

# **FORWARD WATER TECHNOLOGIES CORP.**

## **Management's Discussion and Analysis**

For the three and nine months ended December 31, 2021 and 2020 (Unaudited)

The date of this management's discussion and analysis ("MD&A") is February 24, 2022.

The following MD&A should be read in conjunction with the financial statements of Forward Water Technologies Corp ("FWT" or the "Company") for the three and nine months ended December 31, 2021 and 2020, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### **Forward-Looking Statements and Future-Oriented Financial Information**

This MD&A contains forward-looking information and forward-looking statements, within the meaning of applicable Canadian securities legislation, which reflect management's expectations regarding the Company's future growth, results from operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects, future business plans and opportunities. Wherever possible, words such as "predicts", "projects", "targets", "plans", "expects", "does not expect", "budget", "scheduled", "estimates", "forecasts", "anticipate" or "does not anticipate", "believe", "intend" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative or grammatical variation thereof or other variations thereof, or comparable terminology have been used to identify forward-looking statements.

Forward-looking statements are not a guarantee of future performance and are based upon a number of estimates and assumptions of management, in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances. Forward-looking Statements in this MD&A include, without limitation, to statements with respect to:

- continued use of the Company's services, sources of the Company's revenue, the potential for additional tax expenses in future periods relating to historical filings;
- the incurrence of legal fees in relation to defending any civil proceedings involving Company;
- the ability of the Company to continue as a going-concern;
- the effect of a change of control on the Company's material contracts, the Company's dependence on key personnel;
- the Company's ability to achieve or maintain profitability;
- the ability of clients terminating contracts with the Company and the impact thereof;
- ongoing costs and obligations of the Company;
- the Company's need and ability to obtain additional financing;
- the Company's ability and intention to develop intellectual property and the Company's dependence on suppliers and skilled labour;
- growth-related risks such as capacity constraints and pressure on internal systems and controls;
- the likelihood of reputational harm to the Company and the impact thereof;
- and the impact of pandemics, including COVID-19, on the Company, applicable regulation, and global commerce.

Important factors that could cause actual results to differ materially from the Company's expectations include, without limitation:

- clients deciding to terminate contractual relationships with the Company;
- the potential for adverse or positive tax judgments in the jurisdictions in which the Company

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- operates or changes to applicable tax rules in such jurisdictions;
- market conditions;
- the potential for adverse or positive judgments with respect to any civil proceedings involving the Company;
- the departure of key personnel or other employees of the Company;
- changes in technology, customer preferences, or supply chains;
- changes in accounting policies or procedures applicable to the Company's assets;
- the exacerbation of the COVID-19 pandemic;
- and other risk factors set forth in this MD&A.

While we consider these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, privacy, economic, political, regulatory, competitive and other risks, uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking statements. Many assumptions are based on factors and events that are not within our control and there is no assurance they will prove to be correct.

Furthermore, such forward-looking statements involve a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, activities, results, performance or achievements of the Company to be materially different from any future plans, intentions, activities, results, performance or achievements expressed or implied by such forward-looking statements.

Although we have attempted to identify important factors that could cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events, conditions, results, or performance achievements to differ from those anticipated, estimated or intended.

Readers are cautioned that important assumptions and risks, uncertainties and other factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained herein. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking statements.

Forward-looking statements contained herein are made as of the date of this MD&A and we disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as and to the extent required by applicable securities laws. The MD&A is a narrative explanation, through the eyes of management, of how FWT and its operating subsidiaries performed during the period covered by the financial statements, and of FWT's financial condition and future prospects. The MD&A complements and supplements FWT's financial statements but does not form part of FWT's financial statements.

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars (CAD). Due to rounding, certain totals, subtotals and percentages may not reconcile.

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## Highlights

- On October 20, 2021 the Company completed a qualifying transaction under the rules of the TSX Venture Exchange ("the Transaction") with Forward Water Technologies Inc ("FWTI")
- The Transaction constituted a reverse acquisition in accordance with IFRS as the shareholders of FWTI took control of Hope Well Capital Corp ("HWCC")
- On November 4, 2021, the Company was listed on the Exchange under the symbol "FWTC"
- In connection with the Transaction, the FWTI completed a brokered private placement offering of an aggregate of 6,470,000 subscription receipts ("Subscription Receipts") at a subscription price of \$1.00 per Subscription Receipt for aggregate gross proceeds of \$6,470,000

## Overview

FWT is an Ontario Company incorporated on October 11, 2012 dedicated to the commercialization of its proprietary forward osmosis technology. The technology allows businesses to clean their wastewater that would otherwise require costly disposal. The technology also enables the reclamation of up to 90% of the waste as clean water and the return of this valuable resource to the environment. Alternatively, the clean water can be reused by manufacturing operations to reduce a customer's overall water consumption and environmental footprint.

FWT extracts clean water through a membrane utilizing a Forward Osmosis (FO) method. Without using applied pressure, applied energy, or forced filtration FWT's FO process rejects all impurities and separates only the clean water from the waste stream. The Company has now completed full commercial design of modular transportable containerized equipment and is prepared to deliver this equipment to end users.

FWT is targeting three sectors:

- a) Industrial wastewater: to divert hazardous waste disposal currently transported and injected into wells or incinerated.
- b) Brine Management: the concentration of brines where the dissolved materials in the brine or the concentrated brines themselves have value. For example, the concentration of brines containing valuable minerals such as lithium become easier to process leading to a lower cost of recovery.
- c) Food and beverage: to manufacture product concentrates, water is removed through the passive filtering process which is vastly superior to thermal concentrates that erode the flavor and aroma components due to excessive heating. Target products are in fruit juices, alcoholic beverages such as beer and wines, coffee and teas, herbal extracts, and nut milks.

FWT has developed three revenue models:

- a) Build Own Operate: FWT constructs a facility for on-site operation and operates the equipment as a service. Customer pays a fee for each cubic meter of wastewater treated.
- b) Build Operate Transfer: FWT constructs a facility for on-site operation and operates the equipment as a service. Over time, and pursuant to service contract and purchase agreements, operations are taken over by customer. Service and maintenance contracts will continue post-transfer.

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- c) Licensing: Addressing foreign markets FWT will license the technology with well-established equipment providers and operators. This will generate transfer fees and on-going royalties.

## **Reverse takeover transaction (the “Transaction”)**

On October 20, 2021, HWCC completed the Transaction with FWTI.

The Transaction was completed by way of a three-cornered amalgamation pursuant to the provisions of the *Business Corporations Act* (Ontario), whereby 2644246 Ontario Limited, a wholly-owned subsidiary of HWCC, amalgamated with and into FWTI, with HWTI surviving as a wholly-owned subsidiary of HWCC. Pursuant to the Transaction, the outstanding common shares and warrants of FWTI were exchanged for common shares and warrants, respectively, of HWCC on the basis of five HWCC securities for every one FWTI security (the “Exchange Ratio”). Immediately following the completion of the Transaction, HWCC changed its name from “Hope Well Capital Corp.” to “Forward Water Technologies Corp.”.

In connection with the Transaction, the FWTI completed a brokered private placement offering of an aggregate of 6,470,000 subscription receipts (“Subscription Receipts”) at a subscription price of \$1.00 per Subscription Receipt for aggregate gross proceeds of \$6,470,000. At closing, each Subscription Receipt was converted, for no additional consideration, into one unit of FWTI (a “FWTI Unit”). Each FWTI Unit consisted of one common share in the capital of FWTI and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one FWTI common share at an exercise price of \$1.25 for 24 months following the closing of the Transaction, subject to adjustment and acceleration. Each FWTI common share and FWTI common share purchase warrant issued pursuant to the conversion of the Subscription Receipts was exchanged for common shares and warrants, respectively, of HWCC on the basis of five HWCC securities for every one FWTI security and the exercise price was adjusted to \$0.25.

Immediately prior to the closing of the Transaction, two series of FWTI convertible debentures were converted into 1,652,380 FWTI common shares, which were exchanged for the shares of the Company based on the Exchange Ratio.

Immediately following the closing of the Transaction, there were 105,600,099 or the Company’s common shares of the Company outstanding, of which 64,421,900 were held by the former shareholders of FWTI (representing approximately 61.0% of the outstanding shares of the Company) and 7,724,999 were issued in the reverse-takeover to the shareholders of HWCC. As the former shareholders of FWTI, as a group, retained control of the resulting issuer, FWTC. This transaction was accounted for as a reverse acquisition where FWTI is deemed to be the acquirer for accounting purposes. These unaudited condensed consolidated interim financial statements represent the continuance of FWTI and reflect the identifiable assets acquired and liabilities assumed of HWCC at fair value. The results of operations of HWCC have been included in these consolidated statements of comprehensive loss from October 20, 2021, the closing date of the Transaction.

As HWCC did not meet the definition of a business as defined in IFRS 3 – Business Combinations, the acquisition was not within the scope of IFRS 3 and is accounted for as a share-based payment transaction in accordance with IFRS 2, Share-based Payments. Accordingly, the fair value of the purchase consideration was accounted for at the fair value of the equity instruments granted by the shareholders of FWTI to the shareholders and option holders of HWCC. The fair value of the shares was determined based

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on the historical trading price of HWCC which was determined to be the most reliable measure of the transaction. The fair value of the options were valued using the Black-Scholes pricing model.

The consideration for the Transaction has been calculated as \$1,598,901 and is based on the fair value of the number of shares and options that the Company issued to the shareholders and option holders of HWCC to give the shareholders and option holders of HWCC the same percentage equity interest in the combined entity that resulted from the Transaction. The following table summarizes the allocation of the purchase price consideration to the fair value of the net assets acquired at October 20, 2021, the closing date of the Transaction.

|                                               |              |
|-----------------------------------------------|--------------|
| Purchase consideration                        |              |
| Fair value of deemed issuance of FWTI shares  | \$ 1,545,000 |
| Fair value of deemed issuance of FWTI options | 53,901       |
| Fair value of consideration                   | 1,598,901    |
| Identifiable assets acquired                  |              |
| Cash and cash equivalents                     | 455,420      |
| Net assets acquired                           | 455,420      |
| Listing expense                               | 1,143,481    |
|                                               | \$ 1,598,901 |

In addition to the above-mentioned listing expense, the Company incurred \$505,128 in legal and accounting fees in connection with the Transaction. Further, the agent involved in the Subscription Receipts received a cash finder's fee of \$165,480 and 220,640 units (the "Finder Units") for a total fair value of \$386,120.

## Share capital:

|                                                                   | # Shares*   | Amount       |
|-------------------------------------------------------------------|-------------|--------------|
| Balance at March 31, 2021 & 2020                                  | 54,000,000  | \$ 1,636,352 |
| Exercise of warrants (note 10(b))                                 | 1,160,000   | 230,880      |
| Shares issued in relation to private placement net of issue costs | 32,350,000  | 4,058,108    |
| Advisory shares issued                                            | 1,000,000   | 200,000      |
| Shares issued in reverse takeover (Note 4)                        | 7,724,999   | 1,545,000    |
| Shares issued for services (Finder's fee)                         | 1,103,200   | 174,306      |
| Conversion of convertible debenture (note 10(a))                  | 8,261,900   | 1,652,380    |
|                                                                   | 105,600,099 | \$ 9,497,026 |

*\*All figures reflect the Exchange Ratio*

- (a) In connection with the Qualifying Transaction, FWTI completed the first tranche of a brokered private placement offering for an aggregate of 5,170,000 Subscription Receipts at a subscription

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price of \$1.00 per Subscription Receipt on June 4, 2021 and the second tranche of 1,300,000 Subscription Receipts on the same terms on July 26, 2021, resulting in aggregate gross proceeds of \$6,470,000. At closing, each Subscription Receipt was converted, for no additional consideration, into one unit of FWTI ("Unit"). Each FWTI unit consisted of one common share in the capital of FWTI and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one FWTI common share at an exercise price of \$1.25 for 24 months following the Transaction, subject to adjustment and acceleration. Each FWTI common share and FWTI common share purchase warrant issued pursuant to the conversion of the Subscription Receipts was exchanged for common shares and warrants, respectively, of WCC on the basis of five HWCC securities for every one FWTI security.

The allocation of the FWTI Unit between share capital and warrants was done based on the relative fair value of each of the components after applying the Exchange Ratio. The FWTI units and warrants were converted at the Exchange Ratio at the closing of the Qualifying Transaction, and as a result their fair value has been determined based on the value of the HWCC (Resulting Issuer) shares as that was determined to represent the most reliable measure of the share consideration. The fair value of the share capital was determined to be \$0.20. The fair value of the warrants was determined using the Black-Scholes pricing model.

The relative fair value of the shares was determined to be \$5,111,300 and the relative fair value of the warrant was determined to be \$1,358,700.

In connection with the private placement, FWTI issued 343,600 QT Broker Warrants on June 4, 2021 and 34,000 QT Broker Warrants on the same terms on July 26, 2021, with each QT Broker Warrant exercisable for one underlying unit (a "QT Broker Unit") at a price of \$1.00 for a period of 24 months from the closing date of the Qualifying Transaction. The QT Broker Units are comprised of one FWTI Share and one-half of one FWTI Warrant, with each FWTI Warrant entitling the holder thereof to purchase one FWTI Warrant Share at a price of \$1.25 for a period of 24 months following the closing date of the Qualifying Transaction, subject to adjustment in certain events. The FWT Warrants are governed by the Warrant Indenture. The Broker Warrant units were converted at the Exchange Ratio at the closing of the Qualifying Transaction, and their fair value was determined based on the value of the HWCC (Resulting Issuer) shares as that was determined to represent the most reliable measure of the share consideration.

The fair value of 343,600 Broker Warrants issued on June 4, 2021 was determined to be \$211,832 using the Black-Scholes pricing model.

**The fair value of 34,000 Broker Warrants issued on July 26, 2021 was determined to be \$20,999 using the Black-Scholes pricing model.**

On June 4, 2021, in connection with the private placement, FWTI issued 200,000 common shares (the "Advisory Shares") and 200,000 Warrants (the "Advisory Warrants") to Mackie Research Capital Corporation. Each Advisory Warrant will entitle the holder to purchase one common share of FWTI at a price of \$1.00 per common share, for a period of 24 months following the date of issuance. The FWTI shares and warrants were converted at the Exchange Ratio at the closing of the Transaction, and as a result their fair value has been determined based on the value of the HWCC (Resulting Issuer) shares as that was determined to represent the most reliable measure of the share consideration.

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**The fair value of the Advisory Shares was determined to be \$0.20 per resulting issuer share based on the fair value at June 4, 2021. The fair value of the Advisory Warrants of \$123,000 was determined using the Black-Scholes pricing model.**

Share issuance costs consist of the following:

|                          |    |           |
|--------------------------|----|-----------|
| Legal costs              | \$ | 119,761   |
| Cash commission          |    | 377,600   |
| Broker warrants issued   |    | 232,831   |
| Advisory shares issued   |    | 200,000   |
| Advisory warrants issued |    | 123,000   |
|                          |    | <hr/>     |
|                          | \$ | 1,053,192 |

- (b) On October 20, 2021, 7,724,999 HWCC shares were deemed to be exchanged for the shares of the Company in connection with RTO. The fair value of the HWCC shares was determined based on the historical trading price of HWCC which was determined to be the most reliable measure of the transaction.
- (c) In connection with the Qualifying Transaction, FWTI paid \$165,480 cash finder's fee and issued 220,640 FWTI Units pursuant to an advisory agreement between the FWTI and WD Capital Markets Inc. (the "Finder").

The allocation of the FWTI Unit between share capital and warrants was done based on the relative fair value of each of the components after applying the Exchange Ratio. The FWTI units and warrants were converted at the Exchange Ratio at the closing of the Transaction, and their fair value has been determined based on the value of the HWCC (Resulting Issuer) shares as that was determined to represent the most reliable measure of the share consideration. The fair value of the share capital was determined to be \$0.20. The fair value of the warrants was determined using the Black-Scholes pricing model. The relative fair value of the shares was determined to be \$174,306 and the relative fair value of the warrant was determined to be \$46,334.

- (d) Immediately prior to the closing of the Transaction, two series of FWTI convertible debentures were converted into 1,652,380 FWTI common shares, which were exchanged for 8,261,900 shares of the Company based on the Exchange Ratio.

## Stock options:

The Company has a rolling stock option plan (the "Plan") that authorizes the Board of Directors to grant incentive stock options to directors, officers, consultants and employees, whereby a maximum of 10% of the issued common shares are reserved for issuance under the Plan. Under this Plan, the exercise price of each option may not be less than the market price of the shares of the Company at the date of grant. The maximum term for options is five years.

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The following table summarizes the movements of the stock options for the nine months ended December 31, 2021:

|                                          | Number of<br>options | Weighted<br>average<br>exercise price |
|------------------------------------------|----------------------|---------------------------------------|
| Options outstanding at March 31, 2021    | -                    | \$ -                                  |
| Issued in reverse takeover               | 772,499              | 0.203                                 |
| Granted                                  | 1,961,071            | 0.175                                 |
| Options outstanding at December 31, 2021 | 2,733,570            | \$ 0.183                              |

On October 20, 2021, HWCC's 772,499 outstanding stock options were assumed in connection with RTO. The fair value of the outstanding HWCC options were valued at \$53,901 using the Black-Scholes pricing model.

- a) On November 9, 2021, 1,338,571 stock options were granted in exchange for services provided. The stock options are exercisable at \$0.175 and expire November 9, 2023. These stock options have a fair value of \$248,956 and vests immediately on the grant date.
- b) On November 9, 2021, 622,500 stock options were granted to certain employees and directors of the Company. The stock options are exercisable at \$0.175 and expire November 9, 2026. These stock options have a fair value of \$82,228. 33% of the stock options vests immediately on the grant date, 33% vests on the first anniversary of the grant date, and the remaining balance vests on the second anniversary of the grant date.

The fair value of the stock options was determined using the Black-Scholes pricing model.

As at December 31, 2021, \$34,678 in stock based compensation has been recognized in the consolidated interim statements of loss and comprehensive loss.

The following table provides additional information about the outstanding stock options as at December 31, 2021:

| Grant Date       | Expiry Date      | Number of<br>Stock<br>Options<br>Outstanding | Number of<br>Stock<br>Options<br>Exercisable | Exercise<br>Price | Remaining<br>Life (in<br>years) |
|------------------|------------------|----------------------------------------------|----------------------------------------------|-------------------|---------------------------------|
| October 20, 2021 | May 3, 2022      | 502,125                                      | 502,125                                      | \$ 0.200          | 0.53                            |
| October 20, 2021 | November 6, 2022 | 270,374                                      | 270,374                                      | 0.210             | 1.05                            |
| November 9, 2021 | November 9, 2023 | 1,338,571                                    | 1,338,571                                    | 0.175             | 2.00                            |
| November 9, 2021 | November 9, 2026 | 622,500                                      | 207,499                                      | 0.175             | 5.00                            |
|                  |                  | 2,733,570                                    | 2,318,569                                    | \$ 0.183          | 1.84                            |

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## Results of Operations

|                                                | Three months ended December 31, 2021 |              | Nine months ended December 31, 2020 |              |
|------------------------------------------------|--------------------------------------|--------------|-------------------------------------|--------------|
|                                                | 2021                                 | 2020         | 2021                                | 2020         |
| Revenue                                        | \$ 5,644                             | \$ 34,453    | \$ 6,244                            | \$ 40,441    |
| Expenses:                                      |                                      |              |                                     |              |
| General and administrative                     | 620,314                              | 79,692       | 1,681,720                           | 278,884      |
| Selling and marketing                          | 38,774                               | 15,957       | 85,507                              | 16,431       |
| Research and development                       | 262,923                              | 159,313      | 583,027                             | 535,596      |
| Listing expenses                               | 1,143,481                            | -            | 1,143,481                           | -            |
| Foreign exchange loss (gain)                   | (5,095)                              | 445          | (4,877)                             | 445          |
|                                                | 2,060,397                            | 255,407      | 3,488,858                           | 831,356      |
|                                                | (2,054,753)                          | (220,954)    | (3,482,614)                         | (790,915)    |
| Other expense (income):                        |                                      |              |                                     |              |
| Amortization of deferred capital contributions | (27,534)                             | (48,043)     | (83,843)                            | (180,696)    |
| Operating grants                               | -                                    | (25,813)     | (4,830)                             | (167,413)    |
| Finance income                                 | (158)                                | -            | (1,088)                             | (1,998)      |
| Finance costs                                  | 28,619                               | 100,978      | 98,469                              | 278,633      |
| Change in fair value of financial instruments  | (116,824)                            | 67,222       | 13,078                              | 202,588      |
|                                                | (115,897)                            | 94,344       | 21,786                              | 131,114      |
| Net loss and comprehensive loss                | \$ (1,938,856)                       | \$ (315,298) | \$ (3,504,400)                      | \$ (922,029) |
| Basic/diluted loss per share*                  | \$ (0.02)                            | \$ (0.01)    | \$ (0.05)                           | \$ (0.02)    |
| Weighted average number of basic common shares | 94,852,251                           | 54,000,000   | 68,798,358                          | 54,000,000   |

\*Reflect the retrospective application of the 1:5 exchange ratio

## Comparison of the three and nine months ended December 31, 2021 vs December 31, 2020

### Revenue:

Revenues for the three and nine months ended December 31, 2021 were \$5,644 and \$6,244 compared to \$34,453 and \$40,441 respectively for the same three and nine month's period in 2020. The Company continues to focus on the development of new clients which require a long cycle time.

### Expenses:

General and Administrative – general and administrative expenses as of the three months ended December 31, 2021 were \$620,314 an increase of \$540,622 or 678% over the same period in 2020 primarily due to the legal fees associated with the Transaction, higher administration and salary costs, and the addition of stock based compensation. For the nine months ended December 31, 2021, general and administrative costs were \$1,681,720, an increase of \$1,402,836 or 503% compared to the same period in 2020 primarily as a result of higher consulting, filing, and marketing consultant expenses related to the Business Combination Agreement and the Transaction

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Selling and Marketing – selling and marketing expenses for the three months ended December 31, 2021 were \$38,774 an increase of \$22,817 or 143% compared to the same period in 2020. Selling and marketing expenses for the nine months ended December 31, 2021 were \$85,507, an increase of \$69,076 or 420% over the same period in 2020. For each period, the increase is primarily related to costs associated with marketing consultants.

Research and Development – research and development costs for the three months ended December 31, 2021 were \$262,923, a \$103,610 or 65% increase from the same period in 2020 as a result of higher consulting and developmental research fees. Research and development was \$583,027 for the nine months ended December 31, 2021, an increase of \$47,431 or 9% for the same period in 2020 as a result higher developmental research fees partially offset by lower depreciation as some assets were fully depreciated.

Listing expenses – listing expenses for the three and nine months ended December 31, 2021 were \$1,143,481, compared to \$nil for the same periods in 2020. These expenses were incurred as part of closing the Transaction.

Foreign Exchange Loss/(Gain) – foreign exchange loss is a result of the changes in foreign currency amounts being settled through accounts payable. The payables are primarily related to tools and equipment purchased in USD. Foreign exchange loss for the three months ended December 31, 2021 was a gain of \$5,096, a decrease of \$5,541 over the same period in 2020. Foreign exchange loss for the nine months ended December 31, 2021 was income of \$4,877, a gain of \$5,322 over the same period of 2020.

## **Other Expense (Income):**

Amortization of Deferred Capital Contributions - deferred capital contributions represent the unamortized and unspent balances of designated grants and funding received for the purchase of equipment. The amortization of capital contributions is recorded as income in the statement of profit and loss. The amortization of deferred capital contributions for the three months ended December 31, 2021 was income of \$27,535, a decrease of \$20,509 or 43% over the same period in 2020. Amortization of deferred capital contributions for the nine months ended December 31, 2020 was income of \$83,844, a decrease of \$96,853 or 54% compared to the same period in 2020. For both periods, this is a result of no new funding being received for capital purchases in the past two years.

Operating Grants - operating grants for the three months ended December 31, 2021 were \$nil, a decrease of \$25,813 or 100% over the same period in 2020. Operating grants for the nine months ended December 31, 2021 were \$4,830, a decrease of \$162,583 or 97% compared to the same period in 2020. For both periods, this is a result of minimal funding being available from the Canada Emergency Business Account (“CEBA”) loan and Industrial Research Assistance Program (“IRAP”) and Bioindustrial Innovation Canada (“BIC”) grants.

Finance Income - finance income for the three months ended December 31, 2021 was \$158, an increase of \$158 over the same period in 2020 from interest earned from funds held in the trust in connection with the Subscription Receipt financing. Finance income for the nine months ended December 31, 2021 was \$1,088, a decrease of \$910 over the same period in 2020 as the Company received interest on a tax refund in the prior period.

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Finance Costs - finance costs for the three months ended December 31, 2021 were \$28,619, a decrease of \$72,359 or 72% over the same period in 2020. Finance costs for the nine months ended September 30, 2020 was \$98,469, a decrease of \$180,164 or 65% over the same period in 2020. For both periods, this is primarily as a result of the repayment of \$500,000 of debentures and the conversion \$1.7 million of debentures to common shares in connection with the closing of the Transaction.

Change in Fair Value of Financial Instruments - change in fair value of financial instruments relates to the convertible debentures that are carried at fair value. For the three months ended December 31, 2021 the change in fair value was a credit of \$116,824, a decrease of \$184,046 or 274%. For the nine months ended December 31, 2021, the change in fair value was \$13,078, a decrease of \$189,510 or 94% compared to the same period in 2020. For both periods, this is primarily as a result of the change in the risk free rate and the value of the debentures during these periods.

## Net Loss and Earnings per Share:

Comprehensive loss for the three months ended December 31, 2021 was \$1,938,856 compared to \$315,298 for the three months ended December 31, 2020. The comprehensive loss for the nine months ended December 31, 2021 was \$3,504,400 compared to \$922,029 for the same period in 2020. On a per share basis this translated into a net loss per basic share of \$0.02 for the three months ended December 31, 2021, compared to net loss per basic share of \$0.01 for the same period in 2020. For the nine months ended December 31, 2021, the loss per share was \$0.05 compared to \$0.02 for the same period in 2020.

## Total Assets and Liabilities:

|                                                          | December 31,<br>2021 | March 31,<br>2021   |
|----------------------------------------------------------|----------------------|---------------------|
| <b>Assets</b>                                            |                      |                     |
| Current assets                                           | 4,480,086            | 294,316             |
| Property and equipment                                   | 652,546              | 803,447             |
|                                                          | <u>5,132,632</u>     | <u>1,097,763</u>    |
| <b>Liabilities and Shareholder's Equity (deficiency)</b> |                      |                     |
| Current liabilities                                      | 363,161              | 2,738,872           |
| Deferred capital contributions                           | 277,282              | 361,125             |
| Government loan payable                                  | 36,435               | 31,077              |
| Loan payable                                             | <u>267,680</u>       | <u>233,289</u>      |
|                                                          | 944,558              | 3,364,363           |
| Shareholders' deficiency:                                |                      |                     |
| Share capital                                            | 9,497,026            | 1,636,352           |
| Warrants                                                 | 1,760,865            | -                   |
| Contributed surplus                                      | 2,635,705            | 2,298,170           |
| Deficit                                                  | <u>(9,705,522)</u>   | <u>(6,201,122)</u>  |
|                                                          | 4,188,074            | (2,266,600)         |
|                                                          | <u>\$ 5,132,632</u>  | <u>\$ 1,097,763</u> |

# FORWARD WATER TECHNOLOGIES CORP.

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Total assets were \$5,132,632 as of December 31, 2021, an increase of \$4,034,869 or 368% over the period ended March 31, 2021 primarily as a result of the addition of funds held in trust due to a brokered private placement offering Subscription Receipts and higher prepaids for communications consultants.

Current liabilities as of December 31, 2021 were \$363,161 a decrease of \$2,375,711 over the prior period ended March 31, 2021 primarily as a result of the payment of \$500K in debentures, the conversion of \$1.5 million in debentures to shares and the conversion of the warrant liability of \$231K.

Long term liabilities as of December 31, 2021 were \$581,397, a decrease of \$44,094 or 7% primarily as a result of amortization of deferred capital contributions due to a depletion of contributions partially offset by higher loan payables due to accretion of interest.

## Cash Flows:

|                                               | Nine months ended December 31, |              |
|-----------------------------------------------|--------------------------------|--------------|
|                                               | 2021                           | 2020         |
| Cash provided by (used in):                   |                                |              |
| Operating activities:                         |                                |              |
| Net loss                                      | \$ (3,504,400)                 | \$ (922,029) |
| Items not involving cash                      | 1,873,980                      | 537,955      |
| Changes in non-cash operating working capital | (610,293)                      | 212,501      |
|                                               | (2,240,713)                    | (171,573)    |
| Financing activities                          | 5,452,139                      | (2,500)      |
| Investing activities                          | 407,800                        | -            |
| Increase(decrease) in cash                    | 3,619,226                      | (174,073)    |
| Cash, beginning of period                     | 147,236                        | 336,959      |
| Cash, end of period                           | \$ 3,766,462                   | \$ 162,886   |

## Net cash flows (outflows) from operating activities:

For the nine months ended December 31, 2021, net cash flows from operating activities were an outflow of \$2,240,713, an increase in outflows of \$2,069,140 compared to the nine months ended December 31, 2020. The increase was primarily due to a higher net loss as discussed above partially offset by non-cash listing expenses.

## Net cash flows (outflows) from financing activities:

Net cash flows from financing activities for the nine months ended December 31, 2021 were \$5,452,139, an increase of \$5,454,639 compared to the nine-month period ended December 31, 2020 primarily as a result of Subscription Receipts from the private placement, cash obtained from the Transaction partially offset by issuance costs and the repayment of the loans payable.

# FORWARD WATER TECHNOLOGIES CORP.

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## Net cash flows (outflows) from investing activities:

Net cash outflows from investing activities for the nine months ended December 31, 2021 were \$407,800 an increase in outflows of \$407,800 compared to the nine-month period ended December 31, 2020 due to cash obtained from the Transaction.

## Quarterly Results:

|                                              | Three Months Ended |           |           |           |           |           |           |             |
|----------------------------------------------|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
|                                              | Mar 20             | Jun 20    | Sep 20    | Dec 20    | Mar 21    | Jun 21    | Sep 21    | Dec 21      |
|                                              |                    | \$        | \$        | \$        | \$        | \$        | \$        | \$          |
| Revenue                                      | -                  | -         | 5,988     | 34,453    | 1,316     | -         | 600       | 10,474      |
| Net loss/comprehensive loss                  | (208,609)          | (270,178) | (336,553) | (315,298) | (578,241) | (565,985) | (999,559) | (1,938,856) |
| Net cash (outflow) from operating activities | (323,032)          | 134,727   | (164,943) | (141,357) | (28,150)  | (90,506)  | (97,578)  | (2,240,713) |
| Basic loss per share                         | (0.00)             | (0.01)    | (0.01)    | (0.01)    | (0.01)    | (0.01)    | (0.02)    | (0.02)      |

Since early 2020, much of the Company's effort has been building a prototype and proving out the technology. Revenues were generated as part of the prove out process. Government grants were used to partially offset R&D costs.

In mid-2021, the Company embarked on the process of becoming public through the Transaction. The costs in preparation for the Transaction began in Q3, 2021 which increased comprehensive losses, though an effort was made to conserve cash until the public listing. FWT become publicly listed in November 2021, resulting in listing costs of over \$2 million and substantially increasing operating losses.

## Outstanding Share Capital:

As of the date of this MD&A, the Company has outstanding share capital of:

Shares: 105,600,099

Warrants: 19,614,600 (including 2,888,000 broker and advisory warrants)

Options: 2,733,570

## Off-Balance Sheet Arrangements:

There are no off-balance sheet arrangements.

## Subsequent Events:

During January 2022, the Company began building a Mobile Demonstration Unit for a total estimated cost of \$1.1 million. Much of the work will be completed in-house, with vendors supplying various items of equipment. There are no significant commitments with any of the vendors.

On February 3, 2022, the Company entered into a definitive agreement with Membracon (UK) Ltd. ("Membracon") to form a joint venture. The proposed joint venture will be resourced by both Membracon and the Company and will be responsible for delivery of the Company's proprietary forward osmosis processes and solutions within the United Kingdom and Ireland. The Company has a 12 month commitment to pay a project manager to support this agreement at a cost of \$61,000.

# FORWARD WATER TECHNOLOGIES CORP.

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On February 14, 2022, the Company signed a sales partnership agreement with Mabarex Inc ("Mabarex") providing laboratory, engineering, and system support. Mabarex will in turn identify commercial applications from its client base.

## **Going Concern Risk:**

This MD&A has been prepared on the basis of accounting principles applicable to a going concern. However, in common with many early-stage enterprises engaged in product commercialisation, there is significant doubt about the appropriateness of the use of the going concern assumption because the Company has a history of losses and negative cash flows from operations.

The ability of the Company to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon the continued support from its shareholders, and on its ability to achieve and maintain profitable operations in the future. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Company's liabilities and commitments as they become payable. The Company's ability to establish profitable operations in the future is dependent upon securing additional funding and financing arrangements. There can be no assurance that such events will occur.

These unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying amount of assets, the reported revenue and expenses, and the balance sheet classifications used.

## **Financial Risks and Concentration of Risk:**

### **(a) Currency risk:**

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company may purchase property and equipment denominated in U.S. dollars. The Company does not currently enter into forward contracts to mitigate this risk.

### **(b) Liquidity risk:**

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company has continued to incur losses and generate negative cash flows from operations. The Company prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

The following table details the remaining contractual maturities at the end of the reporting period of the Company's financial liabilities, which are based on contractual undiscounted cash flows:

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MD&A (Cont'd)

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| At December 31, 2021                      | Carrying amount   | Total contractual cash flows | Repayable within 1 year or on demand | Repayable more than 1 year but less than 2 years | Repayable more than 2 years but less than 5 years |
|-------------------------------------------|-------------------|------------------------------|--------------------------------------|--------------------------------------------------|---------------------------------------------------|
| Accounts payables and accrued liabilities | \$ 363,161        | \$ 363,161                   | \$ 363,161                           | \$ -                                             | \$ -                                              |
| Government loan payable                   | 36,435            | 45,000                       | -                                    | 45,000                                           | -                                                 |
| Loan payable                              | 267,680           | 300,000                      | -                                    | -                                                | 300,000                                           |
|                                           | <u>\$ 667,276</u> | <u>\$ 708,161</u>            | <u>\$ 363,161</u>                    | <u>\$ 45,000</u>                                 | <u>\$ 300,000</u>                                 |

  

| At March 31, 2021                         | Carrying amount     | Total contractual cash flows | Repayable within 1 year or on demand | Repayable more than 1 year but less than 2 years | Repayable more than 2 years but less than 5 years |
|-------------------------------------------|---------------------|------------------------------|--------------------------------------|--------------------------------------------------|---------------------------------------------------|
| Accounts payables and accrued liabilities | \$ 525,356          | \$ 525,356                   | \$ 525,356                           | \$ -                                             | \$ -                                              |
| Debentures                                | 500,000             | 540,000                      | 540,000                              | -                                                | -                                                 |
| Convertible Debentures                    | 1,482,636           | 1,224,000                    | 1,224,000                            | -                                                | -                                                 |
| Government loan payable                   | 31,077              | 45,000                       | -                                    | 45,000                                           | -                                                 |
| Loan payable                              | 233,289             | 300,000                      | -                                    | -                                                | 300,000                                           |
|                                           | <u>\$ 2,772,358</u> | <u>\$ 2,634,356</u>          | <u>\$ 2,289,356</u>                  | <u>\$ 45,000</u>                                 | <u>\$ 300,000</u>                                 |

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations, resulting in a financial loss. Substantially all of the Company's cash is deposited with financial institutions in Canada that are of high-credit quality to minimize credit risk exposure. The Company is exposed to credit risk with respect to accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains provisions for potential credit losses.

(d) Capital risk management:

The Company's capital is composed of shareholder's equity and a shareholder loan. The Company's objective in managing its capital is to ensure it maintains capital ratios in order to support its business. The Company manages its capital structure through regular reviews of financial information to ensure adjustments can be made to be in line with changes in the economic conditions and to maintain value for the shareholders.

(e) Measurement of fair value

The carrying value of cash, short-term investments, amounts receivable, and trade payables and accrued liabilities approximate their fair values due to their short-term to maturity. The convertible debentures and the warrant liability are measured at the fair value through profit and loss ("FVTPL").

During the reporting periods, there were no transfers between Level 1 and Level 2 fair value measurements.

# FORWARD WATER TECHNOLOGIES CORP.

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## Business Risks and Uncertainties

### 1. Key Personnel

FWT's success has depended and continues to depend upon its ability to attract and retain key management. The Company does not maintain key person life insurance policies on any employees. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or scientific and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company and results of operations of the business and could limit the Company's ability to develop and market its services and products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all.

### 2. Dependence on Suppliers and Skilled Labor

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour and equipment. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of any major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

### 3. Rapid Technology Change

The Company operates in a competitive marketplace; there are no guarantees that the Company can maintain or expand its advantages. The Company invests significantly in the development of products and continually seeks to improve its current product offerings. The success of the Company continues to depend upon market acceptance of its new products, its existing products and its ability to refine and enhance current product lines.

### 4. Negative Cash Flow

The Company has incurred losses since its inception. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future.

### 5. Clients may Terminate Accounts

Clients may terminate their relationship with FWT at any time, subject to the terms of the contractual agreement between FWT and such clients.

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## 6. Ongoing Costs and Obligations

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increase compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow the business may be costlier than expected, and FWT may not be able to increase revenue enough to offset any higher operating expenses. FWT may incur significant losses in the future for a number of reasons and unforeseen expenses, difficulties, complications and delays, and other unknown events. If FWT is unable to achieve and sustain profitability, the market price of the common shares may significantly decrease.

## 7. Additional Financing

The operation of FWT's facilities and business are capital intensive. In order to execute the anticipated growth strategy, FWT may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to FWT when needed or on terms which are acceptable.

The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit FWT's growth and may have a material adverse effect upon future profitability. FWT may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of common shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for FWT to obtain additional capital and to pursue business opportunities, including potential acquisitions.

## 8. Change of Control on Material Contracts

It is possible that material contracts to which FWT is a party may be subject to review or termination upon a change of control. While FWT is not aware of any counterparty which may wish to terminate a material contract, should any such contracts be terminated, FWT will lose the benefit of the contract as well as subsequent usage or subscription revenue associated with that contract depending on the services rendered.

## 9. Success of Quality Control Systems

The quality and safety of the Company's products and services are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be

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negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all its customers and partners have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

## **10. Management of Growth**

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

## **11. Reputational Harm**

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish, and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes pride in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

## **12. Legal Proceedings**

In the course of the Company's business, the Company may from time to time have access to confidential or proprietary information of third parties, and these parties could bring a claim against the Company asserting that it has misappropriated their technologies and improperly incorporated such technologies into its products. The Company has implemented processes and internal protocols to safeguard such third-party's proprietary rights in order to mitigate such risks but there is no guarantee that such processes and protocols will be successful in all cases. Due to these factors, there remains a constant risk of intellectual property litigation affecting the Company's business. In the future, the Company may be made a party to litigation involving intellectual property matters and such actions, if determined adversely, could have a material adverse effect on the Company.

## **13. Epidemics and Pandemics**

The Company faces risks related to health epidemics, pandemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. The Company's business could be adversely

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impacted by the effects of the COVID-19 pandemic or other epidemics and/or pandemics. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. The extent to which COVID-19 impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the pandemic and the actions taken to contain or treat the COVID-19 pandemic (including recommendations from public health officials).

Specifically, activities related to fabrication, field trials, installation, and commissioning of equipment may be delayed as these activities require different groups of skill sets and those teams may not be able to be on-site simultaneously. Other activities such as project planning with clients for these activities may also be impacted due to on-going person-to person contact restrictions. Internally at FWTC sites, restricted interactions with staff members may delay on-going scientific and engineering work.

In addition, the COVID-19 pandemic represents a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the Company. If the global response to contain a pandemic or similar event escalates or is unsuccessful, such events may have a material adverse effect on our business, financial condition, results of operations, and cash flows.

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial periods.

## Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS accounting principles.

TSX Venture Exchange-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI 52- 109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP.

Additional information related to the Company can be found on the Company's profile on [www.sedar.com](http://www.sedar.com)