current
WATER TECHNOLOGIES INC.

(formerly Enpar Technologies Inc.)

A Company Specializing in Environmental Protection and Remediation Technologies

FINANCIAL STATEMENTS AND NOTES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Tel: 519-432-5534
Fax: 519-432-6544
www.bdo.ca

BDO Canada LLP
633 Colborne St., Suite 230
London ON N6B 2V3

To the Shareholders of Current Water Technologies Inc. (formerly Enpar Technologies Inc.)

We have audited the accompanying financial statements of Current Water Technologies Inc., which comprise the statement of financial position as at December 31, 2017 and December 31, 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity and deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Current Water Technologies Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $1,293,089 during the year ended December 31, 2017 and, as of that date, has an accumulated deficit of $22,292,937. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

April 30, 2018
London, Ontario

CURRENT WATER TECHNOLOGIES INC.
(formerly Enpar Technologies Inc.)

STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars	As at December 31, 2017	As at December 31, 2016
ASSETS		
CURRENT		
Cash and cash equivalents	$ 124,480	$ 46,079
Accounts receivable	28,686	91,240
Inventories (note 4)	82,511	264,285
Prepaid expenses	5,940	6,940
	241,617	408,544
DEPOSIT - ACQUISITION OF PUMPTRONICS INCORPORATED	100,000	-
PROPERTY, PLANT AND EQUIPMENT (note 5)	34,057	27,721
PATENTS AND RIGHTS TO TECHNOLOGY (note 6)	26,649	53,573
	$ 402,323	$ 489,838
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 199,791	$ 104,937
Customer deposits	230,352	102,750
	430,143	207,687
SHAREHOLDERS' DEFICIT		
CAPITAL STOCK (note 7)	16,222,878	15,706,401
COMMON SHARES TO BE ISSUED (note 7)	80,000	-
WARRANTS (note 7)	267,321	276,066
CONTRIBUTED SURPLUS	5,694,918	5,299,532
DEFICIT	(22,292,937)	(20,999,848)
	(27,820)	282,151
	$ 402,323	$ 489,838

APPROVED ON BEHALF OF THE BOARD:

Gene Shelp, Director

Ed Tsang, Director

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

CURRENT WATER TECHNOLOGIES INC.
(formerly Enpar Technologies Inc.)

STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT

Expressed in Canadian Dollars	Common shares Number	Common shares Amount	Common shares to be issued	Warrants	Warrants to be issued	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance - Jan 1, 2016	**99,537,252**	**$ 14,901,601**	**$ 804,800**	**$ 178,549**	**$ 195,200**	**$ 5,064,351**	**$ (19,890,313)**	**$ 1,254,188**
Net loss for the year	-	-	-	-	-	-	(1,109,535)	(1,109,535)
Share-based payments	-	-	-	-	-	137,498	-	137,498
Private placement	10,666,667	1,000,000	(804,800)	-	(195,200)	-	-	-
Warrants	-	(195,200)	-	195,200	-	-	-	-
Expiration of warrants	-	-	-	(97,683)	-	97,683	-	-
Balance - Dec. 31, 2016	**110,203,919 $**	**15,706,401 $**	**- $**	**276,066 $**	**- $**	**5,299,532 $**	**(20,999,848)$**	**282,151**
Net loss for the year	-	-	-	-	-	-	(1,293,089)	(1,293,089)
Share-based payments	-	-	-	-	-	314,518	-	314,518
Private Placements	6,150,000	615,000	-	-	-	-	-	615,000
Share issue cost	-	(98,523)	-	72,123	-	-	-	(26,400)
Shares to be issued	-	-	80,000	-	-	-	-	80,000
Expiration of warrants	-	-	-	(80,868)	-	80,868	-	-
Balance - Dec. 31, 2017	**116,353,919**	**$ 16,222,878**	**$ 80,000**	**$ 267,321**	**$ -**	**$ 5,694,918**	**$ (22,292,937)**	**$ (27,820)**

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

CURRENT WATER TECHNOLOGIES INC.
(formerly Enpar Technologies Inc.)

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Expressed in Canadian Dollars	2017	2016
REVENUE	$ 1,004,439	$ 590,790
EXPENSES		
Direct operating expenses	$ 1,613,690	$ 1,300,297
General and administrative expenses (note 12)	331,745	206,533
Depreciation and amortization (notes 5 and 6)	37,575	55,997
Share-based payments	314,518	137,498
	2,297,528	1,700,325
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (1,293,089)	$ (1,109,535)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding - basic and diluted	113,441,704	108,460,185

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

CURRENT WATER TECHNOLOGIES INC.
(formerly Enpar Technologies Inc.)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Expressed in Canadian Dollars	2017	2016
OPERATING ACTIVITIES		
Net loss for the year	$ (1,293,089)	$ (1,109,535)
Add: Items not involving an outlay of cash		
Depreciation and amortization	37,575	55,997
Share-based payments	314,518	137,498
	(940,996)	(916,040)
CHANGES IN NON-CASH WORKING CAPITAL		
Decrease (increase) in accounts receivable	62,556	(72,328)
Decrease (increase) in inventories	181,774	(181,785)
Decrease (increase) in prepaid expenses	1,000	(4,474)
Increase in accounts payable and accrued liabilities	94,853	41,575
Increase in customer deposits	127,602	102,750
Cash used in operating activities	(473,211)	(1,030,302)
INVESTING ACTIVITIES		
Deposit on acquisition of Pumptronics Incorporated	(100,000)	-
Acquisition of property, plant and equipment	(16,988)	(2,695)
Cash flow from investing activities	(116,988)	(2,695)
FINANCING ACTIVITIES		
Proceeds from issuance of shares (net of share issue cost)	588,600	-
Proceeds from shares and warrants to be issued (net of share issue cost)	80,000	-
Cash flow from financing activities	668,600	-
Net change in cash and cash equivalents during the year	78,401	(1,032,997)
Cash and cash equivalents, beginning of the year	46,079	1,079,076
Cash and cash equivalents, end of the year	$ 124,480	$ 46,079

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

1. DESCRIPTION OF BUSINESS

Corporate information

Current Water Technologies Inc. (the 'Company'), is incorporated under the Ontario Business Corporations Act and is a publically traded company whose common shares are listed under the symbol "WATR" on the TSX Venture Exchange. Previously the Company's name was Enpar Technologies Inc. under the symbol "ENP" on the TSX Venture Exchange and changed its name effective January 2, 2018. The Company is engaged in the development of environmental technologies. The Company currently markets its products throughout the world and in this regard the Company has signed a number of marketing and distribution agreements with various parties granting exclusive rights to these parties for the sale of the Company's various technologies in specific geographic regions. Generally the agreements call for a commission to be paid to the selling agent. The terms of the agreements vary from 18 months to 10 years. The Company's corporate head office and principal place of business is located at 70 Southgate Drive, Unit 4, Guelph, Ontario, Canada N1G 4P5.

Going Concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under a going concern assumption, which presumes that the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business. The Company has incurred a loss during the current year in the amount of $1,293,089 (2016: $1,109,535) resulting in an accumulated deficit of $22,292,937 (2016: $20,999,848) and generated a negative cash flow from operations in the amount of $473,211 (2016: $1,030,302). The Company has been able to fund these operating losses mainly by raising equity; however, there can be no assurance that the Company will be able to do so in the future. These conditions cast significant doubt concerning the Company's ability to continue as a going concern. Should the going concern assumption be proven to be invalid the carrying amounts of certain assets may have to be restated. Management has estimated that the Company will have adequate funds from existing working capital to meet its corporate, administrative, and other obligations for the coming year.

Basis of Preparation

a) Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These financial statements have been prepared using the historical cost basis except for certain financial instruments that have been evaluated at fair value.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency.

These financial statements were authorized for issuance by the Board of Directors of the Company on April 30, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Key accounting estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are used when accounting for items such as measurement of share-based payments, warrants, and impairment of patents and property, plant and equipment. Actual results may differ from these estimates.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued:

i) Measurement of share-based payments and warrants

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

ii) Impairment of patents and property, plant and equipment

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

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

Judgements and estimates

Judgements are reviewed on an ongoing basis. Changes resulting from the effects of amended judgements are recognized in the period in which the change occurs and in any future periods presented. Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows.

i) Percentage of completion of contracts

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

(b) Cash and cash equivalents:

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

(c) Research and development:

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

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2. SIGNIFICANT ACCOUNTING POLICIES - continued:

(d) Inventories:

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

(e) Property plant and equipment:

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

Office furniture and fixtures	- 20% declining-balance basis
Equipment	- 20% declining-balance basis
Computer hardware	- 30% declining-balance basis
Computer software	- 100% declining-balance basis
Leasehold improvements	- 5 years on a straight-line basis
Demonstration units	- 5 years on a straight-line basis

Gains and losses on disposals of property, plant, and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statement of loss and comprehensive loss. Revenue on long-term contracts to construct treatment units are recorded on the basis of percentage of completion of individual contracts. That portion of the total contract price applicable to contract expenditures incurred and work performed is accrued on the basis of engineering estimates of the percentage of completion. As these long-term contracts extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts requiring the revision become known. At the time a loss in a contract becomes known, the entire amount of the estimated loss is accrued.

(f) Patents and right to technology:

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

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

(g) Revenue recognition:

Revenue is measured as the fair value of consideration received or receivable. Revenue from consulting work is recognized when the consulting services are rendered. Revenue on long-term contracts to construct treatment units are recorded on the basis of percentage of completion of individual contracts. That portion of the total contract price applicable to contract expenditures incurred and work performed is accrued on the basis of engineering estimates of the percentage of completion. As these long-term contracts extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts requiring the revision become known. At the time a loss in a contract becomes known, the entire amount of the estimated loss is accrued.

(h) Accounts receivable and allowance for doubtful accounts:

Evaluation of collectability of specific customer receivables depends on the nature of the sale. Collectability of receivables is reviewed and the allowance for doubtful accounts is adjusted on an ongoing basis. Account balances are charged to the statement of loss when it is probable that the receivable will not be collected.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued:

(i) Income taxes:

Income tax on the profit or loss consists of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. The Company uses the asset and liability method to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Foreign currency translation:

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

(k) Share-based payments:

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

The fair value of share purchase options granted is recognized as an expense with a corresponding increase in equity. The fair value for share purchase options granted to employees or those providing services similar to those provided by a direct employee is measured at the vesting date and each tranche is recognized using the accelerated method basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued:

The fair value for share purchase options granted to non-employees for services provided is measured at the date the services are received. The fair value of the share purchase options granted is measured at the fair value of the services received, unless the fair value of services received cannot be estimated reliably, in which case the fair value of the share purchase options is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

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

(l) Related party transactions:

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

(m) Earnings (loss) per share:

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

(n) Impairment of non-financial assets:

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

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

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

(o) Financial instruments:

The Company does not have any derivative financial instruments. The Company's financial assets are classified as fair value through profit or loss ("FVTPL") and loans and receivables. Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value and changes are recognized in profit or loss. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

The Company's accounts receivable have been classified as receivables and their carrying values approximate their fair value due to their short-term nature.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued:

The Company's cash and cash equivalents have been classified as FVTPL financial assets. The carrying value of the Company's marketable securities approximates fair value due to the short-term nature.

The Company's accounts payable and accrued liabilities and customer deposits are classified as other financial liabilities. The carrying value of financial liabilities approximates their fair value due to their short-term nature. Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

(p) Lease:

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

(q) Investment tax credits:

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard. It is not expected to have a significant impact due to the non-complex financial instruments expected to be in use as at the implementation date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. This standard could have a significant impact on the timing of when revenue is recognized by the Company.

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3. RECENT ACCOUNTING PRONOUNCEMENTS - continued:

IFRS 16 Leases

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

4. INVENTORIES

	2017	2016
Raw materials	$ 64,500	$ 167,064
Work in process	-	79,221
Warehouse supplies	18,011	18,000
	$ 82,511	$ 264,285

5. PROPERTY, PLANT AND EQUIPMENT

COST

	Office furniture and fixtures	Equipment	Computer hardware	Leasehold improvements	Demonstration units	Total
January 1, 2016	$ 62,199	$ 73,238	$ 92,046	$ 313,298	$ 50,872	$ 591,653
Additions (disposals)	-	1,195	1,500	-	-	2,695
December 31, 2016	62,199	74,433	93,546	313,298	50,872	594,348
Additions (disposals)	-	16,988	-	-	-	16,988
December 31, 2017	$ 62,199	$ 91,421	$ 93,546	$ 313,298	$ 50,872	$ 611,336

ACCUMULATED DEPRECIATION

	Office furniture and fixtures	Equipment	Computer hardware	Leasehold improvements	Demonstration units	Total
January 1, 2016	$ 50,676	$ 63,861	$ 84,621	$ 312,664	$ 42,246	$ 554,068
Depreciation	2,304	1,995	2,452	634	5,174	12,559
December 31, 2016	52,980	65,856	87,073	313,298	47,420	566,627
Depreciation	1,844	3,414	1,942	-	3,452	10,652
December 31, 2017	$ 54,824	$ 69,270	$ 89,015	$ 313,298	$ 50,872	$ 577,279

NET BOOK VALUE

	Office furniture and fixtures	Equipment	Computer hardware	Leasehold improvements	Demonstration units	Total
December 31, 2016	$ 9,219	$ 8,577	$ 6,473	$ -	$ 3,452	$ 27,721
December 31, 2017	$ 7,375	$ 22,151	$ 4,531	$ -	$ -	$ 34,057

5. PROPERTY, PLANT AND EQUIPMENT - continued:

Demonstration Units

ESD Unit (2012) - Ontario Ministry of Economic Development and Innovation ("MEDI")

In 2012, the forgivable loan relating to the ESD unit of $228,619 was recognized and was offset against the cost of the unit resulting in an adjusted cost of $25,872. Depreciation of $3,452 (2016 - $5,174) has been taken on this ESD unit during the year resulting in a carrying value at year end of $NIL (2016 -$3,452).

AmmEL Unit (2012) - Ontario Ministry of Economic Development and Innovation ("MEDI")

During 2015, the forgivable loan relating to its AmmEL unit with a discounted balance in the amount of $302,078 (undiscounted - $341,645) was recognized as a decrease to the net book value of the AmmEL unit, a reversal of previous impairment and government grant in the amounts of $75,000, $208,453 and $18,625 respectively. At year end, the adjusted carrying cost of the AmmEL unit is $NIL (2016 - $NIL).

6. PATENTS AND RIGHTS TO TECHNOLOGY

COST

	Patents	Rights to Technology	Total
January 1, 2016	$ 545,983	$ 10,000	$ 555,983
Additions	-	-	-
December 31, 2016	545,983	10,000	$ 555,983
Additions	-	-	-
December 31, 2017	$ 545,983	$ 10,000	$ 555,983

ACCUMULATED AMORTIZATION

	Patents	Rights to Technology	Total
January 1, 2016	$ 452,300	$ 6,672	$ 458,972
Amortization	43,238	200	43,438
December 31, 2016	495,538	6,872	$ 502,410
Amortization	26,736	188	26,924
December 31, 2017	$ 522,274	$ 7,060	$ 529,334

NET BOOK VALUE

	Patents	Rights to Technology	Total
December 31, 2016	$ 50,445	$ 3,128	$ 53,573
December 31, 2017	$ 23,709	$ 2,940	$ 26,649

7. CAPITAL STOCK

Capital stock consists of the following:

Authorized: Unlimited common shares
Unlimited number of preferred shares

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

Common shares issued:	Number of Shares		$ Amount
Balance, January 1, 2016	99,537,252	$	14,901,601
Private placement (note 7(i))	10,666,667		1,000,000
Less: Warrants valuation	-		(195,200)
Balance, December 31, 2016	110,203,919		15,706,401
Private placement (note 7(ii))	2,650,000		265,000
Private placement (note 7(iii))	3,500,000		350,000
Less: Share issue costs	-		(33,400)
Less: Warrants valuation	-		(65,123)
Balance, December 31, 2017	116,353,919	$	16,222,878

Warrants issued:	Number of Warrants		$ Amount
Balance, January 1, 2016	7,464,500	$	178,549
Private placements - warrants	5,333,334		195,200
Expired	(3,777,000)		(97,683)
Balance, December 31, 2016	9,020,834		276,066
Private placements - warrants	3,075,000		65,123
Finders warrants	264,000		7,000
Expired	(3,687,500)		(80,868)
Balance, December 31, 2017	8,672,334	$	267,321

(i) On March 10 2016, the Company closed a non-brokered private placement to accredited investors for 10,666,667 units at a price of $0.09375 per unit for gross proceeds of $1,000,000. Each Unit consists of one common share and half a share purchase warrant for a total of 5,333,334 warrants. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of $0.135 per common share. The Company paid no commission on this private placement. A total of $195,200 is allocated as value of the warrants attached to the units. The value of the shareholder warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 63%, risk free interest rate of 1.00% and expected life of 2 years. All securities issued under, or in connection with, the Offering are subject to a four-month hold period under applicable Canadian securities laws.

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

continued....

7. CAPITAL STOCK - continued:

(iii) On September 28, 2017, the Company closed a non-brokered private placement to accredited investors for 3,500,000 units at a price of $0.10 per unit for gross proceeds of $350,000. Each Unit consists of one common share and half a share purchase warrant for a total of 1,750,000 warrants. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of $0.15 per common share. The Company paid a commission of $26,400 on this private placement. A total of $39,550 is allocated as value of the warrants attached to the units. In addition, 264,000 finders warrants were issued with an exercise price of $0.15. Each warrant entitles the holder to purchase one common share of the Company for $0.15 on or before September 28, 2019. The fair value of the finders warrants issued was $7,000 and has been included in the share issuance costs. The value of the shareholder and finders warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 72%, risk free interest rate of 1.00% and expected life of 2 years. All securities issued under, or in connection with, the Offering are subject to a four-month hold period under applicable Canadian securities laws..

(v) Basic loss per share was calculated on the basis of the weighted average number of common shares outstanding for the year. Fully dilutive loss per share has not been disclosed as the exercise of the common share purchase options and warrants outstanding as at December 31, 2017 (12,725,000 and 8,408,334 respectively) and 2016 (12,900,000 and 9,020,834 respectively) would have anti-dilutive effect.

(a) Stock incentive plan

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

	Shares #	Weighted average exercise price
Outstanding January 1, 2016	11,575,000	$ 0.11
Granted, February 17, 2016	750,000	0.10
Granted, March 17, 2016	800,000	0.10
Expired	(225,000)	0.10
Outstanding, December 31, 2016	12,900,000	$ 0.11
Granted, April 21, 2017	5,775,000	0.10
Expired	(5,950,000)	0.11
Outstanding, December 31, 2017	12,725,000	$ 0.10

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

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

continued....

7. CAPITAL STOCK - continued:

The following table summarizes information about the options outstanding at December 31, 2016:

Exercise price	Options outstanding and exercisable	Remaining contractual life in years	Weighted Average Exercise price	Options Exercisable	Remaining contractual life in years	Weighted Average Exercise price
$ 0.10	10,600,000	2.17			2.17	
$0.10125	800,000	1.21			1.21	
$ 0.15	1,500,000	2.53			2.53	
	12,900,000	2.15	$0.11		2.15	$0.11

In determining the expense for the share based payments during the period, the fair value of the options were estimated using a Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 83% (2016 - 60-73%), risk-free interest rate of 1.46% (2016 - 1%) and expected life of 2 -10 years (2016 - 2.5 years). The expected volatility rate was determined based on the annual volatility for the equivalent number of the option's life in years preceding the grant date using weekly calculation intervals.

(b) Warrants

The following table summarizes information about common share purchase warrants outstanding at December 31, 2017:

	Warrants outstanding and exercisable	Weighted average exercise price	Weighted Average Remaining contractual life in years
Outstanding January 1, 2016	7,464,500	$ 0.15	0.84
Issued - private placements	5,333.334	0.135	
Expired	(3,777,000)	0.15	
Outstanding December 31, 2016	9,020,834	$ 0.14	0.83
Issued - private placements	3,339,000	0.15	
Expired	(3,687,500)	0.14	
Outstanding December 31, 2017	8,672,334	$ 0.14	0.72

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

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

continued....

7. CAPITAL STOCK - continued:

The following table summarizes information about the warrants outstanding at December 31, 2016:

Exercise price	Warrants outstanding and exercisable	Remaining contractual life in years
$ 0.135	5,333,334	1.2
$ 0.1375	2,500,000	0.36
$ 0.15	1,187,500	0.11
	9,020,834	0.83

8. RELATED PARTY TRANSACTIONS

Included in general and administrative expenses are fees paid to two directors and officers of the Company in the amount of $9,000 (2016: $7,000). These expenses were paid in the normal course of operations and were measured at the amounts agreed to by the related parties.

9. COMPENSATION OF KEY MANAGEMENT AND DIRECTORS

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

	2017	2016
Salaries, fees and short term benefits	$ 58,615	$ 84,715
Director fees	9,000	7,000
Share-based payments	121,842	54,227
	$ 189,457	$ 145,942

10. CONTINGENT LIABILITIES

Upon commercialization of the Acid Mine Drainage Technology ("AmdELTechnology"), payments shall be made annually in an amount equal to the greater of $20,000 or 25% of the net annual after tax income of the Company, as confirmed by audited annual financial statements, until an aggregate amount of $80,000 is paid to Dofasco Inc. The AmdEL Technology shall be considered to be commercialized when the first contract on commercial terms for its use is received. At December 31, 2017, management did not consider the AmdEL Technology to be commercialized.

11. GEOGRAPHIC INFORMATION

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

Projects revenue earned by geographic region for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Canada (i)	$ 175,649	$ 109,351
Asia (ii)	777,890	-
United States	50,900	481,439
	$ 1,004,439	$ 590,790

(i) Includes revenue of $155,659 from CCR Technologies Inc.
(ii) Includes revenue of $777,890 from Chemsbro.

12. EXPENSES BY NATURE

Included in general and administrative expenses are the following:

	2017	2016
Advertising and promotion	89,920	3,237
Bank charges	3,198	2,746
Directors' fees	9,000	7,000
Filing fees	23,459	18,026
Insurance	25,731	25,687
Office	21,656	18,193
Office rent	37,003	24,157
Patents	14,388	11,770
Professional fees	74,835	65,704
Salaries and benefits	19,950	20,673
Travel	6,250	3,271
Utilities	4,460	4,785
Vehicle	1,895	1,284
	$ 331,745	$ 206,533

13. COMMITMENTS

Operating lease payments in 2017 were $120,787 (2016 - $120,787).

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

2018	$ 137,042
2019	143,477
2020	146,346
2021	149,273
Thereafter	281,249
	$ 857,387

14. SUBSEQUENT EVENTS

On January 8th, 2018, Current Water Technologies acquired 100% of the Class B shares of Pumptronics Inc. for a total purchase price of $3,000,000. Cash consideration totaling $1,200,000 included $700,000 cash paid on the date of closing, $100,000 by way of credit of the deposit previously paid by the Company to the vendor, and payment of $400,000 by issuance of a promissory note to the vendor or as the vendor may direct. The balance settled through the issue of 12,000,000 common shares of the Company at a purchase price of $0.15 per common shares issued and delivered on closing. The primary reason for the purchase is expected synergies with both organizations. Within 150 days after the closing date, the vendor will provide a statement detailing the Closing working capital (Current Assets, less Current Liabilities, determined as of the Closing Date). It is indeterminable at this date if any adjustment to the consideration will be required.

On January 8th, 2018 to facilitate the acquisition of Pumptronics Inc., the Company closed an initial tranche non-brokered private placement to accredited investors for 8,834,001 units at a price of $0.15 per unit for gross proceeds of $1,325,999. Each Unit consists of one common share and half a share purchase warrant for 4,416,998 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of $0.25 per common share.

On February 2, 2018, the Company closed the second tranche of a non-brokered private placement to accredited investors for 6,003,332 units at a price of $0.15 per unit for gross proceeds of $900,499. Each Unit consists of one common share and half a share purchase warrant for 3,001,666 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of $0.25 per common share.

14. SUBSEQUENT EVENTS - continued:

On February 17th, 2018, the Company closed the third and final tranche of a non-brokered private placement to accredited investors for 3,059,000 units at a price of $0.15 per unit for gross proceeds of $458,850. Each Unit consists of one common share and half a share purchase warrant for 1,529,500 units. Each warrant entitles the holder to acquire one additional common share for a period of two years from the closing at a price of $0.25 per common share.

In connection with the three above noted tranches, the Company has paid finder's fees consisting of cash payments equal to 8% of the aggregate proceeds and 8% of granted warrants from subscriptions arranged by the Finders for an aggregate total of $161,196 cash and 1,074,640 warrants.

Subsequent to year end, 550,000 and 800,000 options with respective exercise prices of $0.10 and $0.10125 were exercised raising gross proceeds of $136,000.

15. INCOME TAXES

a) Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.5% (2016 - 26.5%) follows.

	2017	2016
Net loss before income taxes	$ (1,293,089)	$ (1,109,535)
Income taxes at statutory rates	(342,669)	(294,027)
Tax rate and other adjustments	181,480	200,198
Permanent differences	85,821	38,922
	(75,368)	(54,907)
Tax assets not recognized	75,368	54,907
	$ -	$ -

The company has the following deferred income tax assets:

	2017	2016
Non capital losses	$ 2,771,681	$ 2,696,314
Investments	35,343	35,343
Property, plant and equipment and patents and rights to technology	299,248	289,135
Capital loss	76,480	76,480
Research and development	2,523,250	2,273,390
	5,706,002	5,370,662
Tax asset not recognized	(5,706,002)	(5,370,662)
Net deferred tax assets	$ -	$ -

b) Losses Carried Forward

The company has loss carry-forwards in the amount of approximately $10,457,000 (2016: $10,177,000) available to reduce future income taxes. The potential benefit of these losses has not been recorded and will expire as follows:

2026	467,000
2027	1,480,000
2028	2,239,000
2029	1,113,000
2030	424,000
2031	1,567,000
2032	792,000
2033	699,000
2034	937,000
2035	252,000
2036	207,000
2037	280,000
	$ 10,457,000

c) Investment Tax Credits

As at December 31, 2017, the company has $1,325,000 (2016- $1,224,874) of unclaimed investment tax credits available to reduce federal income taxes payable in future years.

16. FINANCIAL INSTRUMENTS

Credit Risk

The Company's financial assets include cash and cash equivalents and accounts receivable. The Company's maximum exposure to credit risk as at December 31, 2017 , is the carrying value of its financial assets. The Company manages credit risk by maintaining bank and broker accounts with reputable banks and financial institutions.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities whey they become due. As at December 31, 2017 , the Company had cash and cash equivalent balances of $124,480 (2016 - $46,079) to settle current liabilities of $430,143 (2016 - $207,687). Of the amount outstanding, $199,791 (2016 - $104,937) of the Company's financial liabilities have contractual maturities of less than 30 days, and are subject to normal trade terms.

Interest rate risk

The Company's debt is limited to accounts payable and accrued liabilities. The Company therefore has limited exposure to interest rate risk.

Foreign currency rate risk

The Company has $2,525 USD of accounts receivable and $31,998 USD of accounts payable that are subject to foreign currency rate risk.

Fair value of financial instruments and Hierarchy

The book value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other liabilities all approximate their fair values as at December 31, 2017 .

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

continued....

16. FINANCIAL INSTRUMENTS - continued:

The three levels are defined as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

As at December 31, 2017 the Company's financial instruments are cash and cash equivalents, considered to be Level 1 as the market value is readily available.

17. CAPITAL MANAGEMENT

The Company manages its capital (debt, including accounts payable and loans payable, and equity, including capital stock and contributed surplus) to ensure that the Company will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable equity balance commensurate with current operating requirements. The strategy remains unchanged from 2016. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and therefore, does not have a numeric target for its capital structure. There were no changes to the Company's approach to capital management during the period ended December 31, 2017 compared to the year ended December 31, 2016. The Company does not have any covenants respecting its capital ratios.