis. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable (see also "Impairment of non-financial assets"). Capitalized development costs are not being amortized yet because the development has not been completed and the assets are yet to be in use. Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Intangible assets (cont.)

Acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured on initial recognition at fair value. Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the assets may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred. The amortization period regarding the Customer Base asset is linear and set to be 6 years in HGWWT and 8 years in IAT Shanghai. The amortization period regarding the Capitalized Development Costs asset is linear and set to be 8 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

A recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Deferred taxes

A significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies. Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributable for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the temporary differences are reversed based on tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred taxes are recognized in Profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity. Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income. All deferred tax assets and liabilities are presented in the statement of financial position as non-current items.

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Loss per share

Basic earnings or loss per share are calculated as net profit or loss attributed to the Group, divided by the weighted average number of outstanding ordinary shares, during the period.

Revenue recognition

Revenue is recognized based on the five-step model outlined in IFRS 15, Revenue from contracts with customers. The Company adopted IFRS 15 using the 'modified' retrospective method with the cumulative effect of initially applying IFRS 15 at the date of initial application, accordingly, under this transition method, an entity may elect to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application. The Company sells its products and services directly through its sales force and independent sales agents.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies its performance obligations under the contract.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Revenue recognition (cont.)

Revenue is measured as the amount of consideration that the Company is expected to receive in exchange for transferring goods or providing services to the customer. The amount of consideration is usually a fixed price at the contract inception. Taxes assessed by various government entities, such as sales taxes, use and value-added taxes, collected at the time of sale are excluded from revenue.

Revenue from sales of irrigation equipment and water systems to agricultural producers is recognized when the customer has taken control of the goods, which occurs at a point in time based on the shipping terms. Revenue from providing project services is derived from long-term fixed-price contracts with customers pursuant to which the Company provides design, installation, and maintenance of turnkey irrigation systems for application in various agricultural and aquaculture operations. Revenues on these long-term fixed-price contracts are recognized using the percentage-of-completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of cost incurred to date on a contract relative to the estimated total expected contract cost. Management uses past experience, project plans and an assessment of the risks and uncertainties specific to the project to estimate total expected contract cost.

The percentage of completion is established by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). Contract costs include all direct material and labor costs, as control is transferred over time since the Company's performance does not create an asset with an alternative use to the Company.

The Company utilizes various forms of financial guarantees from first-tier international banks to provide payment assurance for the receivables from its customers, the Company's management believes that its credit risk is limited to projects which have not yet been completed, but for which the Company has recognized revenue.

The Company provides a one-year manufacturer (back-to-back with the manufacturer – a third party) warranty for all the components that are part of a system. Such a warranty does not provide the customer with additional services; therefore, the service cost is not recognized as a financial obligation to the Company and is not accounted as a separate performance obligation but rather as a provision.

Cash and cash equivalents

Cash equivalents are considered by the Company to be highly liquid investments, including, inter alia, short-term deposits with banks, the maturity of which do not exceed three months at the time of deposit, and which are not restricted.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When there are no quoted prices in active markets for identical assets or liabilities, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Fair value measurement (cont.)

Classification of financial instruments by fair value hierarchy

Assets and liabilities measured in the statements of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Items carried at fair value as of December 31, 2023, and 2022 are classified in the table below:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
	December 31, 2023			
Derivative Warrants Liabilities (see Note 14D)	-	-	9	9
Convertible Debenture (see Note 14B)	-	-	310	310

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
	December 31, 2022			
Derivative Warrants Liabilities (see Note 14D)	-	-	839	839
Convertible Debenture (see Note 14B)	-	-	406	406

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Company's accounting policy for the relevant category is as follows:

Amortized cost: These assets arise principally from the provision of goods and services to customers (e.g., trade accounts receivable), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade accounts receivable are recognized based on the simplified approach within IFRS 9 using a provision in the determination of the lifetime expected credit losses. During this process, the probability of non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within general and administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Financial instruments (cont.)

Financial Liabilities

Financial liabilities are presented and measured based on the following classification:

- Financial liabilities at fair value through profit or loss.
- Financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is either held for trade or designated as a financial liability at fair value through profit or loss.

A financial liability is classified as held for trade, if:

- It was incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee)

A financial liability, except for a financial liability held for trade or contingent consideration from a business combination that is not classified as equity, is classified as a financial liability at fair value through profit or loss upon initial recognition, when:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would have otherwise arisen had it not been for this designation; or
- The financial liability is part of a group of financial liabilities or financial assets and financial liabilities and is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy of the Group, and information about the group is provided internally on that basis to the Group's key management personnel; or
- It is part of a contract containing one or more embedded derivatives and the Group may designate the entire hybrid contract (asset or liability) as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value. Any gain or loss arising on re-measurement of fair value is recognized in profit or loss. The net gain or loss recognized in the statement of profit or loss incorporates interest paid on financial liabilities and is included in the finance expenses item within the statement of profit or loss.

De-recognition

Financial assets - The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial Liabilities - The Company derecognizes financial liability when its contractual obligations are discharged, cancelled or expire.

De-recognition

Financial assets - The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial Liabilities - The Company derecognizes financial liability when its contractual obligations are discharged, cancelled or expire.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of financial assets carried at amortized cost. The Company recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Financial instruments (cont.)

ECL are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade accounts receivable and contract assets, the Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date.

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company has assessed its financial assets that are subject to the expected credit loss model, while cash and cash equivalents are subject to the impairment requirements of IFRS 9, the expected credit losses and their measurement.

In order to manage the credit risks associated with customer receivables, the Company aims to secure certain financial guarantees prior to entering into a business relationship with its customers. To this end, the Company has developed a three-level matrix, which is based on past experience and historical data along with projections of the future brought into consideration, in order to group the ECL:

1. Receivable guaranteed by an irrevocable letter of credit from a first-tier international bank taking into consideration the creditworthiness of the bank that provides such assurance ("LC Client"). This is relevant to project-related customers.
2. Receivables which are not guaranteed by a letter of credit but fall under a foreign trade risk insurance policy issued by an international insurer guaranteeing the receivable in the event of non-payment, including among others: political and foreign currency risks ("Insurance Guaranteed Client"). This is relevant to project-related customers.
3. Customers who do not comply with the terms of the above policy - the Company takes into consideration specific history such as: length of relationship with the customer, unpaid balances, past late payments, general business and economic factors in a jurisdiction where the customer conducts business supported by external market research ("Other Clients").

ECL are measured as the unbiased probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, ECL are mainly calculated with a statistical model using three major risk parameters: probability of default, loss given default and exposure at default. The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (e.g., gross domestic product growth, unemployment rate, cost performance index) and forecasts of future economic conditions.

Definition of default, including reasons for selecting the definition

Prior to commencing a business relationship, the Company will enter into an agreement with the customer. The agreement or contract typically includes details of the terms of payment to which the customer is entitled. In most cases, the customer updates the Company if there is a delay in the payment beyond the terms of the agreement. Any delays in payment for more than two months are subject to the approval of the Company's management. If a customer's scheduled payment is delayed by more than two months and such delay is not approved by the Company's management, the CEO of the Company will, typically, make direct contact with the customer's management and inform them of the overdue obligation and that the Company will pursue remedies available to collect the overdue payment. If the customer and the Company are not able to resolve the matter at that time, the receivable is in default as collectability is no longer confidently expected. If the collection effort is not successful, the Company will retain legal counsel in the applicable country to assist with collection and send a demand letter to that effect.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.):

Financial instruments (cont.)

Write-off policy

The Company writes off its financial assets if any of the following occur:

- Inability to locate the debtor.
- Discharge of the debt in a bankruptcy.
- It is determined that the efforts to collect the debt are no longer cost effective given the size of receivable.

The collections department must comply with the collection efforts outlined in the policy to collect on delinquent customer accounts before any write-offs are made.

Aging Schedule based on due date

	<u>Within</u> <u>payment terms</u> <u>(payment term</u> <u>1)</u>	<u>0-90 days over</u> <u>payment terms</u> <u>(payment term</u> <u>2)</u>	<u>90+ days over</u> <u>payment terms</u> <u>(payment term</u> <u>3)</u>	<u>Total</u>
Aging Schedule as of December 31, 2023	274	278	736	1,288
Aging Schedule as of December 31, 2022	946	807	649	2,402

Accounts receivable by region and revenue stream

	<u>As of December 31,</u> <u>2023</u>	<u>As of December</u> <u>31, 2022</u>
Projects		
Asia	372	1,032
Africa	38	335
South and Central America	-	-
Israel	20	27
Products		
South and Central America	659	901
Canada and North America	174	77
Israel	25	30
Europe	-	-
Africa	-	-
Total	1,288	2,402

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (CONT.)

Financial instruments (cont.)

Three-level matrix

	As of December 31, 2023	As of December 31, 2022
Payment term 1	274	946
Payment term 2	278	807
Payment term 3	736	649
Total	1,288	2,402

At every reporting date the historical observed default rates are updated and changes in the forward looking estimates are analyzed. In this case it is forecast that economic conditions will deteriorate over the next year. On that basis the Company estimated the following provision matrix:

Three-level provision matrix

	Default rate	31.12.2023	ECL	Default rate	31.12.2022	ECL
Payment term 1	1.8%	274	5	0.2%	946	2
Payment term 2	5.4%	278	15	1%	807	8
Payment term 3	93.5%	736	688	16.7%	649	108
Total		1,288	708		2,402	118

A reconciliation from the opening balance to the closing balance of the loss allowance

	Payment term 1	Payment term 2	Payment term 3
Balance as of 31.12.2021	-	5	81
Changes in estimation of ECL during the period (*)	2	3	27
Balance as of 31.12.2022	2	8	108
Changes in estimation of ECL during the period (*)	3	7	580
Balance as of 31.12.2023	5	15	688

(*) The changes in the ECL estimation was derived mainly from the Company's reevaluation of its credit risk policy and the determination that was made based on reasonable and supportable information (i.e extended positive credit history from relevant customers in payment term 3, which were new in 2017), that a more lagging default criterion is more appropriate. As of December 31, 2023 and December 31, 2022, ECL for trade and other account receivables were \$708 and \$118, respectively.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONT.)

Financial instruments (cont.)

Credit risk management practices

For significant transactions with customers for amounts over \$200 the Company aims to secure a letter of credit from a first-tier international bank before accepting the credit risk. In the event of the fulfillment of a milestone according to the contract, the financial institution that provided the letter of credit is required to transfer the consideration to the Company. For transactions with customers in amounts less than \$200 but above \$1 the Company seek to obtain insurance for the customer's balance from third parties.

New standards, interpretations and amendments adopted from January 1, 2023

The following amendments are effective for the period beginning January 1, 2023:

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Company but affect the disclosure of accounting policies of the Company.

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);

The amendments to IAS 8, which added the definition of accounting estimates, clarify that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from the correction of prior period errors. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors. These amendments had no effect on the consolidated financial statements of the Group.

New standards, interpretations and amendments not yet effective

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendments are effective for the period beginning January 1, 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

The following amendments are effective for the period beginning January 1, 2025:

- Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates).

The Company is currently assessing the impact of these new accounting standards and amendments. The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Company's earnings and financial position are the recognition and amortization of development costs and the useful life of property and equipment and income tax.

Revenue and cost of revenues recognition

The Company enters into long-term fixed-price contracts with customers to provide irrigation and water systems. Revenues on these long-term fixed-price contracts are recognized under the percentage-of-completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of cost incurred to date on a contract relative to the estimated total expected contract cost.

Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish the total estimated costs. The percentage of completion is established by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). Contract costs include all direct material and labor costs.

Amortization of capitalized development costs and the useful life of property and equipment

Intangible assets and property and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the amounts charged to the statement of comprehensive income in specific periods.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the assets may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Share based payments

The Company has a share based plan for its employees. The estimated fair value of share options is determined using the binomial model and Black Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates (see Note 14).

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Management considers HG WWT to be the cash generating unit (a "CGU"). The cash generating unit has been identified based on the lowest levels at which business performance is monitored for internal management purposes.

The recoverable amounts of the CGU has been determined based on a value in use calculation using discounted cash flow projections. The CGU cash flow forecast has been derived from the most recent financial budget approved by management and the board of directors adjusted for expected growth for the following years, based on growth rates in the CGU. In developing its projections, management have considered the CGU's past performance as well as external forecasts of growth in the Agro-Tech industry.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 4 – OTHER ACCOUNTS RECEIVABLE:

	<u>As of December 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Prepaid expenses	150	235
Government authorities	11	28
Shareholder (Note 22)	-	31
Other	294	170
	<u>455</u>	<u>464</u>

NOTE 5 – ADVANCE PAYMENTS FOR PROJECTS:

As of December 31, 2023, total advance payment to suppliers amounted to \$435, \$352 of which are with respect to the three Uzbeki projects. Due to the uncertainty of the region, the Company recognized a provision in the amount of \$352.

NOTE 6 – INVENTORY:

	<u>As of December 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Finished goods	1,507	2,040
Goods in transit and prepayments	154	209
	<u>1,661</u>	<u>2,249</u>

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 7 - INTANGIBLE ASSETS, NET:

<u>Cost</u>	<u>Customer Base (*)</u>	<u>Capitalized Development Costs</u>	<u>Total</u>
As of January 1, 2022	986	199	1,185
Additions	-	-	-
As of December 31, 2022	986	199	1,185
Additions	-	-	-
Write-down	(816)	-	(816)
As of December 31, 2023	170	199	369
 <u>Accumulated amortization</u>			
As of January 1, 2022	214	12	226
Amortization	126	25	151
As of December 31, 2022	340	37	377
Amortization	123	25	148
Write-down	(331)	-	(331)
As of December 31, 2023	132	62	194
 <u>Book value, net:</u>			
As of December 31, 2023	38	137	175
As of December 31, 2022	646	162	808

(*) See note 8.

NOTE 8 – GOODWILL:

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The goodwill is attributed to the expected benefits arising from the synergies of the combination of the activities of the Company and acquired company.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 8 – GOODWILL (CONT.):

- A. On June 17, 2019, the Company announced that it had closed its previously announced acquisition of certain assets of Heartnut Grove Inc., a Canadian distributor of irrigation and agriculture components, based in Mount Brydges, Ontario. Heartnut was established in 2004. Water Ways established a wholly owned Canadian subsidiary named Heartnut Grove WWT Inc to acquire certain Heartnut assets including its customer base, inventory, certain equipment and goodwill for total consideration of \$382 payable. The purchase consideration was allocated between the acquired tangible assets and intangible assets, based on their fair values. Fair values were estimated with the assistance of an independent third party.

Management is fully responsible for the valuation of the assets. The fair value assigned to identifiable intangible assets acquired has been determined by using valuation methods that accounts for replacement costs, using estimates and assumptions determined by management.

Based on the above, the Company determined that the purchase price exceeded the fair values of assets acquired by approximately \$129, which is recognized as goodwill. Within the purchase price allocation, an amount of \$153 was allocated to the customer list to be amortized over a six - year period. The table below summarizes the preliminary fair value of assets acquired at the purchase date:

	June 15, 2019
Inventory	50
Fixed Assets	50
Customer List	153
Goodwill *	129
Total net assets acquired	382

- B. During the years ended December 31, 2023, and 2022, IRRI-AL-TAL (Shanghai) recorded significant losses, a decline in revenues, and did not come close to meeting the projections upon which goodwill was attributed to it. Furthermore, the Company expects this trend to continue for the foreseeable future, as there is growing uncertainty in continued operations in IRRI-AL-TAL (Shanghai). Therefore, as of December 31, 2023, the Company has determined that there are signs in the decline in the value of IRRI-AL-TAL (Shanghai) and decided to write off the goodwill previously recognized in respect of IRRI-AL-TAL (Shanghai) and has recorded a loss in the amount of \$787 for the year ended December 31, 2023.

In addition to the impairment to its goodwill, the Company also recognized a loss as a result of impairment to its customer base in the amount of \$485 (see also note 7).

- C. The table below summarizes the company's goodwill:

	As of December 31, 2023	As of December 31, 2022
HGWWT	129	129
IRRI-AL TAL (Shanghai)	-	787
	129	916

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT, NET:

	<u>Electronic Equipment</u>	<u>Leasehold Improvements</u>	<u>Motor Vehicles</u>	<u>Office Equipment</u>	<u>Rights of Use-Lease</u>	<u>Total</u>
<u>Cost</u>						
As of January 1, 2022	199	129	354	83	90	855
Additions	5	24	135	-	-	164
Disposal	-	-	(63)	-	-	(63)
As of December 31, 2022	<u>204</u>	<u>153</u>	<u>426</u>	<u>83</u>	<u>90</u>	<u>956</u>
Additions	3	11	-	-	73	87
Disposal	(25)	-	(96)	-	-	(121)
As of December 31, 2023	<u>182</u>	<u>164</u>	<u>330</u>	<u>83</u>	<u>163</u>	<u>922</u>
<u>Accumulated depreciation</u>						
As of January 1, 2022	166	93	121	70	44	494
Additions	15	9	55	13	19	111
Disposal	-	-	(63)	-	-	(63)
As of December 31, 2022	<u>181</u>	<u>102</u>	<u>113</u>	<u>83</u>	<u>63</u>	<u>542</u>
Additions	19	15	54	-	29	117
Disposal	(23)	-	(47)	-	-	(70)
As of December 31, 2023	<u>177</u>	<u>117</u>	<u>120</u>	<u>83</u>	<u>92</u>	<u>589</u>
<u>Book value, net:</u>						
As of December 31, 2023	<u>5</u>	<u>47</u>	<u>210</u>	<u>-</u>	<u>71</u>	<u>333</u>
As of December 31, 2022	<u>23</u>	<u>51</u>	<u>313</u>	<u>-</u>	<u>27</u>	<u>414</u>

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 10 – OTHER ACCOUNTS PAYABLE:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
Advances from customers	54	65
Government authorities	47	38
Vacation accrual	29	44
Employee related liabilities	110	143
Other	216	3
Total other account payable	456	293

NOTE 11 – LOANS:

A. Composition of loans and line of credit:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
Total loans	1,962	1,984
Less – line of credit	(765)	(586)
Less – current portion and short-term loans	(1,095)	(1,159)
Total long-term portion of loans	102	239

B. Total loans from banks are due as follows:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
First year (current portion and line of credit)	1,860	1,745
Second year	86	141
Third year	16	79
Fourth year and thereafter	-	19
Total loans	1,962	1,984

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 12 – LIENS AND COMMITMENTS:

Liens

The Company recorded a floating charge over all of the Company's assets in favor of an Israeli bank.

Leases

The Company leases its office facilities and warehouses under operating leases. Total rent expense under these operating leases was \$118 and \$167 for the years ended December 31, 2023, and 2022, respectively.

NOTE 13 – TRADE ACCOUNTS PAYABLE:

	<u>As of December 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Open accounts	2,054	2,652
Cheques payable	147	22
Total trade payables	<u>2,201</u>	<u>2,674</u>

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (DEFICIT):

Common Shares confer upon their holders the right to receive notice, to participate and vote in general meetings of the Company and the right to receive dividends, if and when declared.

Shares, Warrants, Finder Warrants, Options and Convertible Debentures Outstanding as of December 31, 2023:

<u>Security</u>	<u>Number</u> <u>Outstanding</u>	<u>Exercise Price in CAD\$</u>	<u>Expiry Date</u>
Ordinary shares	148,785,345	-	
Options for directors	400,000	0.06	6/3/2024
Options for employees	2,973,527	0.06	25/6/2024
Options for directors and employees	800,000	0.06	14/5/2025
PP Warrant (First Tranche)	25,682,346	0.18	30/6/2024
PP Warrant (Second Tranche)	9,113,375	0.18	3/8/2024
Finder Warrant (First Tranche)	2,145,653	0.12	30/6/2024
Finder Warrant (Second Tranche)	900,545	0.12	3/8/2024
Participant Options	1,410,000	0.195	29/8/2026
Convertible Debentures	2,131,429	0.35	22/7/2024
CD Warrant	2,131,429	0.45	22/7/2024
CD Finder Warrant	149,200	0.35	22/7/2024
Warrant - Series B	1,207,500	0.20	3/3/26
Finder Warrant - Series B	193,200	0.13	3/3/26
Convertible Debentures - Series B	382,500	0.24	3/3/25
CD Warrant - Series B	191,250	0.3	3/3/25
CD Finder Warrant - Series B	30,600	0.24	3/3/25
Total securities	198,627,899		

A. Private Placement

On March 3, 2023, the Company announced the closing of a private placement (the "2023 Offering") of 2,415,000 units (the "Series B Units") at a price of CAD\$0.13 per Series B Unit, for gross proceeds of \$232 (equivalent to CAD\$314) (the "Series B Offering Gross Proceeds"). Each Unit Series B is comprised of one Common Share and one half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Series B Warrant") with each Series B Warrant exercisable into one additional Common Share (a "Series B Warrant Share" and, collectively with the Common Shares and Warrants, the "Securities") at a price of CAD\$0.20 for a period of 36 months from the closing date. The aggregate amount of Series B Warrants issued is 1,207,500. If following July 4, 2023, the volume weighted average price ("VWAP") of the Common Shares for any 10 consecutive trading days equals or exceeds CAD\$0.26, the Company may, upon providing written notice to the holders of the Series B Warrants, accelerate the expiry date of the Series B Warrants to the date that is 30 days following the date of such written notice.

In connection with the 2023 Offering the Company issued to the finder: (i) an aggregate cash payment of \$18 (equivalent to CAD\$25) being an amount equal to 8% of the Gross Proceeds; and (ii) issue 193,200 Series B Finders Warrants (an amount equal to 8% of the Units sold (the "Series B Finders Warrants")). Each Series B Finder Warrant will be exercisable into a Series B Unit (consisting of a Common Share and half a Series B Warrant) upon payment of CAD\$0.13 per Unit.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (DEFICIT) (CONT.):

B. Convertible Debentures Placement

1. On June 27, 2022, the Company announced a private placement (the "Financing") of up to 1,000 units (the "CD Units") at a price of CAD\$1 (one thousand) per CD Unit, for gross proceeds of up to CAD\$1 million (the "CD Gross Proceeds"). Each CD Unit is comprised of one unsecured convertible debenture (each a "Convertible Debenture") with a principal amount of CAD\$1 (the "Subscription Price") and 2,857 common share purchase warrant (each whole common share purchase warrant, a "CD Warrant") with each CD Warrant exercisable, upon payment of an additional CAD\$0.45, into one additional common share in the capital of the Company (a "Common Share"). If the Company does not repay the Subscription Price on or before the date that is 24 months from the Closing Date (the "Term"), the Term will be extended by an additional 12 months (the "Revised Maturity Date") and the Company will be obligated to pay a penalty in cash only, equal to 10% of any amounts of the Subscription Price that were outstanding and not repaid at the end of the Term. The Convertible Debentures shall bear an annual interest rate of 8% payable quarterly in cash only. The Convertible Debentures are subject to conversion into Common Shares, at the option of the holder, at a conversion price of CAD\$0.35 per Common Share (the "Conversion Price"), provided that if, following the date that is 4 months and 1 day following the closing of the Financing (the "Closing Date") the volume weighted average price ("VWAP") of the Common Shares for any 10 consecutive trading days equals or exceeds CAD\$0.525, the Company may, upon providing written notice to the holders of the Convertible Debentures, force the conversion of the Convertible Debentures to the date that is 30 days following the date of such written notice. In the event that following the date that is 4 months and 1 day following the Closing Date, the VWAP of the Common Shares of for any 10 consecutive trading days equals or exceeds CAD\$0.675, the Company may, upon providing written notice to the holders of the CD Warrants, accelerate the expiry date of the CD Warrants to the date that is 30 days following the date of such written notice.
2. On July 22, 2022 the Company announced the closing, subject to receipt of all regulatory approvals and final TSX Venture Exchange approval which was received on November 2, 2022, of the Financing of 746 CD Units at a price of CAD\$1 per CD Unit, for CD Gross Proceeds of CAD\$746 thousand. Pursuant to the Financing the Company issued an aggregate 2,131,429 CD Warrants. In connection with the Financing the Company issued to the finder: (i) an aggregate cash payment of \$40 (equivalent to CAD\$52 thousand), being an amount equal to 7% of the CD Gross Proceeds; and (ii) 149,200 finder warrants as is equal to 7% of the CD Units sold ("CD Finder Warrant"). Each CD Finder Warrant will be exercisable into a Common Share of the Company upon payment by the holder thereof of CAD\$0.35 per CD Finder Warrant.

The convertible debentures, as well as the warrants were classified as a derivative financial liability and its fair value measurement was applied using a binomial models, based on the Cox, Ross Rubinstein (1979) method, is based on significant unobservable inputs and thus represents a level 3 measurement within the fair value hierarchy.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (DEFICIT) (CONT.):

B. Convertible Debentures Placement (Cont.)

3. On March 3, 2023, the Company announced the closing of a private placement (the "2023 Financing"), of 9 units (the "Series B CD Units") at a price of CAD\$10.2 per Series B CD Unit (the "Subscription Price"), for gross proceeds of \$71 (CAD\$92 thousand) (the "Series B CD Gross Proceeds"). Each Series B CD Unit comprised of one unsecured convertible debenture (each a "Series B Convertible Debenture") with a principal amount of CAD\$10.2 and 42,500 half of one Common Share purchase warrant (each whole such Common Share purchase warrant, a "Series B CD Warrant") with each Series B CD Warrant exercisable into one additional Common Share (a "Series B CD Warrant Share"). The aggregate amount of Series B CD Warrants issued is 191,250. If the Company does not repay the Subscription Price by the end of the date that is 24 months from the Closing Date (the "Maturity Date") the Series B Convertible Debenture only, will be extended by an additional 12 months (the "Revised Maturity Date") and the Company will be obligated to pay a penalty, payable in cash, equal to 10% of any amounts of the Subscription Price that were outstanding and not repaid at the end of the Maturity Date. The Series B Convertible Debentures shall bear an annual interest rate of 8%, payable quarterly in cash only (the "Interest"). The Series B Convertible Debentures are subject to conversion, at the option of the holder, at a conversion price of CAD\$0.24 per Common Share (the "Conversion Price") , provided that if, following July 4, 2023, the VWAP of the Common Shares for any 10 consecutive trading days equals or exceeds CAD\$0.36, the Company may, upon providing written notice to the holders of the Series B Convertible Debentures, force the conversion of the Series B Convertible Debentures to the date that is 30 days following the date of such written notice.

Each Series B CD Warrant will entitle the holder to purchase an additional Common Share at an exercise price of CAD\$0.30 on or before the Maturity Date, provided that if, following July 4, 2023, the VWAP of the Common Shares of for any 10 consecutive trading days equals or exceeds CAD\$0.45, the Company may, upon providing written notice to the holders of the Series B CD Warrants, accelerate the expiry date of the Series B CD Warrants to the date that is 30 days following the date of such written notice.

In connection with the 2023 Financing the Company issued to Exiteam Capital Partners Ltd.: (i) an aggregate cash payment of \$5 (CAD\$7 thousand), being an amount equal to 8% of the Series B CD Gross Proceeds; and (ii) 30,600 Series B Finder Warrants (an amount equal to 8% of the Units sold (the "Series B CD Finders Warrants")). Each Series B CD Finder Warrant will be exercisable into one half of one Common Share upon payment of \$0.24 per Series B CD Finders Warrant.

The convertible debentures, as well as the warrants were classified as a derivative financial liability and its fair value measurement was applied using a binomial model, based on the Cox, Ross Rubinstein (1979) method, is based on significant unobservable inputs and thus represents a level 3 measurement within the fair value hierarchy (see Note 2 in the Audited Financial Statements).

4. The following table reflects the fair value composition of the Convertible Debenture:

	Exercisable on December 31, 2023
Convertible Debentures securities as of December 31, 2022	406
Receipts of Convertible Debenture securities	71
Profit due to change in fair value of convertible securities	(167)
Convertible Debentures securities as of December 31, 2023	310

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (DEFICIT) (CONT.):

C. Options and shares granted to employees, directors and service providers:

During the year ended December 31, 2022, the Company received instructions to exercise 200,000 Options at an exercise price of \$CAD0.06 resulting in the issuance of an equal number of common shares and proceeds to the Company of \$9 (equivalent to CAD\$12 thousand). In addition, the Company received instructions to exercise 150,000 Participant Options at an exercise price of \$CAD0.195 resulting in the issuance of an equal number of common shares and proceeds to the Company of \$23 (equivalent to CAD\$29 thousand).

On January 21, 2022, The Company announced that it has agreed to issue to an arm's length service provider 102,321 common shares in lieu of payments owing to such service provider in the aggregate amount of \$22. The Shares were issued on May 16, 2022, following approval by the TSXV.

A summary of the status of the Company's option plan granted to employees and directors as of December 31, 2023, and changes during the relevant period ended on that date is presented below:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	5,983,527	CAD\$0.12	6,333,527	CAD\$0.12
Granted	-	-	-	-
Exercised	400,000	CAD\$0.06	350,000	CAD\$0.12
Forfeited and cancelled	-	-	-	-
Outstanding at end of the period	5,583,527	CAD\$0.11	5,983,527	CAD\$0.12
Exercisable options	5,583,527	CAD\$0.11	5,983,527	CAD\$0.12

The options to employees and directors outstanding as of December 31, 2023, are comprised, as follows:

Exercise price	Outstanding as of December 31, 2023	Weighted average remaining contractual term	Exercisable as of December 31, 2023	Weighted average remaining contractual term
		(years)		(years)
CAD\$0.06	400,000	1.12	400,000	0.12
CAD\$0.06	2,973,527	1.43	2,973,527	0.43
CAD\$0.06	800,000	2.33	800,000	1.33
CAD\$0.195	1,410,000	3.64	1,410,000	2.64
	5,583,527		5,583,527	

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (CONT.):

D. Derivative liability - Warrants:

In accordance with IAS 32, since the exercise prices of the PP Warrants, Finder Warrants, CD Warrants and CD Finder Warrants (all collectively, the "Derivative Liability Warrants") issued are not a fixed amount as they are denominated in a currency (Canadian dollar) other than the Company's functional currency (U.S. dollar), the Derivative Liability Warrants are accounted for as a derivative financial liability. Each warrant liability is initially measured at fair value and subsequent changes in fair value are recorded through the Net and Comprehensive Profit for the period. The fair value of the Derivative Liability Warrants was determined initially using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant. The Derivative Liability Warrants were categorized as level 3 (see Note 2 to the Audited Financial Statements - Fair value measurement).

As of December 31, 2023, the Derivative Liability Warrants fair value measurement was \$9.

During the year ended December 31, 2022, the Company received instructions to exercise 1,426,398 PP Warrants resulting in the issuance of an equal number of common shares and aggregate proceeds to the Company of \$200 (equivalent to CAD\$257 thousand). In addition, the Company received instructions to exercise 65,917 Finder Warrants resulting in the issuance of an equal number of common shares and PP Warrant and aggregate proceeds to the Company of \$6 (equivalent to CAD\$8 thousand).

The following table reflects the continuity of the Derivative Liability Warrants for the periods presented:

Warrant activity	Exercisable on December 31, 2023	Weighted average exercise Price in CAD\$
Balance – Beginning of Period	40,122,548	
Exercised during the period	-	-
Issued during the period (Series B Warrant)	1,207,500	0.20
Issued during the period (Series B Finder Warrant)	193,200	0.13
Issued during the period (Series B CD Warrant)	191,250	0.30
Issued during the period (Series B CD Finder Warrant)	30,600	0.24
Balance – End of Period	41,745,098	

Warrant activity	Exercisable on December 31, 2022	Weighted average exercise Price in CAD\$
Balance – Beginning of Period	39,268,317	
Issued during the period (PP Warrant)	65,917	0.18
Exercised during the period (PP Warrants)	(1,426,398)	0.18
Exercised during the period (Finder Warrant)	(65,917)	0.12
Issued during the period (CD Warrant)	2,131,429	0.45
Issued during the period (CD Finder Warrant)	149,200	0.35
Balance – End of Period	40,122,548	

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 14 – SHAREHOLDERS' EQUITY (CONT.):

D. Derivative liability – Warrants (Cont.):

The following table reflects the fair value composition of Derivative Liability Warrants:

	For the year ended December 31	
	2023	2022
Balance as of January 1,	839	5,037
Issuance of Series B Warrants	24	-
Issuance of Series B Broker Warrants	12	
Issuance of Series B CD Warrants	3	
Issuance of Series B CD Broker Warrants	*	
Issuance of CD Warrants	-	77
Exercise of PP Finder Warrants	-	(8)
Exercise of PP Warrants	-	(129)
Exercise of warrants (Qualifying Transaction Warrants)	-	-
Fair value revaluation	(869)	(4,138)
Balance as of December 31,	9	839

The warrants were classified as a derivative financial liability and its fair value measurement was applied using a binomial model, based on the Cox, Ross Rubinstein (1979) method, is based on significant unobservable inputs and thus represents a level 3 measurement within the fair value hierarchy (see Note 2 in the Audited Financial Statements).

NOTE 15 – SEGMENT REPORTING:

The Company identifies Mr. Haber, who is the Company's CEO and principal shareholder, as its Chief Operating Decision Maker ("CODM"). As the Company's CODM, Mr. Haber receives information on a segregated basis (for review on a regular basis) of each business unit, i.e., projects (services) and products (components) as well as information segregated for geographical areas. The financial statements present within statements of comprehensive income the revenues from each segment on a standalone basis as well as gross profit of each segment. The information presented in the consolidated financial statements is essentially the same information provided to the CODM and the same information regarding decisions about allocating resources. The Company accounts for its segment information in accordance with IFRS 8 "Segment Reporting" which establishes annual and interim reporting standards for operating segments of a company based on the Company's internal accounting methods. Operating segments are based upon its internal organization structure, the way the Company's operations are managed and the availability of separate financial information. Summarized financial information by segment, based on the Company's internal financial reporting system utilized by the Company's CODM, as follows:

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 15 – SEGMENT REPORTING (CONT.):

For the year ended December 31, 2023:

		HGWWT	IAT	IAT	HGWWT	IAT Shanghai	Water Ways	Company Total
		Products		Project Services				
<i>Revenues</i>								
	External	3,385	2,029	504	211	493	-	6,622
	Inter-segment	-	195	2	-	-	-	197
<i>Total</i>		3,385	2,224	506	211	493	-	6,819
<i>Segment gross profit</i>		98	175	55	64	-	-	392
<u>Non-allocated:</u>								
	Expenses							(4,775)
	Finance income, net							712
Loss before provision for income taxes								(3,671)

For the year ended December 31, 2022:

		HGWWT	IAT	IAT	HGWWT	IAT Shanghai	Water Ways	Company Total
		Products		Project Services				
<i>Revenues</i>								
	External	4,274	3,420	1,794	346	975	-	10,809
	Inter-segment	-	190	141	-	-	-	331
<i>Total</i>		4,274	3,610	1,935	346	975	-	11,140
<i>Segment gross profit</i>		798	415	269	64	242	-	1,788
<u>Non-allocated:</u>								
	Expenses							3,868
	Finance income, net							4,086
Profit before provision for income taxes								2,006

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 15 – SEGMENT REPORTING (CONT.):

Non-current assets as of December 31, 2023:

	HGWWT	IAT	IAT Shanghai	Water Ways	Company Total
Other accounts receivable	-	110	-	-	110
Intangible assets	39	136	-	-	175
Goodwill	129	-	-	-	129
Property, plant and equipment, net (including ROU asset)	75	257	1	-	333

Non-current assets as of December 31, 2022:

	HGWWT	IAT	IAT Shanghai	Water Ways	Company Total
Deferred tax asset	3	85	-	-	88
Other accounts receivable	-	114	-	-	114
Intangible assets	60	161	587	-	808
Goodwill	130	-	786	-	916
Property, plant and equipment, net (including ROU asset)	119	293	2	-	414

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 16 – REVENUES:

1. Geographic Areas Information:

The following present total revenues for the years ended December 31, 2023, and 2022:

	For the year ended December 31	
	2023	2022
North America	3,598	4,620
South and Central America	1,634	3,816
Asia	778	1,066
Africa	280	809
Israel	213	365
Europe	99	99
Others	20	34
Total revenues	6,622	10,809

2. Principal Customers:

Major customers of the Company's revenues:

	For the year ended December 31	
	2023	2022
Customer A	10%	14%
Customer B	8%	8%
Customer C	4%	6%

NOTE 17 – COST OF REVENUES:

	For the year ended	
	December 31	
	2023	2022
Cost of goods	5,551	8,479
Salary and related expenses	113	241
Impairment of inventory	255	-
Others	311	301
Total	6,230	9,021

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 18 – GENERAL AND ADMINISTRATIVE EXPENSES:

	For the year ended December 31	
	2023	2022
Salary and related expenses	488	774
Office expenses	327	305
Professional services	363	350
Depreciation and amortization	252	249
Expenses related to projects	-	431
Other	460	349
Total	1,890	2,458

NOTE 19 – SALES AND MARKETING EXPENSES:

	For the year ended December 31	
	2023	2022
Salary, commission and related expenses	536	728
Other	487	682
Total	1,023	1,410

NOTE 20 – FINANCIAL INCOME AND EXPENSES:

Financial income

	For the year ended December 31	
	2023	2022
Revaluation of derivatives	869	4,138
Revaluation of convertible debenture	167	173
Currency translation differences	54	27
Total	1,090	4,338

Financial expenses

	For the year ended December 31	
	2023	2022
Currency translation differences	85	53
Bank fees and Credit cards interest	293	199
Total	378	252

NOTE 21 - TAXES ON INCOME:

A. Tax rate applicable in Israel:

Israeli corporate tax rates are 23% in 2023 and 2022.

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollars in thousands)

B. Tax reconciliation:

	For the year ended December 31	
	2023	2022
Profit (loss) before tax	(3,671)	2,006
Corporate statutory tax rate	23%	23%
Theoretical tax charge at applicable corporate statutory rate	-	461
Effect of unrecoverable losses resulting in non-recognition of deferred tax	-	
Effect of gain (loss) on securities without creating deferred tax	-	(600)
Change in deferred taxes on temporary differences	(48)	74
Previous year tax	-	-
Others	-	-
Income tax expense (recovery)	(48)	(65)

C. Provision for Taxes:

	For the year ended December 31	
	2023	2022
Current year tax	-	(23)
Deferred tax	(48)	(42)
Previous year tax	-	-
	(48)	(65)

D. Deferred tax assets

Deferred tax assets (liabilities) reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax liabilities resulting from temporary differences are as follows:

	Balance – January 1, 2023	Recognized in profit or loss	Balance - December 31, 2023
Temporary differences:			
Provisions for employee benefits	(4)	4	-
Total	(4)	4	-
Carry-forward tax losses	92	(89)	3
Total	88	(85)	3

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 21 - TAXES ON INCOME (CONT.):

D. Deferred tax assets (liabilities) (cont.)

	<u>Balance – January 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Balance - December 31, 2022</u>
Temporary differences:			
Provisions for employee benefits	(17)	13	(4)
Total	<u>(17)</u>	<u>13</u>	<u>(4)</u>
Carry-forward tax losses	57	35	92
	<u>57</u>	<u>35</u>	<u>92</u>
Total	<u>40</u>	<u>48</u>	<u>88</u>

E. Deferred tax liability

	<u>Balance – January 1, 2023</u>	<u>Recognized in profit or loss</u>	<u>Balance - December 31, 2023</u>
Temporary differences:			
Tax liability	(135)	135	-
Total	<u>(135)</u>	<u>135</u>	<u>-</u>
	<u>(135)</u>	<u>135</u>	<u>-</u>
Total	<u>(135)</u>	<u>135</u>	<u>-</u>

	<u>Balance – January 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Balance - December 31, 2022</u>
Temporary differences:			
Tax liability	(158)	23	(135)
Total	<u>(158)</u>	<u>23</u>	<u>(135)</u>
	<u>(158)</u>	<u>23</u>	<u>(135)</u>
Total	<u>(158)</u>	<u>23</u>	<u>(135)</u>

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollars in thousands)

NOTE 22 – RELATED PARTIES AND SHAREHOLDERS:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party’s making of financial or operational decisions, or if both parties are controlled by the same third party. The Company has transactions with key management personnel, as summarized below.

Transactions with related parties, if any, are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties.

Related Party	Expense Nature	For the year ended December 31, 2023	For the year ended December 31, 2022
Director	Consulting Fees	23	46

The following transactions arose with related parties:

	For the year ended December 31	
	2023	2022
Salary paid to the CEO	69	198

Salary and related expenses paid to:

	For the year ended December 31	
	2023	2022
Salary paid to the CFO	124	147
Salary paid to the CTO	96	120
Salary paid to the Vice President of Operations and Projects	61	206

Receivables from related parties:

	As of December 31, 2023	As of December 31, 2022
Balances owed by (to) the CEO	(16)	31

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 23 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Company is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's financial performance and position. The Company's financial instruments are its cash, trade and other receivables, payables, and other payables. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Company to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to promote the prompt collection of customers' balances. The Company's main financial assets are cash and cash equivalents, which represent the Company's maximum exposure to credit risk in connection with its finance assets. Wherever possible and commercially practical the Company holds cash with major financial institutions in Israel. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	As of December 31, 2023	As of December 31, 2022
Cash and cash equivalents	199	1,064
Restricted Cash	14	14
Trade accounts receivable, net	1,288	2,402
Other accounts receivable	455	464
Total	1,956	3,944

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the New Israeli Shekel and Canadian Dollar. The Company's policy is not to enter into any currency hedging transactions at material amounts. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

Assets:

	December 31, 2023				
	RMB	NIS	CAD	EURO	Total
Cash and cash equivalents	67	-	3	1	71
Short term deposit	-	14	-	-	14
Trade accounts receivable	191	27	43	13	274
Other accounts receivable	3	287	185	-	475
	261	328	231	14	834

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 23 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (cont.)

Liabilities:	December 31, 2023				
	RMB	NIS	CAD	EURO	Total
Short term bank credit	-	1,139	81	-	1,220
Lease liabilities	-	-	9	-	9
Trade accounts payable	173	89	159	347	768
Other accounts payable	63	273	22	-	358
	<u>236</u>	<u>1,501</u>	<u>271</u>	<u>347</u>	<u>2,355</u>
Net	<u>25</u>	<u>(1,173)</u>	<u>(40)</u>	<u>(333)</u>	<u>(1,521)</u>

Assets:	December 31, 2022				
	RMB	NIS	CAD	EURO	Total
Cash and cash equivalents	224	9	810	7	1,050
Short term deposit	-	14	-	-	14
Trade accounts receivable	539	57	49	-	645
Other accounts receivable	9	246	321	-	576
	<u>772</u>	<u>326</u>	<u>1,180</u>	<u>7</u>	<u>2,285</u>

Liabilities:	December 31, 2022				
	RMB	NIS	CAD	EURO	Total
Short term bank credit	-	1,003	37	-	1,040
Lease liabilities	-	-	17	-	17
Trade accounts payable	645	117	223	75	1,060
Other accounts payable	77	125	402	-	604
	<u>722</u>	<u>1,245</u>	<u>679</u>	<u>75</u>	<u>2,721</u>
Net	<u>50</u>	<u>(919)</u>	<u>501</u>	<u>(68)</u>	<u>(436)</u>

WATER WAYS TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022
(US Dollars in thousands)

NOTE 23 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (cont.)

Sensitivity analysis

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	2023	2022
Linked to NIS	(1,173)	(919)
	10%	10%
	(117)	(92)
Linked to RMB	25	50
	10%	10%
	3	5
Linked to CAD	(40)	501
	10%	10%
	(4)	50
Linked to EURO	(333)	(68)
	10%	10%
	(33)	(7)

Liquidity risks

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability but can also increase the risk of loss.

The Company has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having an available adequate amount of committed credit facilities.

As of December 31, 2023, and 2022, the following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	As of December 31, 2023	As of December 31, 2022
Trade accounts payable	2,201	2,674
Other accounts payable	456	293
Loans	1,962	1,984
Lease liability	69	27
	4,688	4,978