
**INTERNATIONAL WASTEWATER SYSTEMS INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
THREE AND SIX MONTHS ENDED
JUNE 30, 2016
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

Notice To Reader

The accompanying unaudited condensed consolidated interim financial statements of International Wastewater Systems Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

International Wastewater Systems Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	As at June 30, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash	\$ 255,514	\$ 367,812
Receivables (note 3)	424,844	422,189
Prepaid expenses	8,226	42,438
Inventory (note 4)	233,545	595,436
Loans receivable (note 13)	72,309	115,235
Total current assets	994,438	1,543,110
Non-current liabilities		
Deposits	1,200	6,683
Equipment (note 6)	86,740	144,302
Total assets	\$ 1,082,378	\$ 1,694,095
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities	\$ 675,049	\$ 645,722
Loans payable (note 7)	740,541	61,478
Deferred revenue (note 8)	-	265,280
Warranty liability (note 9)	58,200	-
Total current liabilities	1,473,790	972,480
Non-current liabilities		
Warranty provisions (note 9)	12,296	24,011
Loans payable (note 7)	47,634	75,570
	1,533,720	1,072,061
Shareholders' equity (deficiency)		
Share capital (note 10)	5,470,757	5,421,804
Reserves (note 11)	444,704	551,753
Currency translation reserve	16,983	(15,782)
Deficit	(6,383,786)	(5,335,741)
Total shareholders' equity (deficiency)	(451,342)	622,034
Total liabilities and shareholders' equity (deficiency)	\$ 1,082,378	\$ 1,694,095

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

Nature and continuance of operations (note 1)
 Commitment (note 14)
 Subsequent events (note 16)

Approved on behalf of the Board:

"Lynn Mueller", Director

"Yaron Conforti", Director

International Wastewater Systems Inc.

Condensed Consolidated Interim Statements of and Comprehensive Income (loss)

(Expressed in Canadian Dollars)

Unaudited

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues	\$ 924,773	\$ 172,388	\$ 950,251	\$ 177,079
Cost of sales	(669,212)	(208,057)	(847,824)	(208,113)
Gross margin	255,561	(35,669)	102,427	(31,034)
Expenses				
Accounting and legal (note 13)	27,920	6,946	87,305	14,505
Advertising and promotion	38,109	9,989	61,029	14,552
Consulting (note 13)	139,965	63,245	316,303	153,619
Depreciation	23,692	3,868	48,567	9,785
Foreign exchange	3,783	-	(17,683)	-
Insurance	10,002	468	18,834	4,551
Office and miscellaneous	52,599	23,872	118,265	48,795
Regulatory and filing fees	4,128	-	8,094	-
Rent	26,739	16,447	50,239	32,895
Repairs and maintenance	-	9,564	2,315	33,669
Share-based payments (note 13)	(726,577)	-	(180,143)	-
Telephone and utilities	8,880	4,547	16,811	8,206
Trademarks	3,510	-	4,422	-
Travel	22,274	4,755	54,429	10,023
Wages and benefits (note 13)	242,944	134,555	493,066	244,007
Warranty expense (note 9)	48,811	-	51,095	-
	73,221	(278,256)	(1,132,948)	(574,607)
Government grant	106,902	3,227	106,902	35,756
Interest expense	(136,656)	(4,251)	(154,629)	(4,251)
Income (loss) for the period	\$ 299,028	\$ (314,949)	\$ (1,078,248)	\$ (574,136)
Income (loss) attributable to:				
Shareholders of the Company	\$ 299,028	\$ (264,941)	\$ (1,078,248)	\$ (488,316)
Non-controlling interest	-	(50,008)	-	(85,820)
	299,028	(314,949)	\$ (1,078,248)	\$ (574,136)
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to income				
Foreign currency translation	\$ 15,429	\$ (3,354)	\$ 32,765	\$ (1,175)
Total comprehensive income (loss) for the period	\$ 314,457	\$ (318,303)	\$ (1,045,483)	\$ (575,311)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	\$ 314,457	\$ (266,652)	\$ (1,045,483)	\$ (488,915)
Non-controlling interest	-	(51,651)	-	(86,396)
	314,457	(318,303)	\$ (1,045,483)	\$ (575,311)
Basic income (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted income (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding:				
Basic	80,957,912	25,000,000	80,913,956	25,000,000
Diluted	81,564,645	25,000,000	80,913,956	25,000,000

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

International Wastewater Systems Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Six months ended 30, 2016	Six months ended June June 30, 2015
Operating activities		
Loss for the period	\$ (1,078,248)	\$ (574,136)
Adjustments for:		
Depreciation	48,567	9,785
Unrealized foreign exchange	(10,023)	7,017
Share-based payments	(180,143)	-
Accrued interest expense and accretion	152,838	2,470
Changes in non-cash working capital items:		
Receivables	(30,831)	21,088
Prepaid expenses	33,821	1,366
Inventory	357,086	(94,039)
Accounts payable and accrued liabilities	93,689	140,346
Deferred revenue	(265,280)	(56,053)
Warranty provisions	46,485	1,494
Net cash used in operating activities	(832,039)	(540,662)
Investing activities		
Deposits	5,483	-
Acquisition of equipment	-	(2,219)
Net cash provided by (used in) investing activities	5,483	(2,219)
Financing activities		
Proceeds from loans payable	623,968	639,737
Repayment of loans payable	(12,880)	(2,470)
Funds advanced from related party	11,440	-
Repayment of loans receivable	43,578	-
Proceeds on exercise of stock options	18,750	-
Shares to be issued	30,000	-
Net cash provided by financing activities	714,856	637,267
Net change in cash	(111,700)	94,386
Impact of exchange rate changes on cash	(598)	(8,192)
Cash, beginning of period	367,812	255,913
Cash, end of period	\$ 255,514	\$ 342,107

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

International Wastewater Systems Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

Unaudited

	Number of shares	Share capital	Reserves	Currency translation reserve	Non-controlling interest	Deficit	Total
Balance, December 31, 2014	25,000,000	\$ 4	\$ -	\$ (3,180)	\$ 55,686	\$ (1,575,125)	\$ (1,522,615)
Currency translation adjustment	-	-	-	(1,175)	-	-	(1,175)
Non-controlling interest	-	-	-	-	(85,820)	85,820	-
Loss for the period	-	-	-	-	-	(574,136)	(574,136)
Balance, June 30, 2015	25,000,000	4	-	(4,355)	(30,134)	(2,063,441)	(2,097,926)
Balance, December 31, 2015	80,870,000	\$ 5,421,804	\$ 551,753	\$ (15,782)	\$ -	\$ (5,335,741)	\$ 622,034
Shares to be issued	-	-	30,000	-	-	-	30,000
Warrants issued to acquire loan	-	-	103,500	-	-	-	103,500
Stock options exercised	125,000	18,750	-	-	-	-	18,750
Fair value of stock options exercised	-	30,203	(30,203)	-	-	-	-
Stock options expired	-	-	(30,203)	-	-	30,203	-
Share-based payments	-	-	(180,143)	-	-	-	(180,143)
Currency translation adjustment	-	-	-	32,765	-	-	32,765
Loss for the period	-	-	-	-	-	(1,078,248)	(1,078,248)
Balance, June 30, 2016	80,995,000	\$ 5,470,757	\$ 444,704	\$ 16,983	\$ -	\$ (6,383,786)	\$ (451,342)

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
(Expressed in Canadian Dollars)
Unaudited

1. Nature and continuance of operations

International Wastewater Systems Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 4, 2011. The Company's shares are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "IWS". The Company provides wastewater heat exchange products and services. The registered office of the Company is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, V3C 6L4.

International Wastewater Heat Exchange Systems Inc. ("IWHES"), was incorporated under the Business Corporations Act (British Columbia) on May 30, 2011. On October 27, 2015, the Company completed the acquisition (the "Acquisition") of IWHES pursuant to a share exchange agreement dated September 4, 2015 (the "Agreement"). The Acquisition constituted a reverse takeover ("RTO"). Upon completion of the Acquisition, the Company changed its name from Amana Copper Ltd. to International Wastewater Systems Inc.

These unaudited condensed consolidated interim financial statements of the Company have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they fall due for the foreseeable future. For the six months ended June 30, 2016 the Company incurred a loss of \$1,078,248 (six months ended June 30, 2015 - \$574,136). As of June 30, 2016 the Company has a deficit of \$6,383,786 (December 31, 2015 - \$5,335,741) and a working capital deficiency of \$479,352 (December 31, 2015 - working capital of \$570,630). The Company has not generated positive cash flows from operations and additional financings will be required to maintain operations for the near term. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

The Company will continue to pursue opportunities to raise additional capital through equity markets and/or debt to fund its operating activities; however, there is no assurance of the success or sufficiency of these initiatives. The Company's ability to continue as a going concern is dependent upon it securing the necessary working capital to eventually generate positive cash flows either from operations or additional financing. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

2. Significant accounting policies

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of August 29, 2016, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2015. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2016 could result in restatement of these unaudited condensed consolidated interim financial statements.

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
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2. Significant accounting policies (continued)

Change in accounting policies

Amendments to IAS 16 – Property, Plant and Equipment (“IAS 16”) and IAS 38 – Intangibles (“IAS 38”) were issued in May 2014 and prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. At January 1, 2016, the Company adopted these amendments and there was no material impact on the Company’s unaudited condensed consolidated interim financial statements.

New standards not yet adopted and interpretations issued but not yet effective

IFRS 15 - Revenue from Contracts with Customers - Establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Management is currently assessing the impact of the new standard.

IFRS 9 – Financial instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Management is currently assessing the impact of the new standard.

IFRS 16, Leases (“IFRS 16”) was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if the Company is also applying IFRS 15. The Company has not yet assessed the impact of adoption.

3. Receivables

	As at June 30, 2016	As at December 31, 2015
GST recoverable (Canada)	\$ 72,647	\$ 107,832
VAT recoverable (UK)	23,567	13,056
Holdback receivables	93,020	-
Other receivables	-	12,338
Trade receivables	235,610	288,963
	\$ 424,844	\$ 422,189

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
(Expressed in Canadian Dollars)
Unaudited

4. Inventory

	As at June 30, 2016	As at December 31, 2015
Materials and supplies	\$ 74,853	\$ 130,750
Work-in-progress	158,692	464,686
	\$ 233,545	\$ 595,436

5. Equity investment

During the year ended December 31, 2015, the Company acquired a 40% interest in Sharc Caledonia Limited ("Caledonia") for £4,000 (\$7,817). As the Company exerts significant influence over Caledonia but does not control it, the investment is accounted for as an equity investment.

The Company's unrecognized share of the loss for the six months ended June 30, 2016 was \$36,873 for a balance at June 30, 2016 of \$85,343 (December 31, 2015 - \$48,470).

The following table presents a continuity of the equity investment:

Balance, December 31, 2014	\$ -
Acquisition	7,817
Loss from equity investment	(7,817)
Balance, December 31, 2015 and June 30, 2016	\$ -

The table below discloses selected financial information for Caledonia on a 100% basis:

	As at June 30, 2016	As at December 31, 2015
Current assets	\$ 53,414	\$ 375,557
Non-current assets	1,107,568	1,312,170
Current liabilities	(26,206)	(212,059)
Non-current liabilities	(1,324,799)	(1,602,207)
Revenue	24,115	-
Total comprehensive loss	(92,182)	(140,718)

6. Equipment

Cost	Equipment and furniture and fixtures		Computer hardware		Computer software		Leasehold improvements		Total	
Balance, December 31, 2014	\$	42,443	\$	20,702	\$	6,299	\$	17,854	\$	87,298
Additions		3,637		7,224		163,126		1,171		175,158
Currency translation adjustment		-		-		3,451		-		3,451
Balance, December 31, 2015		46,080		27,926		172,876		19,025		265,907
Currency translation adjustment		-		-		(28,243)		-		(28,243)
Balance, June 30, 2016	\$	46,080	\$	27,926	\$	144,633	\$	19,025	\$	237,664

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
(Expressed in Canadian Dollars)
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6. Equipment (continued)

Accumulated Depreciation	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2014	\$ 4,244	\$ 5,694	\$ 6,299	\$ 1,785	\$ 18,022
Depreciation for the year	8,091	10,242	81,562	3,688	103,583
Balance, December 31, 2015	\$ 12,335	\$ 15,936	\$ 87,861	\$ 5,473	\$ 121,605
Depreciation for the period	3,505	3,298	39,862	1,902	48,567
Currency translation adjustment	-	-	(19,248)	-	(19,248)
Balance, June 30, 2016	\$ 15,840	\$ 19,234	\$ 108,475	\$ 7,375	\$ 150,924

Carrying Value	Equipment and furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Balance, December 31, 2015	\$ 33,745	\$ 11,990	\$ 85,015	\$ 13,552	\$ 144,302
Balance, June 30, 2016	\$ 30,240	\$ 8,692	\$ 36,158	\$ 11,650	\$ 86,740

7. Loans payable

(i) During the year ended December 31, 2015 IWWS received a loan of \$40,814 (£20,000) from a shareholder of IWWS. The loan accrued interest at a rate of 6% per annum and was payable on March 24, 2016. The outstanding balance of the loan and accrued interest as at June 30, 2016 was \$37,034.

(ii) During the year ended December 31, 2015 IWWS received a loan of \$102,035 (£50,000) from an unrelated company. The loan accrues interest at a rate of 12.5% per annum and is payable on April 17, 2020. The loan must be repaid in monthly payments of £1,125 with the first payment required on June 17, 2015. An arrangement fee of £1,000 was paid prior to the loan being advanced. The loan is guaranteed by the CEO of IWWS. During the six months ended June 30, 2016, the Company made payments totalling \$12,880 (£6,750), of which \$3,143 (£1,650) related to interest and \$9,737 (£5,100) related to principal. The balance of the loan as at June 30, 2016 is \$70,888 (£41,154), of which \$23,254 is recognized as short-term.

(iii) In March 2016, the Company entered into an agreement with an arm's length private lender to loan the Company an aggregate of \$400,000.

The loan is secured against the assets of the Company, bears interest at a rate of 2% per month and carries a commitment fee equal to 4% of the loan. The loan matures and becomes payable in 3 months and may be prepaid by the Company at any time prior to the maturity date. In consideration for the loan, the Company issued an aggregate of 500,000 share purchase warrants (valued at \$103,500) exercisable into 500,000 common shares at a price of \$0.28 per common share. The warrants are exercisable for three years and are subject to an acceleration clause in the event that the shares of the Company trade at a price of \$0.56 or greater for a period of 20 consecutive days with an average daily trading volume of a minimum 100,000 shares during the same 20-day period.

The grant date fair value of \$103,500 was assigned to the warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 129.28% which is based on historical volatility, risk-free rate of return of 0.56% and an expected maturity of 5 years.

In June 2016 and subsequently in July 2016, the loan was extended for an additional month for a fee of \$15,000 and \$15,000 respectively. The loan was repaid in August 2016.

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
(Expressed in Canadian Dollars)
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7. Loans payable (continued)

(iii) (continued) During the six months ended June 30, 2016, the Company recorded accretion of \$149,359. The balance of the loan as at June 30, 2016 is \$414,859.

(iv) In May 2016, the Company received a \$70,000 loan from a company controlled by a director of IWHES. The loan is unsecured, non-interest bearing and due on demand.

(v) In June 2016, the Company entered into an agreement to factor trade receivables of \$184,968 for a expected term of 45 days with an interest rate of 3% for a term of 45 days. Subsequent to June 30, 2016 the loan was repaid.

(vi) In June 2016, the Company received a \$10,335 (£6,000) loan from a company controlled by a director of IWWS. The loan is unsecured, non-interest bearing and due on demand.

	Six months ended June 30, 2016	Year ended December 31, 2015
Balance, beginning of period	\$ 137,048	\$ 2,119,236
Proceeds from loans, net of costs	635,408	642,849
Repayment of loans	(12,880)	(2,634,625)
Interest and accretion on loans	49,338	9,912
Foreign exchange	(20,739)	(324)
Balance, end of period	788,175	137,048
Less: non-current portion	(47,634)	(75,570)
	\$ 740,541	\$ 61,478

8. Deferred revenue

During the year ended December 31, 2015 the Company entered into agreements with Stone Hill Contracting Co., Inc. and Dan-Jen Mechanical Ltd. As at June 30, 2016, \$nil (December 31, 2015 - \$265,280) was recorded as deferred revenue for these projects which were completed during the second quarter of 2016.

	Six months ended June 30, 2016	Year ended December 31, 2015
Balance, beginning of year	\$ 265,280	\$ 85,678
Revenue recognized	(864,673)	(85,678)
Sales contracts	616,581	265,280
Currency translation adjustment	(17,188)	-
	\$ -	\$ 265,280

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
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9. Warranty provisions

The Company has recognized warranty provisions for projects that have been completed.

	Six months ended June 30, 2016	Year ended December 31, 2015
Balance, beginning of year	\$ 24,011	\$ -
Warranty provisions recognized	46,485	47,500
Warranty expenses incurred	-	(23,489)
	\$ 70,496	\$ 24,011
Less: non-current portion	(58,200)	(24,011)
	\$ 12,296	\$ -

10. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

	Number of common shares	Amount
Balance, December 31, 2014 and June 30, 2015	25,000,000	\$ 4
Balance, December 31, 2015 and June 30, 2016	80,870,000	\$ 5,421,804
Stock options exercised (note 11)	125,000	18,750
Fair value of stock options exercised (note 11)	-	30,203
Balance, June 30, 2016	80,995,000	\$ 5,470,757

c) Escrow shares

In connection with the RTO, 47,000,000 common shares were placed into escrow with 10% released on the day after closing of the Acquisition and 15% released every six months thereafter. At June 30, 2016 35,250,000 shares were held in escrow (December 31, 2015 – 42,300,000).

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian Dollars)
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11. Stock options

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014 and June 30, 2015	-	\$ -
Balance, December 31, 2015	6,575,000	\$ 0.47
Exercised (i)	(125,000)	0.15
Cancelled	(5,700,000)	0.50
Expired	(125,000)	0.15
Balance, June 30, 2016	625,000	\$ 0.37

(i) The weighted average common share price on date of exercise was \$0.27.

The following table reflects the actual stock options issued and outstanding as of June 30, 2016:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
October 27, 2020	0.42	4.33	500,000	500,000
May 15, 2022	0.15	5.88	125,000	125,000
	0.37	4.64	625,000	625,000

Share-based payments

During the six months ended June 30, 2016, the Company recognized a reversal of share-based payments of \$(180,143) (six months ended June 30, 2015 - \$nil) relating to the cancellation of non-vested stock options.

12. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2014 and June 30, 2015	-	\$ -
Balance, December 31, 2015	1,200,000	\$ 0.14
Issued (note 7(iii))	500,000	0.28
Balance, June 30, 2016	1,700,000	\$ 0.18

International Wastewater Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2016
(Expressed in Canadian Dollars)
Unaudited

12. Warrants (continued)

The following are the warrants outstanding at June 30, 2016:

Number of Warrants	Exercise Price (\$)	Expiry Date
1,120,000	0.14	June 30, 2017
80,000	0.14	July 16, 2017
500,000	0.28	March 21, 2019
1,700,000	0.18	

13. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers and directors.

During the three and six months ended June 30, 2016 (three and six months ended June 30, 2015), the Company incurred the following charges with key management personnel:

- (i) Consulting fees of \$44,218 and \$91,005 (\$nil) to companies controlled by directors and officers of the Company.
- (ii) Wages and benefits of \$78,558 and \$160,608 (\$43,397 and \$86,378) to the CEO, director of the Company and a director of IWHES.
- (iii) Accounting fees of \$nil and \$4,000 (\$6,000 and \$12,000) to a company controlled by a director of IWHES.
- (iv) Share-based payments of \$(599,108) and \$(148,540) (\$nil) was recognized in connection with the vesting of 5,700,000 options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of \$2,700 and \$5,498, included in cost of sales (\$nil) and additional cost of sales of \$nil and \$1,017 (\$nil) due to a company controlled by a director of IWWS.

Included in accounts payable is \$100,070 (December 31, 2015 - \$54,979) due to related parties. Included in loans payable is \$70,000 (December 31, 2015 - \$nil) due to a company controlled by a director of IWHES and \$10,335 (£6,000) due to a company controlled by a director of IWWS.

At June 30, 2016, included in receivables is \$nil (December 31, 2015 - \$288,963) due from Caledonia.

Loans receivable

During the year ended December 31, 2015 the Company advanced \$80,000 to the CEO of the Company. During the six months ended June 30, 2016, \$40,000 was repaid. The advance bears interest at a rate of 3% per annum and is due on demand. In addition there is an advance of \$24,702 (December 31, 2015 - \$24,702) to the CEO which is non-interest bearing and is due on demand.

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14. Commitment

The Company entered into a lease agreement commencing March 1, 2014 for a two year term at an annual rental rate of \$65,791 with the option to renew the lease for an additional 2 year term. During the six months ended June 30, 2016, the Company renewed the lease for a one year term at an annual rate of \$65,542 with the option to renew the lease for an additional 2 year term. In the event of failure to reach an agreement on base rent prior to commencement of the renewed term, the Company will provide ninety days notice to vacate the property plus 3 months' rent at a rate of 110% of the base rate.

15. Segmented information

The Company currently operates in one reportable operating segment, currently being wastewater heat recovery systems and services.

Geographic information as at June 30, 2016 is as follows:

	Canada	United Kingdom	Total
Assets			
Inventory	\$ 212,034	\$ 21,511	\$ 233,545
Equipment	34,372	52,368	86,740
	\$ 246,406	\$ 73,879	\$ 320,285

Geographic information as at December 31, 2015 is as follows:

	Canada	United Kingdom	Total
Assets			
Inventory	\$ 557,150	\$ 38,286	\$ 595,436
Equipment	62,860	81,442	144,302
	\$ 620,010	\$ 119,728	\$ 739,738

Geographic information for the six months ended June 30, 2016 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 864,673	\$ 85,578	\$ 950,251
Cost of sales	(563,101)	(284,723)	(847,824)
Gross Margin	301,572	(199,145)	102,427
Loss for the period	\$ (619,970)	\$ (458,278)	\$ (1,078,248)

Geographic information for the six months ended June 30, 2015 is as follows:

	Canada	United Kingdom	Total
Revenues	\$ 172,375	\$ 4,704	\$ 177,079
Cost of sales	(207,229)	(884)	(208,113)
Gross Margin	(34,854)	3,820	(31,034)
Loss for the period	\$ (432,393)	\$ (141,743)	\$ (574,136)

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16. Subsequent events

(i) On July 12, 2016, the Company granted 5,460,000 incentive stock options to certain directors, officers, employees and consultants with each option exercisable into one common share of the Company at an exercise price of \$0.30 per share for a period of five years. The options vest 20% each six months of service. The options and any common shares issued upon exercise will be subject to a four-month resale restriction from the date of grant.

(ii) Subsequent to June 30, 2016, 46,000 warrants with an exercise price of \$0.14 and an expiry date of June 30, 2017 were exercised for total proceeds of \$6,440.

(iii) On August 22, 2016, the Company announced the completion of a non-brokered private placement pursuant to which the Company issued 4,800,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$960,000. In connection with the placement, the Company paid finder's fees and expenses of \$77,100 and issued 384,000 warrants, each warrant exercisable at a price of \$0.20 for a period of two years from the date of issue. All securities distributed pursuant to the placement will be subject to a statutory hold period of four months and a day from the date of issuance.

(iv) On August 25, 2016, the Company announced a joint venture with RENEW Energy Partners LLC ("RENEW"). The Joint Venture will initially build projects in California for which RENEW is committing funding of US\$60 million over five years, for the purpose of funding capital expenditures for one thousand PIRANHA thermal heat recovery systems ("PIRANHA") to be built, installed and operated exclusively by the Company.

RENEW is engaged in developing and funding energy and water efficiency retrofits and on-site clean energy projects through the use of innovative structures such as an Energy Services Agreement (ESA) or Power Purchase Agreement (PPA). The purpose of the program is to provide capital to fund turnkey installation and on-going operations and maintenance of PIRANHA systems for qualified residential and commercial buildings under a standardized Thermal Energy Purchase Agreement ("TEPA") developed by RENEW. Under the terms of the TEPA, customers will enter into long-term supply agreements with no capital investment.

The proposed schedule for the deployment of 1,000 PIRANHA systems in California in the next 5 years is estimated as follows:

- Approximately 50 PIRANHA Systems in the first 12 months of the program;
- Approximately 120 PIRANHA Systems in the second 12 months of the program;
- Approximately 240 PIRANHA Systems in the third 12 months of the program;
- Approximately 300 PIRANHA Systems per year thereafter.

IWS and RENEW will establish a special purpose vehicle ("SPV") to own the individual PIRANHA projects financed by the program. The SPV will sign a master agreement with IWS for the exclusive design, build and commissioning of PIRANHA systems and for the operation and maintenance services throughout the life of the systems.

The SPV will be the investing and operating entity for the Joint Venture. RENEW and IWS will jointly participate in the project returns from energy sales through cash flow distributions from the SPV, with the related terms of distribution to be included in a definitive agreement between IWS and RENEW.