

SHARC INTERNATIONAL SYSTEMS INC.
Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2022

(Unaudited - Expressed in Canadian dollars)

SHARC INTERNATIONAL SYSTEMS INC.

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed financial statements; the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of financial information by an entity's auditor.

Management has prepared the information and representations in this interim report. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the condensed financial statements.

The company maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that relevant and reliable financial information is produced.

SHARC International Systems Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

		March 31, 2022	December 31, 2021
	Note	(unaudited)	(audited)
		\$	\$
ASSETS			
Current			
Cash		2,657,961	3,150,705
Receivables	4	1,360,487	1,355,196
Prepaid expenses		60,984	61,375
Inventory	5	1,016,467	962,362
Total current assets		5,095,899	5,529,638
Restricted cash	6	50,000	50,000
Deposits		1,200	1,200
Property and equipment	7	362,696	389,547
Total assets		5,509,795	5,970,385
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	8	702,273	460,913
Deferred revenue	9	13,078	-
Convertible debentures	10	2,599,455	1,620,254
Lease liabilities	11	102,792	103,035
Total current liabilities		3,417,598	2,184,202
Warranty provisions		66,296	61,144
Convertible debentures	10	1,896,152	3,066,400
Lease liabilities	11	175,328	201,616
Total liabilities		5,555,374	5,513,362
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	24,736,824	24,428,640
Reserves	12	3,884,147	3,855,815
Convertible debentures - equity component	10	754,394	756,941
Deficit		(29,420,944)	(28,584,373)
Total shareholders' equity (deficiency)		(45,579)	457,023
Total liabilities and shareholders' equity (deficiency)		5,509,795	5,970,385

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

Nature of Operations and Going Concern [Note 1]
Subsequent Events [Note 17]

Approved on behalf of the Board of Directors on May 24, 2022:
/s/ Lynn Mueller /s/ Eleanor Chiu
Director Director

SHARC International Systems Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Note	<u>Three Months Ended March 31,</u>	
		2022	2021
		\$	\$
Revenue		884,021	190,212
Cost of sales		(662,041)	(120,646)
Gross margin		221,980	69,566
Expenses			
Accounting and legal		51,035	20,313
Advertising and promotion		83,551	53,710
Consulting	8	88,657	140,176
Depreciation	7	35,957	36,668
Insurance		11,184	7,043
Interest and financing expense	10,11	260,794	283,389
Office and miscellaneous		23,923	18,320
Regulatory and filing fees		18,900	15,498
Rent	11	12,000	12,000
Repairs and maintenance		8,048	16,081
Research and development		7,618	19,101
Share-based payments	8,12	28,332	167,563
Telephone and utilities		25,471	20,402
Travel		28,764	12
Wages and benefits	8	361,611	111,568
Warranty expense		5,600	-
		(1,051,445)	(921,844)
		(829,465)	(852,278)
Interest income		1,983	860
Foreign exchange		(9,437)	(5,620)
Loss before income taxes		(836,919)	(857,038)
Deferred tax recovery		348	6,981
Loss and comprehensive loss for the period		(836,571)	(850,057)
Basic and diluted loss per common share		(0.01)	(0.01)
Weighted average number of common shares outstanding		101,903,226	83,278,125

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

SHARC International Systems Inc.

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

(Unaudited - Expressed in Canadian dollars)

	Common Shares		Reserves	Convertible debenture	Deficit	Total
	Number	\$	\$	\$	\$	\$
Balance, December 31, 2020	78,406,348	18,952,467	4,241,450	907,036	(25,539,385)	(1,438,432)
Common shares issued	1,500,000	450,000	-	-	-	450,000
Share issue cost	-	(61,326)	37,768	-	-	(23,558)
Stock options exercised	365,000	33,875	-	-	-	33,875
Fair value of stock options exercised	-	36,099	(36,099)	-	-	-
Warrants exercised	3,896,428	1,209,821	-	-	-	1,209,821
Fair value of warrants exercised	-	672,710	(672,710)	-	-	-
Issuance of convertible debt	-	-	9,050	9,822	-	18,872
Conversion of convertible debt	6,312,500	908,383	-	(100,850)	-	807,533
Share-based payments	-	-	167,563	-	-	167,563
Loss for the period	-	-	-	-	(850,057)	(850,057)
Balance, March 31, 2021	90,480,276	22,202,029	3,747,022	816,008	(26,389,442)	375,617
Stock options exercised	183,125	19,078	-	-	-	19,078
Fair value of stock options exercised	-	6,701	(6,701)	-	-	-
Warrants exercised	5,033,972	1,275,779	-	-	-	1,275,779
Fair value of warrants exercised	-	105,913	(105,913)	-	-	-
Issuance of convertible debt	-	-	14,923	16,632	-	31,555
Conversion of convertible debt	4,852,706	750,890	-	(75,699)	-	675,191
Shares for services	155,113	68,250	-	-	-	68,250
Share-based payments	-	-	206,484	-	-	206,484
Loss for the period	-	-	-	-	(2,194,931)	(2,194,931)
Balance, December 31, 2021	100,705,192	24,428,640	3,855,815	756,941	(28,584,373)	457,023
Warrants exercised	1,135,000	282,000	-	-	-	282,000
Fair value of warrants exercised	-	389	(389)	-	-	-
Issuance of convertible debt	-	-	389	552	-	941
Conversion of convertible debt	270,000	25,795	-	(3,099)	-	22,696
Share-based payments	-	-	28,332	-	-	28,332
Loss for the period	-	-	-	-	(836,571)	(836,571)
Balance, March 31, 2022	102,110,192	24,736,824	3,884,147	754,394	(29,420,944)	(45,579)

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

SHARC International Systems Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Three Months Ended March 31,	
	2021	2020
	\$	\$
OPERATING ACTIVITIES		
Loss for the period	(836,571)	(850,057)
Add items not affecting cash:		
Depreciation	35,957	36,668
Share-based payments	28,332	167,563
Accrued interest expense	260,794	283,389 ¹
Deferred tax recovery	(348)	(6,981)
Changes in non-cash working capital items:		
Receivables	(5,291)	(187,352)
Prepaid expenses	391	32,531
Inventory	(54,105)	(66,474)
Accounts payable and accrued liabilities	251,142	125,207 ¹
Deferred revenue	13,078	125,841
Warranty provisions	5,152	-
Cash used in operating activities	(301,469)	(339,665)
INVESTING ACTIVITIES		
Purchase of property and equipment	(18,888)	(9,815)
Cash used in investing activities	(18,888)	(9,815)
FINANCING ACTIVITIES		
Proceeds on exercise of stock options	-	33,875
Proceeds on exercise of warrants	282,000	1,209,821
Proceeds on exercise of debenture warrants	7,000	83,000
Proceeds on private placement, net of costs	-	426,442
Repayment of convertible debenture	(426,331)	(5,795)
Payment of lease liabilities	(35,056)	(39,029)
Cash provided by (used in) financing activities	(172,387)	1,708,314
Increase (decrease) in cash	(492,744)	1,358,834
Cash, beginning of period	3,150,705	3,101,267
Cash, end of the period	2,657,961	4,460,101

Supplemental disclosure with respect to cash flow (Note 15)

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

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2022
(Unaudited - Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

SHARC International Systems Inc. (the “**Company**” or “**SHARC Energy**”) 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 “**SHRC**”, Frankfurt Stock Exchange (the “**FSE**”) under the trading symbol “**IWIA**” and the OTC under the symbol “**INTWF**”. The Company is engaged in providing wastewater heat exchange expertise and products that service commercial, industrial, public utilities and residential development projects objectives of reducing their carbon footprint while saving on energy costs. The Company’s registered and records office is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, Canada, V3C 6L4.

These condensed consolidated interim financial statements (the “**Financial Statements**”) have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. As at March 31, 2022, the Company has an accumulated deficit of \$29,420,944 and positive working capital of \$1,678,301. The Company will continue to pursue opportunities to raise additional capital through equity markets and/or debt to fund its operating activities. Management anticipates it has sufficient working capital to maintain its activities for the subsequent 12 months. These Financial Statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effect on the Company’s business or ability to raise funds.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2022
(Unaudited - Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2021, which have been prepared with International Financial Reporting Standards (“IFRS”). These Financial Statements were approved by the Company’s Board of Directors on May 24, 2022.

[b] Basis of measurement and consolidation

These Financial Statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities measured at fair value.

These Financial Statements include the accounts of the Company’s subsidiaries:

Company	Location	March 31, 2022 Ownership %	December 31, 2021 Ownership %
SHARC Energy Systems Inc. (“SES”)	Canada	100	100
2336882 Ontario Inc. ⁽¹⁾	Canada	100	100
SHARC Energy (US) Systems Inc. ⁽¹⁾ (“SES US”)	USA	100	—

⁽¹⁾The subsidiary is inactive.

The Company includes assets, liabilities and operations of subsidiaries from the date of acquisition to the date of disposal.

All significant intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Certain comparative figures on the statements of loss and comprehensive loss have been reclassified to conform to the current years presentation.

[c] Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of the Company and its subsidiaries.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2022
(Unaudited - Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

The preparation of these Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Financial Statements:

- i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.
- ii. The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited - Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. Warranty provisions are recognized for the future obligations to provide services for the repairs and maintenance of products sold to its customers. The Company assesses its warranty provision based on experience. Actual costs incurred may differ from those amounts estimated.
- iii. The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market drive changes that may reduce future selling prices.
- iv. The Company has service agreements with regards to some of its product sales which requires management to make judgments regarding the timing and allocation of revenue. Specifically, installation is generally not assumed to have stand-alone value and is often recognized on the same basis as the remainder of the services fees. However, the Company defers the recognition of revenue associated with fees for services agreements or warranty costs that are built in to the original sales price and recognizes the associated revenue evenly over the term of the service.
- v. The equity component of the convertible debenture is calculated using a discounted cash flow method which requires management to make an estimate on an appropriate discount rate.

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2021.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited - Expressed in Canadian dollars)

4. RECEIVABLES

	As at March 31, 2022	As at December 31, 2021
	\$	\$
GST recoverable	13,668	74,221
Other receivables	2,653	15,415
Interest receivable	2,467	617
Trade receivables	1,341,699	1,364,943
Total	1,360,487	1,355,196

5. INVENTORY

	As at March 31, 2022	As at December 31, 2021
	\$	\$
Materials and supplies	92,853	92,853
Work-in-progress	759,912	705,807
Finished goods	163,702	163,702
Total	1,016,467	962,362

6. RESTRICTED CASH

The restricted cash balance of \$50,000 (December 31, 2021 - \$50,000) is comprised of a bank lien on funds held as collateral for the Company's corporate credit card limits.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited - Expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

	Equipment, furniture and fixtures \$	Demo units \$	Computer hardware \$	Leasehold improvements \$	Right-of-use assets \$	Total \$
Cost:						
Balance, December 31, 2020	50,776	337,547	40,545	23,541	548,680	1,001,089
Additions	72,126	-	39,061	9,181	-	120,368
Balance, December 31, 2021	122,902	337,547	79,606	32,722	548,680	1,121,457
Additions	-	-	9,106	-	-	9,106
Balance, March 31, 2022	122,902	337,547	88,712	32,722	548,680	1,130,563
Accumulated depreciation:						
Balance, December 31, 2020	35,577	322,441	31,176	19,025	166,354	574,573
Depreciation	10,252	15,106	15,895	2,739	113,345	157,337
Balance, December 31, 2021	45,829	337,547	47,071	21,764	279,699	731,910
Depreciation	3,855	-	4,750	548	26,804	35,957
Balance, March 31, 2022	49,684	337,547	51,821	22,312	306,503	767,867
Net book value:						
Balance, December 31, 2021	77,073	-	32,535	10,958	268,981	389,547
Balance, March 31, 2022	73,218	-	36,891	10,410	242,177	362,696

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited - Expressed in Canadian dollars)

8. RELATED PARTY DISCLOSURE

Transactions with related parties

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.

The Company incurred the following charges with key management personnel:

	Three months Ended March 31, 2022	Three months Ended March 31, 2021
	\$	\$
Consulting fees ^[i]	39,000	33,000
Wages and benefits ^[ii]	89,050	86,000
Share-based payments ^[iii]	21,753	134,859
	149,803	253,859

[i] The Company paid consulting fees to companies controlled by the Chief Financial Officer.

[ii] The Company paid wages and benefits to the Chief Executive Officer and Director, and the Chief Operating Officer.

[iii] Share-based payments was recognized in connection with the vesting of options granted to directors and officers of the Company in the amount of \$21,753 during the three months ended March 31, 2022 (March 31, 2021 - \$134,859).

Included in accounts payable is \$Nil (December 31, 2021 – \$5) due to related parties.

9. DEFERRED REVENUE

Deferred revenue relates to on-going projects and service agreements at year end. Revenue will be recognized on completion and sale of projects and over the length of term for the service agreements. As at March 31, 2022 the balance was \$13,078 (December 31, 2021 - \$Nil).

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2022
(Unaudited - Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES

[i] On March 8, 2019, May 9, 2019 and June 28, 2019, the Company issued three tranches of unsecured convertible debenture units with total principal amounts of \$810,000, \$1,330,000 and \$550,000 respectively. The debentures mature on March 8, 2022, May 9, 2022 and June 28, 2022, respectively, and bear interest at an annual rate of 8% due semi-annually. The debentures are convertible, in whole or in part, at the option of the holder at any time after the first anniversary of the date of issuance and prior to the maturity date into common shares of the Company at a conversion price of \$0.32 per common share.

Each debenture unit consisted of one \$1,000 principal amount unsecured convertible debenture and 1,563 share purchase warrants, each exercisable into one common share of the Company at \$0.40 per share three years from issuance.

If at any time after the first year anniversary of the closing date the closing price of the common shares of the Company is \$0.64 or greater for 20 consecutive trading days, the Company may, at its option, convert the debenture and any accrued and unpaid interest thereon into common shares by disseminating a press release, in which case the debentures shall be converted into common shares on the second business day after dissemination of such press release. The warrants will not be subject to acceleration.

Total finders' fee of \$161,400 in cash and 162 debenture warrants, with a nominal value, were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at \$1,000 per unit three years from issuance under the same terms as the units in the placement. The Company incurred legal, regulatory and other share issuance costs of \$238,117.

The convertible debentures are compound financial instruments with the equity component being the residual value after accounting for the debt component. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity component consists of the warrants and the equity conversion feature. The values attributed to each was based on the relative fair value approach.

On initial recognition, the liability components were \$2,022,861 (\$1,722,363 net of transaction costs), the warrants were \$333,569 (\$193,996 net of transaction costs and tax effect) and the residual equity components were \$333,569 (\$193,996 net of transaction costs and tax effect).

On March 8, 2022, the Company's 8% unsecured, convertible debentures of \$420,000 matured and repaid in full including interest.

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debentures for the three months ended March 31, 2022 was \$87,614, of which \$23,200 (March 31, 2021 - \$111,169, of which \$42,047) relates to accrued interest.

During the year ended December 31, 2021, \$878,000 of principal amount was converted into 2,743,750 common shares. Upon conversion, the present value of the liability of \$757,917 and the residual equity reserve value of \$59,420 was transferred to share capital.

SHARC International Systems Inc.
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(Unaudited - Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

During the year ended December 31, 2021, 49 debenture warrants issued under this financing were exercised for proceeds of \$49,000. On initial recognition, the liability component was \$45,880, the warrants were \$1,892 (\$1,381 net of transaction costs and tax effect) and the residual equity components were \$1,228 (\$896 net of transaction costs and tax effect). The \$49,000 principal was immediately converted into 153,125 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

- [ii] On December 20, 2019, the Company issued unsecured convertible debenture units with total principal amount of \$1,030,000. The debenture matures on December 20, 2022, and bears interest at an annual rate of 8% due semi-annually. The debenture is convertible, in whole or in part, at the option of the holder at any time after the first anniversary of the date of issuance and prior to the maturity date into common shares of the Company at a conversion price of \$0.10 per common share. Each debenture unit consisted of one \$1,000 principal amount unsecured convertible debenture.

Total finders' fee of \$30,000 in cash and 30 debenture warrants, with a nominal value, were incurred on the issuance. Each debenture warrant is exercisable into one debenture unit of the Company at \$1,000 per unit three years from issuance under the same terms as this units in this placement. The Company incurred legal, regulatory and other share issuance costs of \$761.

The convertible debenture is a compound financial instrument with the equity component being the residual value after accounting for the debt component. The Company valued the debt component of the debenture by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity component consists of the warrants and the equity conversion feature. The values attributed to each was based on the relative fair value approach.

During year ended December 31, 2021, 15 debenture warrants issued under this financing were exercised for proceeds of \$15,000. On initial recognition, the liability component was \$13,844 and the residual equity components were \$1,156 (\$844 net of transaction costs and tax effect). The \$15,000 principal was immediately converted into 150,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

- [iii] On February 13 and February 24, 2020, the Company issued unsecured convertible debenture units with total principal amounts of \$1,764,000 and \$276,000 respectively. The debentures mature on February 13 and February 24, 2023, respectively, and bear interest at an annual rate of 2% due semi-annually. The debentures are convertible, in whole or in part, at the option of the holder at any time after the first anniversary of the date of issuance and prior to the maturity date into common shares of the Company at a conversion price of \$0.10 per common share.

Each debenture unit consisted of one \$1,000 principal amount unsecured convertible debenture and 5,000 share purchase warrants, each exercisable into one common share of the Company at \$0.20 per share three years from issuance.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited - Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

Total finders' fees of \$102,000 in cash and 203 debenture warrants were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at \$1,000 per unit three years from issuance under the same terms as the units in the placement. The Company incurred legal, regulatory and other share issuance costs of \$12,763.

The convertible debenture is a compound financial instrument with the equity component being the residual value after accounting for the debt component. The Company valued the debt component of the debenture by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity component consists of the warrants and the equity conversion feature. The values attributed to each was based on the relative fair value approach.

On initial recognition, the liability component was \$1,268,870 (\$1,197,488 net of transaction costs), the warrants were \$385,564 (\$259,772 net of transaction costs and tax effect) and the residual equity components were \$385,564 (\$259,772 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the three months ended March 31, 2022 was \$66,083 of which \$7,754 (March 31, 2021 - \$70,187 of which \$9,592) relates to accrued interest.

During the year ended December 31, 2021, \$484,500 of principal amount was converted into 4,845,000 common shares. Upon conversion, the present value of the liability of \$348,279 and the residual equity reserve value of \$61,684 was transferred to share capital.

During the year ended December 31, 2021, 91 debenture warrants issued under this financing were exercised for proceeds of \$91,000. On initial recognition, the liability component was \$62,956, the warrants were \$13,433 (\$9,806 net of transaction costs and tax effect) and the residual equity components were \$14,611 (\$10,664 net of transaction costs and tax effect). The \$91,000 principal was immediately converted into 910,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

During the three months ended March 31, 2022, \$20,000 of principal amount was converted into 200,000 common shares. Upon conversion, the present value of the liability of \$16,985 and the residual equity reserve value of \$2,547 was transferred to share capital.

During the three months ended March 31, 2022, 7 debenture warrants issued under this financing were exercised for proceeds of \$7,000. On initial recognition, the liability component was \$5,711, the warrants were \$533 (\$389 net of transaction costs and tax effect) and the residual equity components were \$756 (\$552 net of transaction costs and tax effect). The \$7,000 principal was immediately converted into 70,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

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10. CONVERTIBLE DEBENTURES (CONTINUED)

[iv] On May 29, 2020 and June 12, 2020, the Company issued unsecured convertible debenture units with total principal amounts of \$2,000,000 and \$700,000 respectively. The debentures mature on May 29 and June 12, 2023, respectively, and bear interest at an annual rate of 2% due semi-annually. The debentures are convertible, in whole or in part, at the option of the holder at any time after the first anniversary of the date of issuance and prior to the maturity date into common shares of the Company at a conversion price of \$0.15 per common share.

Each debenture unit consisted of one \$1,000 principal amount unsecured convertible debenture and 3,333 share purchase warrants, each exercisable into one common share of the Company at \$0.25 per share three years from issuance.

Total finders' fee of \$134,475 in cash and 269 debenture warrants, with a nominal value, were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at \$1,000 per unit three years from issuance under the same terms as the units in the placement.

The convertible debenture is a compound financial instrument with the equity component being the residual value after accounting for the debt component. The Company valued the debt component of the debenture by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity component consists of the warrants and the equity conversion feature. The values attributed to each was based on the relative fair value approach.

On initial recognition, the liability component was \$1,679,650 (\$1,595,994 net of transaction costs), the warrants were \$510,175 (\$347,018 net of transaction costs and tax effect) and the residual equity components were \$510,175 (\$347,018 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the three months ended March 31, 2022 was \$98,572 of which \$12,373 (March 31, 2021 - \$90,392, of which \$13,500) relates to accrued interest.

During the year ended December 31, 2021, \$225,500 of principal amount was converted into 1,503,331 common shares. Upon conversion, the present value of the liability of \$161,607 and the residual equity reserve value of \$28,991 was transferred to share capital.

During the year ended December 31, 2021, 129 debenture warrants issued under this financing were exercised for proceeds of \$129,000. On initial recognition, the liability component was \$92,240 the warrants were \$17,514 (\$12,786 net of transaction costs and tax effect) and the residual equity components were \$19,246 (\$14,049 net of transaction costs and tax effect). The \$129,000 principal was immediately converted into 860,000 common shares (Note 13). Upon conversion, the liability and equity components were transferred to share capital.

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10. CONVERTIBLE DEBENTURES (CONTINUED)

Convertible debenture transactions and the amount of convertible debentures outstanding are summarized below:

	Note 10 i \$	Note 10 ii \$	Note 10 iii \$	Note 10 iv \$	Total \$
Cost:					
Balance, December 31, 2020	1,980,668	-	1,393,258	1,761,009	5,134,935
Principal	49,000	15,000	91,000	129,000	284,000
Equity component	(1,228)	(1,156)	(14,611)	(19,246)	(36,241)
Warrant component	(1,892)	-	(13,433)	(17,514)	(32,839)
Accretion expense	421,447	-	259,215	373,193	1,053,855
Interest payment	(148,700)	-	(33,669)	(51,963)	(234,332)
Conversion of debt	(803,797)	(13,844)	(411,236)	(253,847)	(1,482,724)
Balance, December 31, 2021	1,495,498	-	1,270,524	1,920,632	4,686,654
Principal	-	-	7,000	-	7,000
Equity component	-	-	(756)	-	(756)
Warrant component	-	-	(533)	-	(533)
Accretion expense	87,614	-	66,083	98,572	252,269
Interest payment	(6,253)	-	(78)	-	(6,331)
Principal payment	(420,000)	-	-	-	(420,000)
Conversion of debt	-	-	(22,696)	-	(22,696)
Balance, March 31, 2022	1,156,859	-	1,319,544	2,019,204	4,495,607

Of the total convertible debentures payable, the current amount is \$2,599,455 (December 31, 2021 - \$1,620,254).

Debenture warrant transactions and the number of debenture warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2020	664	1,000
Issued	(284)	1,000
Balance, December 31, 2021	380	1,000
Exercised	(7)	1,000
Balance, March 31, 2022	373	1,000

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10. CONVERTIBLE DEBENTURES (CONTINUED)

	Exercise Price \$	Number of Warrants Outstanding
May 9, 2022	1,000	80
June 28, 2022	1,000	33
December 20, 2022	1,000	15
February 13, 2023	1,000	93
February 24, 2023	1,000	12
May 29, 2023	1,000	100
June 12, 2013	1,000	40
Balance, March 31, 2022	1,000	373

Payments required over the next five years are as follows:

	May 9, 2022 \$	June 28, 2022 \$	Feb. 13, 2023 \$	Feb.24, 2023 \$	May 29, 2023 \$	June 12, 2023 \$	Total \$
2022	626,538	571,269	27,629	3,080	37,900	11,590	1,278,006
2023	-	-	1,385,714	154,828	1,911,031	585,198	4,036,771
2024	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-
	626,538	571,269	1,413,343	157,908	1,948,931	596,788	5,314,777

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11. LEASE LIABILITIES

Lease liabilities

The Company leases vehicles and office space in Canada. The lease liabilities were measured at the present value of the remaining lease payments as of January 1, 2019 and are discounted using an incremental borrowing rate of 12%.

	As at March 31, 2022 \$	As at December 31, 2021 \$
Balance, beginning of period	304,651	410,071
Interest	8,525	41,867
Lease payments	(35,056)	(147,287)
Balance, end of period	278,120	304,651
Less: non-current portion	(175,328)	(201,616)
	102,792	103,035
Undiscounted lease payments		
Not later than one year		129,231
Later than one year and not later than 5 years		190,548
March 31, 2022		319,779

The Company has elected not to apply the lease standard to short term leases with an initial term of 12 months or less but rather to recognise the lease expense on a straight line basis. For the three months ended March 31, 2022, \$12,000 of variable lease payments (March 31, 2021 - \$12,000) were included in rent expense on the statements of loss and comprehensive loss.

12. 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

The Company had the following share capital transactions during the year ended December 31, 2021:

- [i] On January 26, 2021, the Company issued 1,500,000 common shares at a price of \$0.30 for gross proceeds of \$450,000 pursuant to a non-brokered private placement. Total finders' fees of \$22,500 in cash and 150,000 compensation warrants valued at \$67,500 were incurred in the issuance. Each compensation warrant is exercisable into one common share of the Company at \$0.45 per common share for a period of two years following the date of the issuance. The Company incurred legal, regulatory and other share issuance costs of \$1,058.
- [ii] On June 8, 2021, the Company issued 155,113 common shares valued at \$68,250 pursuant to a debt settlement agreement for consulting services.

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12. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

- [ii] During the year ended December 31, 2021, the Company issued 548,125 common shares pursuant to the exercise of stock options for aggregate gross proceeds of \$52,953. The fair value of the options of \$42,800 was transferred from reserves to share capital.
- [iii] During the year ended December 31, 2021, the Company issued 8,930,400 common shares pursuant to the exercise of warrants for aggregate gross proceeds of \$2,485,600. The fair value of the warrants of \$778,623 was transferred from reserves to share capital.
- [iv] During the year ended December 31, 2021, the Company issued 9,092,081 common shares pursuant to the conversion of \$1,588,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is \$1,267,804 and the convertible debt equity portion is \$150,095 for a total value of \$1,417,899 transferred to share capital (Note 10[i] [iii] and [iv]).
- [v] During the year ended December 31, 2021, 284 debenture warrants were exercised for total proceeds of \$284,000. Upon issuance, the debentures were immediately converted into 2,073,125 common shares (Note 10[i],[ii], [iii] and [iv]).

The Company had the following share capital transactions during the three months ended March 31, 2022:

- [i] During the three months ended March 31, 2022, the Company issued 1,135,000 common shares pursuant to the exercise of warrants for aggregate gross proceeds of \$282,000. The fair value of the warrants of \$389 was transferred from reserves to share capital.
- [ii] During the three months ended March 31, 2022, the Company issued 200,000 common shares pursuant to the conversion of \$20,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is \$16,985 and the convertible debt equity portion is \$2,547 for a total value of \$19,532 transferred to share capital (Note 10[iii]).
- [iii] During the three months ended March 31, 2022, 7 debenture warrants were exercised for total proceeds of \$7,000. Upon issuance, the debentures were immediately converted into 70,000 common shares (Note 10[iii]).

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12. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number	Weighted Average \$
Balance, December 31, 2020	34,697,689	0.29
Issued	1,111,544	0.27
Exercised	(8,930,400)	(0.28)
Expired	(914,286)	(0.35)
Balance, December 31, 2021	25,964,547	0.29
Issued	35,000	0.20
Exercised	(1,135,000)	(0.25)
Expired	(3,342,617)	(0.31)
Balance, March 31, 2022	21,521,930	0.29

Date of Expiry	Exercise Price \$	Number of Warrants Outstanding
May 3, 2022 ⁽ⁱ⁾	0.40	2,078,790
May 30, 2022	0.25	103,572
June 28, 2022	0.40	859,650
June 29, 2022	0.25	465,714
December 18, 2022	0.45	1,000,100
December 23, 2022	1.00	700,000
January 26, 2023	0.45	150,000
February 13, 2023	0.20	5,945,000
February 24, 2023	0.20	1,420,000
May 29, 2023	0.25	6,565,997
June 12, 2023	0.25	2,233,107
Balance, March 31, 2022		21,521,930

⁽ⁱ⁾ 2,078,790 warrants expired on May 3, 2022 without exercise.

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12. SHARE CAPITAL (CONTINUED)

[d] Stock options

During the three months ended March 31, 2022, the Company recorded share-based payments of \$28,332 (March 31, 2021 - \$167,563).

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2020	6,538,000	0.17
Exercised	(548,125)	(0.10)
Expired	(100,000)	(1.05)
Balance, December 31, 2021 and March 31, 2022	5,889,875	0.16

Date of Expiry	Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable
October 29, 2024	0.09	333,000	333,000
January 19, 2025	0.075	2,485,000	2,485,000
February 26, 2025	0.125	950,000	950,000
March 16, 2025	0.105	200,000	200,000
July 15, 2025	0.25	700,000	233,333
December 20, 2025	0.345	1,221,875	903,125
Balance, March 31, 2022	0.16	5,889,875	5,104,458

As of March 31, 2022, the weighted average remaining life for outstanding options was 3.07 years (December 31, 2021 – 3.31 years).

[e] Restricted Share Units (“RSU”)

On August 7, 2020, the Company adopted an RSU plan for directors, officers, employees and consultants of the Company. Under the terms of the plan, each vested RSU awarded entitles the RSU holder to receive, subject to adjustment as provided for in the RSU Plan, either one common share in the Company or, at the Company’s option, an equivalent cash payment. The maximum number of RSUs granted should not exceed 10% of the issued shares of the Company aggregated with all other security-based compensation arrangements. The Company did not grant any RSU’s during the period ended March 31, 2022.

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13. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to support the development of its business and maintain the necessary corporate and administration functions to facilitate these activities. The capital of the Company consists of items included in shareholders' equity (deficiency).

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to raise new funds.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data.

The fair value of cash and restricted cash is based on Level 1 inputs. The fair value of the Company's cash, restricted cash, receivables, accounts payable and accrued liabilities and loans payable approximate their carrying values due to the short-term to maturity. The fair value of long-term liabilities are initially recorded at fair value and subsequently carried at amortized cost using rates comparable to market interest rates.

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. Receivables are primarily from sales. The Company believes these parties to be of sound creditworthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions. As at March 31, 2022 the Company is exposed to credit risk arising from receivables.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[b] Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through debt financing. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. As at March 31, 2022, the Company is not exposed to significant liquidity risk.

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at March 31, 2022 the Company is not exposed to any significant interest rate risk.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The following is the non-cash operating, investing and financing activities:

	Three months ended March 31, 2022 \$	Three months ended March 31, 2021 \$
Conversion of convertible debt into common shares	25,795	908,388
Conversion of convertible debt into shares - equity portion	2,547	—
Fair value of stock options and warrants exercised	389	708,808
Finders' warrants issued as share issuance costs	—	37,768
Issuance of convertible debt – equity component	756	13,456
Issuance of convertible debt – warrant component	533	12,397

16. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of Wastewater Energy Transfer (“WET”) Equipment. As at March 31, 2022 and December 31, 2021, all of the Company’s operations, assets and employees are in Canada.

17. SUBSEQUENT EVENTS

Subsequent to March 31, 2022:

- [a] On May 3, 2022, the Company’s 8% unsecured, convertible debentures of \$610,000 matured. Holders of \$560,000 of principal converted into 1,750,000 common shares and \$50,000 was repaid in full including interest.