



Global Water Technologies, Inc.

**Consolidated Financial Statements
For the Three Months Ended March 31, 2012
(Unaudited)**

Global Water Technologies

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Global Water Technologies, Inc. and Subsidiary

Consolidated Balance Sheets Quarter Ended March 31, 2012

| | March 2012 | March 2011 |
|---|-------------|-------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,019 | \$ 1,754 |
| Accounts Receivable | 4,518 | 1,240 |
| Inventory | 21,820 | 25,358 |
| Prepaid Expenses and Other | 7,500 | 7,500 |
| Total Current Assets | 36,857 | 35,852 |
| PROPERTY AND EQUIPMENT, net | 12,950 | 12,600 |
| INVESTMENT IN JOINT VENTURE | 60,000 | - |
| ACQUIRED PATENTS | 24,262 | 24,262 |
| TOTAL ASSETS | \$ 134,070 | \$ 72,714 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 129,662 | \$ 126,596 |
| Current Maturities for Long-Term Debt | 365,953 | 322,500 |
| Total Current Liabilities | 495,615 | 449,096 |
| LONG-TERM DEBT, Less current portion | 89,000 | 51,500 |
| Total Liabilities | 584,615 | 500,596 |
| STOCKHOLDERS' DEFICIT | | |
| Common stock \$.0006 par value, 1,000,000,000 shares authorized 8,666,105 issued and outstanding | 6,360 | 600,000 |
| Additional paid-in-capital | 1,524,963 | 872,757 |
| Accumulated Deficit | (1,935,087) | (1,849,174) |
| | (403,764) | (376,417) |
| Less: Cost of Treasury Stock, 1,298,383 shares | (46,781) | (51,465) |
| Total Stockholders' Deficit | (450,545) | (427,882) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 134,070 | \$ 72,714 |

Global Water Technologies, Inc. and Subsidiary

Consolidated Statements of Operations Quarter Ended March 31, 2012

| | March 2012 | YTD | March 2011 |
|----------------------------|-------------|-------------|-------------|
| NET SALES | \$ 17,438 | \$ 17,438 | \$ 9,203 |
| COST OF GOODS SOLD | \$ 4,206 | \$ 4,206 | \$ 4,369 |
| Gross Profit | \$ 13,232 | \$ 13,232 | \$ 4,834 |
| OPERATING EXPENSES | | | |
| Consulting | \$ 15,000 | \$ 15,000 | \$ 15,000 |
| Professional Fees | \$ 5,885 | \$ 5,885 | \$ 4,974 |
| Interest Expense | \$ 6,956 | \$ 6,956 | \$ - |
| General and Administrative | \$ 5,577 | \$ 5,577 | \$ 6,314 |
| Total Operating Expenses | \$ 33,418 | \$ 33,418 | \$ 26,288 |
| NET INCOME (LOSS) | \$ (20,186) | \$ (20,186) | \$ (21,454) |

Global Water Technologies, Inc. and Subsidiary

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

Quarter Ended March 31, 2012

| | Common Stock | Additional Paid-in-Capital | Accumulated Deficit | Cost of Treasury Stock | Total Stockholders' Equity (Deficit) |
|--|-----------------|----------------------------|-----------------------|------------------------|--------------------------------------|
| BALANCE AT DECEMBER 31, 2010 | 600,000 | 872,402 | (1,827,720) | (51,110) | (406,428) |
| Reissuance of 1,000,000 shares of treasury stock | | \$ 1,000 | | \$ (1,000) | \$ - |
| Reverse Split of stock | \$ (594,000) | \$ 594,000 | | | \$ - |
| Restricted shares issued for joint venture project | \$ 360 | \$ 59,640 | | | \$ 60,000 |
| 4th quarter expenses paid with Treasury Stock | | \$ (2,079) | | \$ 5,329 | \$ 3,250 |
| Net Loss | | | \$ (87,181) | | \$ (87,181) |
| BALANCE AT DECEMBER 31, 2011 | <u>\$ 6,360</u> | <u>\$ 1,524,963</u> | <u>\$ (1,914,901)</u> | <u>\$ (46,781)</u> | <u>\$ (430,359)</u> |
| Net Loss | | | \$ (20,186) | | \$ (20,186) |
| BALANCE AT MARCH 31, 2012 | <u>\$ 6,360</u> | <u>\$ 1,524,963</u> | <u>\$ (1,935,087)</u> | <u>\$ (46,781)</u> | <u>\$ (450,545)</u> |

Global Water Technologies, Inc. and Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS Quarter Ended March 31, 2012

| OPERATING ACTIVITIES | 2012 | 2011 |
|---|-------------|-------------|
| Net Income | (20,186) | (21,454) |
| (Increase) decrease in certain current assets: | | |
| Accounts Receivable | (3,278) | 4,753 |
| Inventory | 1,113 | - |
| Prepaid Expenses and other | - | (65) |
| Increase (decrease) in certain Current liabilities: | | |
| Accounts Payable | 16,005 | |
| Current Maturities for Long-Term Debt | 6,956 | 3,135 |
| Net Cash Used by Operating Activities | 611 | (13,631) |
| INVESTING ACTIVITIES | | |
| Purchases of property plant and equipment | - | - |
| Purchases of Intangible Asset | - | - |
| Net Cash Used by Investing Activities | - | - |
| FINANCING ACTIVITIES | | |
| Proceeds of long-term debt | - | 12,500 |
| Net Cash Provided by Financing Activities | - | 12,500 |
| NET INCREASE (DECREASE) IN CASH | 611 | (1,131) |
| CASH | | |
| Beginning of Quarter | 2,409 | 2,885 |
| End of Quarter | \$ 3,019 | \$ 1,754 |

GLOBAL WATER TECHNOLOGIES, INC.
Notes to the Financial Statements
For the Three Months Ended March 31, 2012
(UNAUDITED)

NOTE 1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Business

Global Water Technologies, Inc. (the Company) was incorporated in Delaware in 1990. The Company was known as Fi-Tek VI, Inc. until November 1997. The Company then began operating as Global Water Technologies, Inc., with headquarters in Colorado and operations in the construction of cooling towers and various water treatment services. The Company deregistered with the Securities and Exchange Commission in August 2002 and has had non-reporting status since then. In May 2003, the Company filed a petition under Chapter 11 of the Federal Bankruptcy Code and then emerged from bankruptcy in July 2004. In 2009, new management took control of the Company, moved the headquarters to Indiana and undertook a series of steps to reduce overhead expenses.

The Company is currently involved in the development and sales of water treatment technologies, products and services, with a focus on commercial and industrial customers. The Company's current operations are conducted through its Electric H2O, Inc. subsidiary and all financials are reported on a consolidated basis.

The Company owns 90% of Electric H2O, Inc., its subsidiary that produces the ED2000™ line of products. ED2000™ uses a proprietary controller and offset coil fitted around a pipe to deliver an oscillating electric field to treat water. The products have historically been sold for use on cooling towers to reduce fouling and the formation of scale on heat transfer surfaces. Electric H2O also combines such treatment with filtration, using centrifugal separators and an innovative, self-cleaning screen filter system. Electric H2O, Inc. has ongoing operations utilizing contract manufacturing and distribution that generates both domestic and international sales. Historically sales volumes have been minimal and uneven, resulting in poor economies of scale and a long sales cycle. Although revenues are still minimal, there is continued and growing interest in such non-chemical water treatment. The Company believes it is now positioned well to build on such operational efficiencies with increased marketing and sales efforts.

The Company has also started work to update its core technology and begun the process of identifying and developing new water technology opportunities through the formation of strategic partnerships and collaboration with other companies and organizations.

Significant Accounting Policies

Unaudited

The Company's financial statements are prepared on an accrual basis and are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position at March 31, 2012, and the results of its operations and cash flows for the three-month period ended March 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affects

GLOBAL WATER TECHNOLOGIES, INC.

Notes to the Financial Statements

For the Three Months Ended March 31, 2012

(UNAUDITED)

the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates may be materially different from actual financial results. Significant estimates include the recoverability of long-lived assets and the collectability of accounts receivable.

Cash and Cash Equivalents

The Company maintains its cash accounts at a commercial bank. The total cash balance is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per commercial bank. As of March 31, 2012, the Company had zero amounts in excess of the FDIC insured limits. For purposes of the statement of cash flows, the Company considers all cash and highly liquid investments with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary. At March 31, 2012, the Company had no balance in its allowance for doubtful accounts.

Inventory

The Company carries its inventories at the lower of its cost or market value. Cost is determined using the first-in, first-out ("FIFO") method. Market is determined based on net realizable value. The Company also provides due consideration to obsolescence, excess quantities, and other factors in evaluating net realizable value.

Revenue Recognition

Revenue is recognized when earned. Sales revenue is recognized at the date of shipment to customers, when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Patents and Prepaid Expenses

Intangible assets, including patents and prepaid expenses for patents are recorded on the balance sheet. The development costs of the patents are not reflected as an asset on the balance sheet of the company. However, the legal fees and filing costs associated with the patent are carried as an intangible asset on the financial statements of the company. The purchase price (cost allocation to the patent) is also recorded as an intangible asset on the balance sheet.

Stock-Based Compensation

The Company adopted the provisions of and accounts for stock-based compensation using an estimate of value in accordance with the fair value method. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based

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on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation method applies to new grants and to grants that were outstanding as of the effective date and are subsequently modified.

Fair Value of Financial Instruments

The carrying amount of accounts payable, accrued expenses, convertible promissory notes are considered to be representative of their respective fair values because of the short-term nature of these financial instruments.

Other Comprehensive Income

The Company has no material components of other comprehensive income (loss) and accordingly, net loss is equal to comprehensive loss in all periods.

Income Taxes

Provision for income taxes represents actual or estimated amounts payable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, and for operating loss and tax credit carry forwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustment to the tax provision or benefit in the period of enactment.

NOTE 2. GOING CONCERN AND MANAGEMENT'S PLAN

The Company's financial statements for the three months ended March 31, 2012 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company reported net sales of \$17,438 for the three months ended March 31, 2012 and a net loss of \$20,186 for the three months ended March 31, 2012, and an accumulated deficit of (\$1,935,087) on March 31, 2012. At March 31, 2012, the Company had cash on hand of \$3,019.

The Company is working to increase revenues at its Electric H2O, Inc. subsidiary through the addition of new products and additional applications for its existing technology. The Company is also working to identify areas where it can create value by facilitating the development and commercialization of new water technologies.

Historically revenues have not been sufficient to meet operating and capital costs. The Company may need further capital to continue new technology development and commercialization opportunities.

The Company has been operating with negative working capital. The Company requires funds to enable it to address minimum current and ongoing expenses and to continue with the development and marketing of its products and services. The Company has taken aggressive steps to reduce its expenses over the past two years and as a result, its Electric H2O subsidiary has

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begun to operate profitably. The Company expects to reduce its current liabilities in 2012 as its convertible debentures begin to mature. Those debentures convert into common shares at the option of the company and at fixed rates.

The Company's ability to continue as a going concern may be dependent on the success of management's plan. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To the extent the Company's operations are not sufficient to fund the Company's capital requirements, the Company may attempt to enter into a revolving loan agreement with financial institutions or attempt to raise capital through the sale of additional capital stock or through the issuance of debt. At the present time, the Company does not have a revolving loan agreement with any financial institution nor can the Company provide any assurance that it will be able to enter into any such agreement in the future or be able to raise funds through the further issuance of debt or equity in the Company. The continuation of the Company as a going concern is dependent upon the continued financial support from its directors and officers, the ability to raise equity or debt financing, and the attainment of profitable operations from the business.

These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3. INTELLECTUAL PROPERTY

The Company has a small patent portfolio that includes U.S. Patent No. 5,951,856 for Water Hardness Reduction Through Interactive Molecular Agitation and Filtration. The patent was issued in 1999 and the 12-year maintenance fee was paid in 2010. On January 11, 2011, the Company was issued U.S. Patent No. 7,867,470 for the On-Site Manufacture of Sulfuric Acid. The Company has completed a patent application for the use of forward osmosis to minimize produced water brines. However, the United States Patent and Trademark Office rejected the claims in that application and the cost of challenging that decision and likelihood of success in doing resulted in a decision to abandon that application.

NOTE 4. CONVERTIBLE NOTES PAYABLE

On June 30, 2010, the Company issued a \$315,000 convertible note (Debenture A) with a maturity date on June 30, 2011 and bearing interest at 6% per annum for debt reduction of \$315,000. The note is convertible into shares of the Company's common stock at a conversion price of \$0.0035 (split-adjusted \$0.35). Pursuant to the terms of the note the Company agreed to reserve for future issuance 1,000,000 common shares (split-adjusted).

On July 2, 2010, the Company issued a \$25,000 convertible note (Debenture B) with a maturity date on June 30, 2013 and bearing interest at 12% per annum for cash proceeds of \$25,000. The note is convertible into shares of the Company's common stock at a conversion price of \$0.00125 (split-adjusted \$0.125). Pursuant to the terms of the note the Company agreed to reserve for future issuance 200,000 common shares (split-adjusted).

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On November 15, 2010, the Company issued a \$7,500 convertible note (Debenture C) with a maturity date on November 15, 2011 and bearing no interest for cash proceeds of \$7,500. The note is convertible into shares of the Company's common stock at a conversion price of \$0.0005 (split-adjusted \$0.05). Pursuant to the terms of the note the Company agreed to reserve for future issuance 150,000 common shares (split-adjusted).

On February 3, 2011, the Company issued a \$12,500 convertible note (Debenture D) with a maturity date on February 3, 2014 and bearing interest at 12% per annum for cash proceeds of \$12,500. The note is convertible into shares of the Company's common stock at a conversion price of \$0.00125 (split-adjusted \$0.125). Pursuant to the terms of the note the Company agreed to reserve for future issuance 100,000 common shares (split-adjusted).

On June 29, 2011, the Company issued a \$37,500 convertible note (Debenture E) with a maturity date on June 29, 2014 and bearing interest at 12% per annum for cash proceeds of \$37,500. The note is convertible into shares of the Company's common stock at a conversion price of \$0.001 (split-adjusted \$0.10). Pursuant to the terms of the note the Company agreed to reserve for future issuance 375,000 common shares (split-adjusted).

The Company has recorded interest accrued on these Notes through March 31, 2012 and reported those amounts in its operating expenses.

NOTE 5. STOCKHOLDERS' EQUITY

The authorized capital stock of the Company is 1,000,000,000 common shares with a \$0.0006 par value and 20,000,000 preferred shares with a \$0.0001 par value. On July 28, 2011, the Company completed a reverse split of its common stock on a one-for-one hundred basis. At March 31, 2012, the Company had 8,666,105 common shares outstanding and no shares of its preferred stock issued and outstanding.

During the quarter ending March 31, 2012, the Company issued no shares of its common stock.

Stock Option Plan

The Company did not grant any options during the quarter ended March 31, 2012.

NOTE 7. INCOME TAXES

The Company is subject to domestic income taxes. Following its emergence from bankruptcy, income tax returns were filed for 2004 and 2005. Extensions have been filed for subsequent years. The Company does not anticipate that any income taxes are due for the years from 2006 through 2011 because the Company recorded losses in each year during that time.

Deferred income taxes arise from temporary timing differences in the recognition of income and expenses for financial reporting and tax purposes. The Company's deferred tax assets consist entirely of the benefit from net operating loss (NOL) carryforwards. The NOL carryforwards expire in various future years. The Company's deferred tax assets are offset by a valuation allowance due to the uncertainty of the realization of the NOL carryforwards. NOL carryforwards

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may be further limited by a change in company ownership and other provisions of the tax laws. The company is also reviewing NOL carryforwards from years prior to 2004, but has not included any valuation for those years in its current financial statements.

The Company's deferred tax assets, valuation allowance, and change in valuation allowance are as follows:

| Period Ending | Estimated NOL Carry- forward benefit | Valuation Allowance | Net Tax Benefit |
|-------------------|---|------------------------|--------------------|
| December 31, 2011 | 1,914,901 | (1,914,901) | - |

| Period Ending | Estimated NOL Carry- forward benefit | Valuation Allowance | Net Tax Benefit |
|-------------------|---|------------------------|--------------------|
| December 31, 2010 | 1,827,720 | (1,827,720) | - |

| Period Ending | Estimated NOL Carry- forward benefit | Valuation Allowance | Net Tax Benefit |
|-------------------|---|------------------------|--------------------|
| December 31, 2009 | 1,730,663 | (1,730,663) | - |