

Financial Statements of

**THE WATER SCHOOL
(formerly The Water SCH₂OOL)**

(Unaudited)

December 31, 2008

Review Engagement Report

To the Directors of
The Water School (formerly The Water SCH₂OOL):

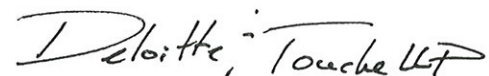
We have reviewed the statement of financial position of **The Water School (formerly The Water SCH₂OOL)** as at December 31, 2008 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Organization.

A review does not constitute an audit and consequently, we do not express an audit opinion on these financial statements.

As is common with many non-profit organizations, the Organization derives its revenue from voluntary donations and contributions, the completeness of which is not susceptible to satisfactory review verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustment might be necessary to donations, deficiency of receipts over disbursements, assets and unrestricted fund balance.

Based on our review, except for adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donation revenue referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
May 12, 2009



Chartered Accountants

THE WATER SCHOOL (FORMERLY THE WATER SCH₂OOOL)

Statement of Revenue and Expenses

Year Ended December 31, 2008

(Unaudited)

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
REVENUE		
Contributions	570,290	119,424
Interest income	1,226	-
	571,516	119,424
EXPENSES		
Fundraising expenses (Schedule 1)	27,953	14,922
Program expenses (Schedule 2)	472,477	94,197
	500,430	109,119
EXCESS OF REVENUE OVER EXPENSES	71,086	10,305

THE WATER SCHOOL (FORMERLY THE WATER SCH₂00L)

Statement of Financial Position

December 31, 2008

(Unaudited)

	December 31, 2008 \$	December 31, 2007 \$
ASSETS		
CURRENT		
Cash	83,656	12,167
Accounts receivable	3,388	245
	<u>87,044</u>	<u>12,412</u>
Property and equipment (Note 5)	5,210	1,893
	<u>92,254</u>	<u>14,305</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>10,863</u>	<u>4,000</u>
NET ASSETS		
Net assets invested in property and equipment	5,210	1,893
Unrestricted net assets	76,181	8,412
	<u>81,391</u>	<u>10,305</u>
	<u>92,254</u>	<u>14,305</u>

APPROVED BY THE BOARD

..... Director

..... Director

THE WATER SCHOOL (FORMERLY THE WATER SCH₂OOOL)

Statement of Changes in Net Assets

Year Ended December 31, 2008

(Unaudited)

	2008			2007 (Period of inception on January 25 - December 31)
	Investment in property and equipment \$	Unrestricted \$	Total \$	Total \$
BALANCE, BEGINNING OF YEAR	1,893	8,412	10,305	-
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(1,035)	72,121	71,086	10,305
TRANSFER TO PURCHASE PROPERTY AND EQUIPMENT	4,352	(4,352)	-	-
BALANCE, END OF YEAR	5,210	76,181	81,391	10,305

THE WATER SCHOOL (FORMERLY THE WATER SCH₂OOL)

Statement of Cash Flows

Year Ended December 31, 2008

(Unaudited)

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	71,086	10,305
Adjustment for amortization	1,035	250
	72,121	10,555
Changes in non-cash working capital:		
Accounts receivable	(3,143)	(245)
Accounts payable and accrued liabilities	6,863	4,000
	75,841	14,310
INVESTING		
Property and equipment additions	(4,352)	(2,143)
NET INCREASE IN CASH	71,489	12,167
CASH, BEGINNING OF YEAR	12,167	-
CASH, END OF YEAR	83,656	12,167

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)**

1. PURPOSE OF THE WATER SCHOOL (FORMERLY THE WATER SCH₂OOL)

The Water School (formerly The Water SCH₂OOL) (the “Organization” or “TWS”) was registered as a non-profit organization under the Canada Corporations Act on January 25, 2007. As such, it is exempt from income taxes.

The TWS mission is to provide safe drinking water in developing nations by empowering people with health education and readily available local resources. Together with local communities, the Organization researches and develops sustainable water treatment systems that will bring safe water to households. An integral part of the package is training in health and sanitation practices along with household water treatment using solar disinfection (SODISTM). A dramatic reduction in child mortality and disabling sickness stemming from waterborne diseases such as cholera, typhoid and dysentery is realized where this program is successfully implemented. The SODIS process works best 35 degrees either side of the equator.

TWS implements its programs through partner agencies. Currently, the implementing partners are The Water School Uganda based in Kampala, Uganda, and Christian Mission Aid based in Nairobi, Kenya (“CMA”).

Gross contributions received by the Organization, net of general and administrative disbursements are available to support the current programs in Uganda and Kenya. Expansion to other countries in Africa, as well as South America and Asia, is underway. These new initiatives will also involve partnership with successful local organizations or non-government agencies that are already working successfully in these countries.

Current projects underway include the following:

- The Nyanza CLEAR Water Project in Western Kenya, partnered with Christian Mission Aid, Nairobi;
- SAFE STEP Water Project in Kajiado Province Kenya, partnered with Christian Mission Aid, Nairobi;
- The Mitumba Slum SAFE Water Project in Nairobi Kenya, partnered with Christian Mission Aid, Nairobi;
- The Kisoro SAFE Water Project in Kisoro District Uganda, partnered with The Water School Uganda;
- The Kiwoko Hospital SAFE Water Project in Luwero District Uganda, partnered with The Water School Uganda;

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)****1. PURPOSE OF THE WATER SCH₂OOOL (Continued)**

- The Nebbi SAFE Water Project in Nebbi District, Uganda, partnered with The Water School Uganda;
- The Busiro Safe Water in Western Uganda, partnered with The Water School Uganda; and
- The Kyejojo Safe Water in South Western Uganda, partnered with The Water School Uganda.

These financial statements report funds received directly by TWS in Canada. TWS also incurs expenses for the purpose of raising funds indirectly through partner agencies. Such expenses are included as a line item of these financial statements, however the income is not. The funds raised by TWS through these partner agencies are sent directly to the designated project partners in Uganda and Kenya. This is required due to taxation policies in the country of origin or the donor agencies policies regarding designated funds.

For the period from January 1, 2008 to December 31, 2008, the total funds raised by TWS were as follows:

	\$
Funds received by TWS	571,516
Funds received from CMA	224,425
Funds received direct to Uganda from EAWAG	59,384
	<u>855,325</u>

2. CHANGE IN ACCOUNTING POLICY*Going concern*

Effective January 1, 2008, TWS adopted the additional requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation. This Section requires Management to make an assessment of TWS's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon TWS's ability to continue as a going concern. There was no impact to TWS' financial statements arising from the adoption of the accounting pronouncement.

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)**

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

Revenue recognition and fund balance

The Organization follows the deferral method of accounting for donations and contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Shares of publicly listed companies donated to the Organization are recorded at the market value of the shares on the date they are received.

These contributions, net of general and administrative expenses, form the fund which is used to fulfil the objectives of the Organization.

Donations of materials and services

The work of the Organization benefits from donated materials and the voluntary services of many individuals. As such, these materials services are not normally purchased by the Organization, and because of the difficulty of determining their fair value, such donated services are not recognized in these financial statements.

Foreign currency translation

Monetary transactions and monetary balances stated in foreign currencies are converted to Canadian dollars based on the month end exchange rate. All exchange gains or losses are recorded as part of revenue or expenses for the period.

Property and equipment

Property and equipment are recorded at cost and are amortized using the declining-balance method at the following annual rates:

Furniture, fixtures and equipment	20%
Computer equipment	30%

Amortization is recorded at one-half of the annual rates in the year of acquisition.

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)*Impairment of long-lived assets*

The carrying value of the Organization's long-lived assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized when the carrying value of the asset exceeds the undiscounted cash flows expected from its use and eventual disposition. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Financial instruments

All financial assets and financial liabilities must be classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other financial liabilities.

All financial instruments are initially recognized on the statement of financial position at their fair value. Subsequent to their initial recognition, all financial instruments continue to be measured at their fair value except for held-to-maturity investments, loans and receivables and other financial liabilities which must be measured at amortized cost using the effective-interest-rate method.

The Organization has classified its cash as held-for-trading. It is measured at its fair value which is approximately equal to its carrying values due to its short-term maturity.

The Organization has classified its accounts receivable as loans and receivables, which are measured at amortized cost using the effective-interest-rate method.

The Organization has classified its accounts payable and accrued liabilities as other financial liabilities, which are measured at amortized cost using the effective-interest-rate method.

Use of estimates

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions are the estimated valuation of allowance for doubtful accounts, amortization rates and useful lives of long-lived assets, and accrued liabilities. Changes in facts and circumstances may result in revised estimates and actual results could differ from these estimates.

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)**

4. FUTURE ACCOUNTING CHANGES*Capital disclosures*

In December 2006, the CICA issued Handbook Section 1535, Capital Disclosures, which prescribes standards for disclosing information about an entity's capital and how it is managed. This Section will be effective for fiscal years beginning on or after August 1, 2008. Accordingly, TWS will adopt the new standard for its fiscal year beginning January 1, 2009. Management believes that the adoption of this Section will not have a material impact on the financial position or results of operations.

Financial instruments

Effective for years beginning on or after October 1, 2008, the Organization may elect to adopt the provisions of the CICA Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentations. These Sections require the disclosure of information with regards to the significance of financial instruments of the Organization's financial position and performance, the nature and extent of risks arising from financial instruments to which the Organization is exposed during the year and at the statement of financial position date, and how the Organization manages those risks. These standards replace CICA Handbook Section 3861, Financial Instruments. The Organization is presently considering whether or not it will adopt these Sections effective January 1, 2009. If adopted, it is expected that the only effect will be incremental disclosure.

Financial statement presentation

Several Sections of the CICA Handbook have been amended to include not-for-profit organizations within their scope. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009.

The main features of the amendments are as follows:

- Financial Statement Presentation by Not-for-Profit Organizations, Section 4400. This Section has been amended to eliminate the requirement to treat net assets invested in property and equipment as a separate component of net assets, and instead permits the not-for-profit organization to present such an amount as a category of internally restricted net assets. It also requires not-for-profit organizations to recognize and present revenue and expenses on a gross basis, if the not-for-profit is acting as a principal in the transactions;
- Cash Flow Statements, Section 1540. This Section has been amended to include not-for-profit organizations within its scope;

Notes to the Financial Statements

Year Ended December 31, 2008

(Unaudited)

4. FUTURE ACCOUNTING CHANGES (Continued)

Financial statement presentation (continued)

- Disclosure of Related Party Transactions by Not-for-Profit Organizations, Section 4460. This Section has been amended to make the language in Section 4460 consistent with Section 3840 Related Party Transactions;
- Disclosure of Allocated Expenses by Not-for-Profit Organizations, Section 4470. This new Section establishes disclosure standards for not-for-profit organizations that choose to classify their expenses by function and allocate expenses from one function to another. The main features of the new Section are:
 - A requirement for an entity that allocates its fundraising and general support expenses to other functions to disclose the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated, and the basis on which such allocations have been made; and
 - A requirement for an entity to disclose the amounts allocated from each of its fundraising and general support functions and the amounts and functions to which they have been allocated.

The Organization is currently evaluating the impact of the adoption of these new Sections on its financial statements.

5. PROPERTY AND EQUIPMENT

	December 31, 2008		December 31, 2007
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Furniture, fixtures and equipment	3,243	797	2,446
Computer equipment	3,252	488	2,764
	6,495	1,285	5,210
			1,893

Notes to the Financial Statements**Year Ended December 31, 2008****(Unaudited)****6. COST ALLOCATION**

The Water School allocates its general management and administration expenses to fundraising and programs. General costs which do not pertain specially to either function are considered administrative and are allocated to those functional areas. These estimates have been established based on management's estimates of the actual expenses incurred in each area using the proportionate percentage of the total functional expenses.

Administrative costs are summarized on Schedule 3 and have been allocated as follows:

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
Fundraising expenses (Schedule 1)	10,261	6,811
Program expenses (Schedule 2)	58,145	38,846
	68,406	45,657

7. MANAGEMENT OF CAPITAL

The Organization's objective when managing capital is to ensure it has adequate cash flow to maintain operations and fund capital projects. Management carefully considers the income and expenses to ensure that sufficient funds will be available to meet the Organization's short and long-term objectives.

8. FINANCIAL RISK MANAGEMENT

The Organization's financial risks are as follows:

Foreign exchange risk

Because a portion of the Organizations activities are denominated in foreign currencies, the Organization is exposed to fluctuations in those currencies.

THE WATER SCHOOL (FORMERLY THE WATER SCH₂OOOL) SCHEDULE 1**Fundraising Expenses****Year Ended December 31, 2008****(Unaudited)**

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
Domestic travel - President	579	664
Domestic travel - Managing Director	4,030	2,445
Domestic travel - Program Associate	705	-
Salaries and wages	12,378	5,002
Total direct fundraising expenses	17,692	8,111
Allocation of general and administrative expenses (Schedule 3)	10,261	6,811
Total fundraising expenses	27,953	14,922

THE WATER SCHOOL (FORMERLY THE WATER SCHOOL) SCHEDULE 2**Program Expenses****Year Ended December 31, 2008****(Unaudited)**

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
The Water School Uganda	223,561	-
Christian Mission Aid Nairobi	45,649	-
International testing supplies	3,255	702
International travel - President	15,986	5,168
International travel - Managing Director	30,399	5,380
International travel - Program Associate	5,315	-
Domestic travel - President	5,213	5,974
Domestic travel - Managing Director	16,120	9,779
Domestic travel - Program Associate	2,820	-
Salaries and wages	66,014	28,348
Total direct program expenses	414,332	55,351
Allocation of general and administrative expenses (Schedule 3)	58,145	38,846
Total program expenses	472,477	94,197

THE WATER SCHOOL (FORMERLY THE WATER SCHOOL) SCHEDULE 3**General and Administrative Expenses****Year Ended December 31, 2008****(Unaudited)**

	2008	2007 (Period of inception on January 25 - December 31)
	\$	\$
Accounting and legal	17,771	4,000
Amortization	1,035	250
Foreign exchange loss	516	-
Initial incorporation and organizational costs	-	26,068
Interest and bank charges	470	334
Office	37,010	15,005
Salaries and wages	11,604	-
	<u>68,406</u>	<u>45,657</u>
Allocated to fundraising (Schedule 1)	(10,261)	(6,811)
Allocated to program (Schedule 2)	<u>(58,145)</u>	<u>(38,846)</u>
	<u>-</u>	<u>-</u>