

**SHARC INTERNATIONAL SYSTEMS INC.**  
**Condensed Consolidated Interim Financial Statements**

For the nine months ended September 30, 2019

(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)

	Note	September 30, 2019 (unaudited) \$	December 31, 2018 (audited) \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		3,897	1,899,657
Receivables	5	167,362	1,244,773
Prepaid expenses		32,644	100,877
Inventory	6	353,257	330,482
Assets held for sale	4	2,008,643	—
<b>Total current assets</b>		<b>2,565,803</b>	<b>3,575,789</b>
Equity investments	7	—	945
Restricted cash	8	20,000	50,000
Deposits		1,200	9,999
Property and equipment	9	93,642	2,241,792
<b>Total assets</b>		<b>2,680,645</b>	<b>5,878,525</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	1,029,258	3,687,352
Loans payable	11	638,433	872,100
Deferred revenue	12	43,208	3,933
Warranty provisions	13	—	2,272
Convertible debentures	14	2,252,664	—
Lease liability	3	23,880	—
Liabilities associated with assets held for sale	4	3,697,155	—
<b>Total current liabilities</b>		<b>7,684,598</b>	<b>4,565,657</b>
Loans payable	11	—	1,553,386
Warranty provisions	13	—	13,757
Convertible debentures	14	1,880,687	2,038,381
Lease liability	3	32,619	—
<b>Total Liabilities</b>		<b>9,597,904</b>	<b>8,171,181</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	15	13,201,868	13,201,868
Reserves	15	3,693,310	3,360,162
Currency translation reserve		272,242	(90,540)
Convertible debentures – equity component	14	320,086	125,042
Deficit		(24,404,765)	(18,889,188)
<b>Total shareholders' equity (deficiency)</b>		<b>(6,917,259)</b>	<b>(2,292,656)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>2,680,645</b>	<b>5,878,525</b>

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

Nature of Operations and Going Concern [Note 1]  
Commitments and Contingencies [Note 16]  
Subsequent Events [Note 20]

Approved on behalf of the Board:  
/s/ Lynn Mueller          /s/ Mike Harcourt  
Director                                  Director

# Sharc International Systems Inc.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended September 30, 2019 \$	Three Months Ended September 30, 2018 \$	Nine Months Ended September 30, 2019 \$	Nine Months Ended September 30, 2018 \$
<b>Revenue</b>		78,601	43,237	124,196	472,337
<b>Cost of Sales</b>		43,594	(33,103)	(59,007)	(225,121)
<b>Gross Margin</b>		<b>122,195</b>	<b>10,134</b>	<b>65,189</b>	<b>247,216</b>
<b>Expenses</b>					
Accounting and legal		45,402	(12,708)	119,173	104,288
Advertising and promotion		44,470	136,430	202,733	294,277
Consulting	10	92,500	205,991	259,465	581,447
Depreciation	9	17,766	2,353	52,941	25,069
Foreign exchange		106,617	107,748	341,238	63,040
Insurance		7,142	3,590	19,985	8,033
Office and miscellaneous		18,937	53,472	68,975	175,259
Regulatory and filing fees		18,344	9,912	46,251	34,108
Rent		19,439	19,439	58,315	58,315
Research and development		5,929	(12,618)	32,496	89,058
Share-based payments	10,15	49,283	199	216,132	105,264
Telephone and utilities		20,841	2,078	53,899	13,560
Travel		13,139	35,106	70,403	96,638
Wages and benefits	10	227,798	222,854	778,685	610,347
Warranty expense		300	18,052	7,201	18,052
		<b>(687,907)</b>	<b>(791,898)</b>	<b>(2,327,892)</b>	<b>(2,276,755)</b>
<b>Other income (expense)</b>					
Interest and financing expense	11,14	(251,311)	(110,394)	(596,501)	(345,313)
Deferred tax recovery		—	—	180,122	—
Loss from continued operations before taxes		<b>(817,023)</b>	<b>(892,158)</b>	<b>(2,679,082)</b>	<b>(2,374,852)</b>
Loss from discontinued operations	4	(2,769,358)	(175,893)	(2,914,523)	(600,539)
Loss for the period		<b>(3,586,381)</b>	<b>(1,068,051)</b>	<b>(5,593,605)</b>	<b>(2,975,391)</b>
<b>Other comprehensive income (loss)</b>					
Foreign currency translation on discontinued operations		178,556	(7,599)	362,782	(43,916)
<b>Net loss and comprehensive loss</b>		<b>(3,407,825)</b>	<b>(1,075,650)</b>	<b>(5,230,823)</b>	<b>(2,931,475)</b>
<b>Basic and diluted loss per common share</b>		<b>0.09</b>	<b>0.03</b>	<b>0.14</b>	<b>0.09</b>
<b>Weighted average number of common shares outstanding</b>					
		<b>38,720,176</b>	<b>38,697,003</b>	<b>38,720,176</b>	<b>33,468,122</b>

# Sharq International Systems Inc.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian dollars)

	Common Shares		Subscription	Reserves	Currency	Convertible	Deficit	Total
	Number	\$	Received	\$	translation	debenture	\$	\$
					reserve			
					\$	\$		\$
<b>Balance, December 31, 2017</b>	<b>28,419,258</b>	<b>9,255,241</b>	<b>309,000</b>	<b>2,594,075</b>	<b>(10,715)</b>	<b>125,042</b>	<b>(13,504,021)</b>	<b>(1,231,378)</b>
Common shares issued	9,777,745	3,911,098	(192,000)	–	–	–	–	3,719,098
Share issue costs	–	(243,110)	–	85,112	–	–	–	(157,998)
Stock option exercised	500,000	196,000	–	–	–	–	–	196,000
Fair value of stock options exercised	–	75,455	–	(75,455)	–	–	–	–
Subscriptions refunded	–	–	(117,000)	–	–	–	–	(117,000)
Share-based payments	–	–	–	105,265	–	–	–	105,265
Currency translation adjustment	–	–	–	–	43,916	–	–	43,916
Net loss for the period	–	–	–	–	–	–	(2,975,391)	(2,893,613)
<b>Balance, September 30, 2018</b>	<b>38,697,003</b>	<b>13,194,684</b>	<b>–</b>	<b>2,708,996</b>	<b>33,201</b>	<b>125,042</b>	<b>(16,479,412)</b>	<b>(417,489)</b>
Shares for debt	23,173	7,184	–	–	–	–	–	7,184
Warrants issued for loan	–	–	–	831,287	–	–	–	831,287
Share-based payments	–	–	–	331,387	–	–	–	331,387
Reversal of expired options	–	–	–	(511,309)	–	–	511,309	–
Currency translation adjustment	–	–	–	–	(123,741)	–	–	(123,741)
Net loss for the period	–	–	–	–	–	–	(2,921,085)	(3,989,136)
<b>Balance, December 31, 2018</b>	<b>38,720,176</b>	<b>13,201,868</b>	<b>–</b>	<b>3,360,162</b>	<b>(90,540)</b>	<b>125,042</b>	<b>(18,889,188)</b>	<b>(2,292,656)</b>
Issuance of convertible debt	–	–	–	195,044	–	195,044	–	390,088
Share-based payments	–	–	–	216,132	–	–	–	216,132
Reversal of expired and forfeited options	–	–	–	(78,028)	–	–	78,028	–
Currency translation adjustment	–	–	–	–	362,782	–	–	362,782
Net loss for the period	–	–	–	–	–	–	(5,593,605)	(5,593,605)
<b>Balance, September 30, 2019</b>	<b>38,720,176</b>	<b>13,201,868</b>	<b>–</b>	<b>3,693,310</b>	<b>272,242</b>	<b>320,086</b>	<b>(24,404,765)</b>	<b>(6,917,259)</b>

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)

	Note	Nine Months Ended September 30, 2019 \$	Nine Months Ended September 30, 2018 \$
<b>OPERATING ACTIVITIES</b>			
Net loss from continuing operations		(2,679,082)	(2,374,852)
Add items not affecting cash:			
Depreciation	9	52,941	25,069
Unrealized foreign exchange		341,238	44,430
Share-based payments	15[d]	216,132	105,264
Accrued interest expense	3,11,14	582,132	185,756
Deferred tax recovery		(180,122)	—
(Income) Loss from equity investment	7	—	—
Changes in non-cash working capital items:			
Receivables		112,670	(1,871)
Prepaid expenses		68,233	(196,104)
Inventory		455,956	(108,490)
Accounts payable and accrued liabilities		(98,329)	24,809
Deferred revenue		(16,029)	(199,096)
Warranty provisions		39,275	10,231
<b>Cash used in operating activities</b>		<b>(1,104,985)</b>	<b>(2,484,854)</b>
<b>INVESTING ACTIVITY</b>			
Purchase of property and equipment		(26,884)	—
Redemption of restricted cash		30,000	—
Purchase of 50% of Bandwidth Energy Limited		—	—
<b>Cash used in investing activity</b>		<b>3,116</b>	<b>—</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans payable	11	250,000	210,000
Repayment of loans payable	11	(500,000)	(210,000)
Repayment of loans receivable		—	70,490
Repayment of convertible debenture		(318,527)	—
Payment of lease liabilities	3	(20,100)	—
Proceeds on exercise of stock options	15[b]	—	196,000
Proceeds on private placement, net of costs	15[b]	—	3,561,100
Proceeds on convertible debentures, net of costs	14	2,299,338	—
Government grant received		—	—
Subscriptions refunded		—	(117,000)
Draws from equity		—	—
<b>Cash provided by financing activities</b>		<b>1,710,711</b>	<b>3,710,590</b>
<b>Increase (decrease) in cash of continuing operations</b>		<b>608,842</b>	<b>1,225,736</b>
Increase (decrease) in cash of discontinued operations	4	(2,299,805)	(1,255,731)
Cash held in assets held for sale	4	(73,169)	—
Impact of exchange rate changes on cash		(131,628)	358
Cash, beginning of the period		1,899,657	526,036
<b>Cash, end of the period</b>		<b>3,897</b>	<b>496,399</b>

Supplemental disclosure with respect to cash flow (Note 19)

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 nine months ended September 30, 2019  
(Unaudited - Expressed in Canadian dollars)

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Sharc International Systems Inc. (the “**Company**” or “**SHARC**”) 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 foreseeable future 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.

The Company has incurred losses and negative operating cash flows since its inception. As of September 30, 2019, the Company has accumulated a deficit of \$24,404,765 (December 31, 2018 - \$18,889,188) and working capital deficit of \$5,118,795 (December 31, 2018 – working capital deficit of \$989,868). 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 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.

**Sharc International Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
For the nine months ended September 30, 2019  
(Unaudited - Expressed in Canadian dollars)

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**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, 2018, which have been prepared with International Financial Reporting Standards (“IFRS”). These Financial Statements were approved by the Company’s Board of Directors on November 29, 2019.

**[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	September 30, 2019 Ownership %	December 31, 2018 Ownership %
Sharc Energy Systems Inc. (“SES”)	Canada	100	100
Sharc Energy Ltd (formerly IWWS (UK) Ltd. (“Sharc UK”))	United Kingdom	100	100
Sharc Highlands Ltd. (“Highlands”)	United Kingdom	100	—
Green Sharc Ltd. <sup>(1)</sup>	United Kingdom	100	100
Sharc Energy Services (UK) Ltd. <sup>(1)</sup>	United Kingdom	100	100
Sharc Energy Systems Australasia Pty Ltd. (“Sharc Australasia”) <sup>(1)</sup>	Australia	80	—
2336882 Ontario Inc. <sup>(1)</sup>	Canada	100	100

<sup>(1)</sup>The subsidiary was inactive at period end.

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

**[c] Presentation currency**

These Financial Statements are presented in Canadian dollars.



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

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**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. Management is required to assess the functional currency of the Company. The determination of functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.
- iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.
- v. 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.

**Sharq International Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
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**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. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.
- iii. 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.
- iv. 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.
- v. 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 standalone 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 or warranty is provided.
- vi. Revenue on development of heat supply infrastructure projects and equipment, predominantly based out of the UK, require the Company to make estimates of the percentage of completion of the project in order to determine the amount of revenue to recognize. Management uses costs and third party evidence to determine estimated progress of development as of the period end dates.

**Sharq International Systems Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
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**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, 2018, with the exception of the following:

**Adoption of new accounting policy – leases**

*Impact of application of IFRS 16 Leases*

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on January 1, 2019 for any difference identified. The Company has determined that the adoption of IFRS 16 resulted in no adjustments to the opening balance of accumulated deficit.

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases under IFRS 17 and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets.

In applying IFRS 16 for all leases, except as noted above, the Company (i) recognizes the ROU asset and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments; (ii) recognizes the depreciation of ROU assets and interest on lease liabilities in the consolidated statement of comprehensive loss; and (iii) separates the total amount of cash paid into a principal portion (presented in financing activities) and interest (presented within operating activities) in the condensed consolidated interim statement of cash flows. For short-term leases and leases of low value assets, the Company has opted to recognize a lease expense on a straight-line basis, and this expense is presented within rent in the condensed consolidated interim statement of comprehensive loss.

The Company has made use of the following practical expedients available on transition to IFRS 16:

- Measure the ROU assets equal to the lease liability calculated for each lease;
- Apply the recognition exemptions for low value leases and leases that end within 12 months of the date of initial application, and account for them as low value and short-term leases, respectively; and
- Accounting for non-lease components and lease components as a single lease component.

In transitioning to IFRS 16, the Company analyzed its contracts to identify whether they are or contain a lease arrangement. This analysis identified contracts containing a lease that had an equivalent increase to both the Company's ROU assets and lease liabilities, which resulted in a \$91,281 adjustment. The incremental borrowing rate for lease liabilities initially recognized on adoption of IFRS 16 was 12%.

The cumulative effect of the changes made to the condensed consolidated interim statement of financial position as at January 1, 2019 for the adoption of IFRS 16 is as follows:

**Sharq International Systems Inc.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Adoption of new accounting policy – leases (continued)**

*Impact of application of IFRS 16 Leases (continued)*

	As previously reported \$	Effect of change in accounting policy \$	As reported under new accounting policy \$
Property and equipment	2,241,792	91,281	2,333,073
Lease liability (current)	—	(25,209)	(25,209)
Lease liability (non-current)	—	(66,072)	(66,072)
	<b>2,241,792</b>	<b>—</b>	<b>2,241,792</b>

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

Operating lease obligations as at December 31, 2018	125,991
Short term lease	(19,514)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(15,196)
	<b>91,281</b>

*New Accounting policy for leases under IFRS 16*

The Company assesses whether a contract is or contains a lease, at the inception of a contract. The Company recognizes a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease, with the following exceptions: (i) the Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or (ii) for leases of low value. The payments for such leases are recognized in the condensed consolidated interim statement of comprehensive loss on a straight-line basis over the lease term.

The ROU asset is initially measured based on the present value of lease payments, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Adoption of new accounting policy – leases (continued)**

*New Accounting policy for leases under IFRS 16 (continued)*

ROU assets are included in property and equipment, and the lease liability is presented as a separate line in the condensed consolidated interim statement of financial position. Variable lease payments that do not depend on an index or rate are not included in the measurement of the ROU asset and lease liability. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the condensed consolidated interim statement of comprehensive loss.

*Lease liabilities*

The Company leases vehicles and office spaces in Canada and the United Kingdom. An office lease in the United Kingdom has less than 12 months of term remaining and as such is included in the condensed consolidated interim statement of comprehensive loss and not the condensed consolidated interim statement of financial position. Interest expense on the lease liabilities amounted to \$9,998 for the nine months ended September 30, 2019. The Company did not incur any variable lease payments and there were no leases with residual value guarantees or leases not yet commenced to which the Company is committed. The expense relating to the short term lease is \$28,415 (£16,785) for the nine months ended September 30, 2019 and is included in the loss for discontinued operations (Note 4).

**Lease liabilities**

Lease liabilities	<b>81,039</b>
Less: Liabilities associated with assets held for sale (Note 4)	(24,540)
Less: non-current portion	(32,619)
<b>September 30, 2019</b>	<b>23,880</b>

**Undiscounted lease payments**

Not later than one year	<b>43,897</b>
Later than one year and not later than 5 years	48,721
<b>September 30, 2019</b>	<b>92,618</b>

**Assets held for sale and discontinued operations**

*Assets held for sale*

The Company classifies assets, or disposal groups, as held for sale when it expects to recover their carrying amounts primarily through sale rather than through continuing use. To meet criteria to be held for sale, the sale must be highly probable, and the assets or disposal groups must be available for immediate sale in the present condition. The Company must be committed to a plan to sell the assets or disposal group and the sale should be expected to qualify for recognition as a complete sale within one year from the date of classification.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets held for sale and discontinued operations (continued)**

*Assets held for sale (continued)*

The Company measures assets or disposal groups at the lower of their carrying amount and fair value less costs to sell. Any impairment losses on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventory or financial assets. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss; however, gains are not recognized in excess of any cumulative impairment loss. Upon classifying asset or disposal groups as held for sale, the Company presents the assets separately as a single amount and the associated liabilities separately as a single amount on the Consolidated Statement of Financial Position. Comparative period balances are not restated. Assets held for sale are not depreciated, depleted or amortized.

*Discontinued Operations*

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. When the Company classifies an operation as a discontinued operation, it represents the comparative Consolidated Statements of Comprehensive Loss as if the operation had been discontinued from the start of the comparative year. In doing this, the Company excludes the results for the discontinued operations and any gain or loss from disposal from the consolidated statements of operations from continuing operations and presents them on a separate line as profit or loss (net of tax) from the discontinued operation. Per share information and changes to discontinued operations other consolidated comprehensive loss related to discontinued operations are presented separately from cash flows from continuing operations in the Consolidated Statements of Cash Flows.

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**4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

On September 4, 2019, Management and the Board of Directors agreed to a plan to re-strategize the business, focusing on outright equipment sales of its Sharc and Piranha units and divest its interest in the United Kingdom. The Company decided to sell Sharc UK and Highlands and began marketing the assets to third parties as part of a pre-pack administration process with some initial interest. However, nothing materialized and on October 7, 2019, the Company signed an engagement letter with a liquidator for the liquidation and wind-up of Sharc UK. The liquidator was officially appointed October 29, 2019.

Furthermore, on October 11, 2019, the Company appointed an administrator for Highlands.

Sharc UK and Highlands are available for immediate sale in its present condition and the sale of these assets is highly probable as it is the objective and goal of the liquidator and administrator to realize the best value for the assets. The administrators are currently awaiting an asset valuation from their asset valuation agents for the property and equipment associated with the Clyde Gateway Project. Management estimates that 50% of the carrying value represents the fair market value and the asset has been written down to this value.

The major classes of assets and liabilities of Sharc UK and Highlands classified as held for sale at September 30, 2019 are as follows:

	<b>September 30, 2019 \$</b>
Cash	73,169
Receivables	91,538
Property and equipment	1,843,936
Assets held for sale	<b>2,008,643</b>
Accounts payable and accrued liabilities	1,315,021
Loans payable	2,357,594
Lease liability	24,540
Liabilities associated with assets held for sale	<b>3,697,155</b>

Receivables, property and equipment, prepaid expenses and deposits and inventory was written down. Receivables was written down \$168,276 (£99,401), property and equipment was written down \$2,073,950 (£1,225,087), prepaid expenses and deposits was written down \$17,015 (£10,051) and inventory was written down \$17,613 (£10,404) for a total impairment of \$2,276,854 (£1,344,943).

Revenues and expenses, including the remeasurement stated of receivables, property and equipment, prepaid expenses and deposits and inventory, related to the discontinuation of Sharc UK and Highlands were shown as a single line item in the statement of comprehensive loss as follows:

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**4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)**

	Three Months Ended September 30, 2019 \$	Three Months Ended September 30, 2018 \$	Nine Months Ended September 30, 2019 \$	Nine Months Ended September 30, 2018 \$
<b>Revenue</b>	(9,774)	193,570	900,399	222,579
<b>Cost of Sales</b>	(118,772)	(128,003)	(616,328)	(147,383)
<b>Gross Margin</b>	<b>(128,546)</b>	<b>65,567</b>	<b>284,071</b>	<b>75,196</b>
<b>Expenses</b>				
Accounting and legal	14,988	8,183	58,380	23,989
Advertising and promotion	4,107	20,433	53,792	72,679
Consulting	47,256	12,844	138,602	80,318
Depreciation	4,168	907	14,887	2,722
Insurance	9,078	3,477	21,910	10,227
Office and miscellaneous	5,106	70,703	23,190	148,210
Rent	9,316	36,043	30,042	70,755
Research and development	1,901	12,134	42,114	55,586
Telephone and utilities	14,947	12,670	30,224	45,749
Travel	33,600	—	134,767	—
Wages and benefits	233,069	63,034	601,017	161,752
	<b>(377,536)</b>	<b>(240,428)</b>	<b>(1,148,925)</b>	<b>(671,987)</b>
<b>Other income (expense)</b>				
Gain (loss) on equity investment	17	80	(868)	80
Gain on sale of equity investment	42,323	—	42,323	—
Government grants and assistance	(4,861)	—	251,641	—
Interest and financing expense	(23,901)	(1,112)	(65,911)	(3,828)
Loss from operations	<b>(492,504)</b>	<b>(175,893)</b>	<b>(637,669)</b>	<b>(600,539)</b>
Impairment of assets	(2,276,854)	—	(2,276,854)	—
Loss on discontinued operations	<b>(2,769,358)</b>	<b>(175,893)</b>	<b>(2,914,523)</b>	<b>(600,539)</b>

The breakdown of cash flows from discontinued operations is as follows:

	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Net cash used in operating activities	(839,573)	(613,514)
Net cash used in investing activities	(2,680,698)	(641,008)
Net cash used in financing activities	1,220,466	(1,209)
Change in cash during the period	<b>(2,299,805)</b>	<b>(1,255,731)</b>



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**5. RECEIVABLES**

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
GST Recoverable (Canada)	77,517	107,407
VAT and government assistance receivable (UK)	—	577,283
Other receivables	—	215,009
Trade receivables	89,845	345,074
<b>Total</b>	<b>167,362</b>	<b>1,244,773</b>

**6. INVENTORY**

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Materials and supplies	13,168	9,536
Work-in-progress	340,089	320,946
<b>Total</b>	<b>353,257</b>	<b>330,482</b>

**7. EQUITY INVESTMENTS**

During the year ended December 31, 2015, the Company acquired a 40% interest in SHARC Caledonia Ltd (“**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 shareholder for Caledonia is Sharc UK and is considered an asset held for sale.

The Company's unrecognized share of the loss for the nine months ended September 30, 2019 was \$56,491 for a balance at September 30, 2019 of \$350,839 (December 31, 2018 - \$294,348).

As at September 30, 2019 and December 31, 2018, the equity investment was \$Nil.

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

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Current assets	55,615	130,089
Non-current assets	1,104,181	1,154,372
Current liabilities	(49,829)	(112,250)
Non-current liabilities	(1,715,127)	(1,715,538)
Revenue	122,853	142,977
<b>Total comprehensive loss</b>	<b>(141,227)</b>	<b>(199,626)</b>

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**7. EQUITY INVESTMENTS (CONTINUED)**

During the year ended December 31, 2018, the Company entered into a joint arrangement and holds a 50% interest in Bandwidth Energy Limited (“**Bandwidth**”) for £10,000 (\$17,357).

On September 17, 2019, the Company agreed to sell its 50% interest for £10,000 cash and terminated the agreement for the execution of certain works, namely the design, installation, testing and commissioning of a new sewage heat recovery system for £15,000 totalling \$42,323 (£25,000).

**8. RESTRICTED CASH**

The restricted cash balance is comprised of a bank lien on funds held as collateral for the Company’s corporate credit card limits. The Company reduced the credit card limits giving access to \$30,000 during the three and nine months ended September 30, 2019.

**9. PROPERTY AND EQUIPMENT**

	Equipment, furniture and fixtures \$	Demo units \$	Computer hardware \$	Leasehold improvements \$	Right of use asset \$	Building under construction \$	Total \$
<b>Cost:</b>							
<b>Balance, December 31, 2017</b>	<b>65,813</b>	<b>271,614</b>	<b>27,926</b>	<b>19,025</b>	—	—	<b>384,378</b>
Addition	—	31,799	—	—	—	4,822,662	4,854,461
Government grant (Note 16)	—	—	—	—	—	(2,643,350)	(2,643,350)
<b>Balance, December 31, 2018</b>	<b>65,813</b>	<b>303,413</b>	<b>27,926</b>	<b>19,025</b>	—	<b>2,179,312</b>	<b>2,595,489</b>
Addition	9,050	26,883	—	—	125,479	2,016,798	2,178,210
Government grant (Note 16)	—	—	—	—	—	(285,117)	(285,117)
Disposition	—	—	—	—	(20,867)	—	(20,867)
Foreign currency translation	(1,026)	—	—	—	(982)	(112,501)	(114,509)
Reclass to assets held for sale (Note 4)	(27,757)	—	—	—	(33,999)	(3,798,492)	(3,860,248)
<b>Balance, September 30, 2019</b>	<b>46,080</b>	<b>330,296</b>	<b>27,926</b>	<b>19,025</b>	<b>69,631</b>	—	<b>492,858</b>
<b>Accumulated depreciation:</b>							
<b>Balance, December 31, 2017</b>	<b>26,479</b>	<b>235,600</b>	<b>25,498</b>	<b>13,083</b>	—	—	<b>300,660</b>
Depreciation	7,907	39,989	1,336	3,805	—	—	53,037
<b>Balance, December 31, 2018</b>	<b>34,386</b>	<b>275,589</b>	<b>26,834</b>	<b>16,888</b>	—	—	<b>353,697</b>
Depreciation	7,679	30,948	451	2,137	26,613	—	67,828
Disposition	—	—	—	—	(2,256)	—	(2,256)
Foreign currency translation	—	—	—	—	136	—	136
Reclass to assets held for sale (Note 4)	(10,528)	—	—	—	(9,561)	—	(20,089)
<b>Balance, September 30, 2019</b>	<b>31,537</b>	<b>306,537</b>	<b>27,285</b>	<b>19,025</b>	<b>14,932</b>	—	<b>399,316</b>
<b>Net book value:</b>							
As of December 31, 2018	31,427	27,824	1,092	2,137	—	2,179,312	2,241,792
<b>As of September 30, 2019</b>	<b>14,543</b>	<b>23,759</b>	<b>641</b>	—	<b>54,699</b>	—	<b>93,642</b>

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**10. RELATED PARTY DISCLOSURE**

**[a] 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:

	<b>Three Months Ended September 30, 2019 \$</b>	<b>Three Months Ended September 30, 2018 \$</b>	<b>Nine Months Ended September 30, 2019 \$</b>	<b>Nine Months Ended September 30, 2018 \$</b>
Consulting fees <sup>[i]</sup>	27,000	20,000	61,000	61,936
Wages and benefits <sup>[ii]</sup>	123,154	94,127	454,580	287,880
Share-based payments <sup>[iii]</sup>	27,607	—	123,792	—
Inventory/cost of sales/research and development <sup>[iv]</sup>	14,235	1,810	166,994	26,458
	<b>191,996</b>	<b>115,937</b>	<b>806,366</b>	<b>376,274</b>

- [i] The Company paid consulting fees to companies controlled by the current and former Chief Financial Officer, Chief Operating Officer and a Director of Sharc UK.
- [ii] The Company paid wages and benefits to the Chief Executive Officer and Director, a Director, the Chief Operating Officer and Senior Vice President of Finance.
- [iii] Share-based payments was recognized in connection with the vesting of options granted to directors and officers of the Company.
- [iv] The Company paid consulting fees to companies controlled by the Chief Operating Officer and a Director of Sharc UK that were capitalized to inventory costs and expensed to cost of sales or research and development expense .

Included in accounts payable is \$660,826 (December 31, 2018 – \$252,025) due to related parties.

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**11. LOANS PAYABLE**

- [i] During the year ended December 31, 2015 Sharc UK 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 Sharc UK. During the nine months ended September 30, 2019, the Company made payments totaling \$17,141 (£10,125), of which \$2,048 (£1,210) related to interest and \$15,092 (£8,915), related to principal. The balance of the loan as at September 30, 2019 is \$14,031 (£8,613) and was reclassified to Liabilities associated with assets held for sale (Note 4). Subsequent to quarter end, this was repaid in full.
  
- [ii] In February 2018, the Company received a \$150,000 loan from a third-party lender. The loan was unsecured, bore interest at 12%. The loan was repaid in May 2018 for \$154,500.
  
- [iii] In March 2018, the Company received a \$60,000 loan from a company controlled by the former Chief Financial Officer. The loan was unsecured, non-interest bearing and was repaid in May 2018.
  
- [iv] In March 2018, Highlands received a £1,000,000 loan facility from a third party lender. This facility is to be used to finance eligible costs incurred in connection with the Clyde Gateway Project. The loan is guaranteed by Sharc UK, bears interest at 3.5%, and is repayable in monthly payments of £7,160 (or pro-rata depending on how much is drawn down) for 180 consecutive payments beginning 4 months from initial draw down. As of September 30, 2019, the facility is fully drawn (December 31, 2018 - \$930,556 (£533,606)). The Company has made pro-rata payments of \$80,462 (£47,529), \$32,763 (£19,353) related to interest and \$47,699 (£28,176), related to principal. The balance of the loan as at September 30, 2019 is \$1,583,101 (£971,824) and it was reclassified to Liabilities associated with assets held for sale (Note 4).
  
- [v] In June 2018, Highlands received a £450,000 loan facility from a third party lender. This facility is to be used to pay costs incurred in connection with the Clyde Gateway Project. The loan provides the lender a bond and floating charge on Highlands, bears interest at 4.73% and interest is capitalized and added to the term loan to be repaid on June 25, 2024 or at such other times and in such amounts as the the Company and the lender may agree. As of September 30, 2019, the facility had \$733,050 (£450,000) (December 31, 2018 - \$610,365 (£350,000)) drawn. The loan has capitalized interest of \$28,486 (£16,827) bringing the balance of the loan to \$760,461 (£466,827). This loan was reclassified to Liabilities associated with assets held for sale (Note 4).
  
- [vi] In November 2018, the Company received a \$150,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 12% and was repayable on January 13, 2019. The loan repayment date was extended for 270 days to September 13, 2019. The loan was repaid in May 2019 for \$158,926 including interest.

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**11. LOANS PAYABLE (CONTINUED)**

- [vii] In November 2018, the Company received aggregate loan proceeds of \$1,300,000 from third-party lenders. Of the \$1,300,000, \$600,000 was guaranteed by the CEO and the remaining \$700,000 was unsecured. The full \$1,300,000 bears interest at 18% and is subject to a finance fee of 5% of the amount advanced. The third-party lenders received an aggregate of 3,714,286 common share purchase warrants exercisable at \$0.35 for a period of three years, expiring November 22, 2021. The fair value of the share purchase warrants was \$831,287 estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 102.93% which is based on historical volatility, risk-free rate of return of 2.2% and an expected maturity of 3 years. The warrants have been recorded as a financing expenses. The loan was repaid on December 19, 2019.
- [viii] In December 2018, the Company received a \$490,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate rises to 9%. During the nine months ended September 30, 2019, \$140,000 of the loan plus accrued interest of \$2,071 was repaid by March 13, 2019. The balance of the loan as at September 30, 2019 is \$375,200, including accrued interest of \$25,200.
- [ix] In December 2018, the Company received a \$210,000 loan from a third-party lender. The loan was guaranteed by the CEO, bore interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate rises to 9%. The loan was repaid by March 13, 2019.
- [x] In December 2018, the Company received a \$210,000 loan from a third-party lender. The loan was guaranteed by the CEO, bore interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate rises to 9%. The loan was repaid by March 13, 2019.
- [xi] In April 2019, the Company received a \$150,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 12% and is repayable on July 24, 2019. Subsequent to September 30, 2019, the loan balance remains outstanding.
- [xi] In July 2019, the Company received a \$100,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 24% and is repayable on October 5, 2019. Subsequent to September 30, 2019, the \$54,000 of principal and interest were repaid and the remaining loan balance remains outstanding.

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**11. LOANS PAYABLE (CONTINUED)**

	As at September 30, 2019 \$	As at December 31, 2018 \$
<b>Balance, beginning of year</b>	<b>2,425,486</b>	<b>47,917</b>
Proceeds from loans	1,208,848	3,900,921
Repayment of loans	(611,707)	(1,619,523)
Interest expense	111,834	94,968
Foreign exchange	(138,434)	1,203
<b>Balance, end of year</b>	<b>2,996,027</b>	<b>2,425,486</b>
Less: reclass of liabilities associated with assets held for sale (Note 4)	(2,357,594)	—
Less: non-current portion	—	(1,553,386)
	<b>638,433</b>	<b>872,100</b>

**12. DEFERRED REVENUE**

Deferred revenue relates to on-going projects and service agreements at period end. Revenue will be recognized on a completion and sale of the projects and over the length of term for the service agreements.

**13. WARRANTY PROVISIONS**

	As at September 30, 2019 \$	As at December 31, 2018 \$
<b>Balance, beginning of year</b>	<b>16,029</b>	<b>18,926</b>
Warranty provisions recognized	—	18,052
Warranty provisions derecognized	(2,272)	(10,049)
Warranty expenses incurred	(13,757)	(10,900)
<b>Balance, end of year</b>	<b>—</b>	<b>16,029</b>
Less: non-current portion	—	(13,757)
	<b>—</b>	<b>2,272</b>

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**14. CONVERTIBLE DEBENTURES**

- [i] On May 30, 2017 and June 29, 2017, the Company issued two tranches of senior unsecured convertible debenture units with total principal amounts of \$1,320,000 and \$1,023,000, respectively. The debentures mature on May 30, 2020 and June 29, 2020, respectively, and bear interest at an annual rate of 12% due semi-annually. The debentures are convertible, in whole or in part, at the option of the holder at any time prior to the maturity date into common shares of the Company at a conversion price of \$1.05 per common share.

Each debenture unit consisted of one \$1,000 principal amount senior unsecured convertible debenture and 714 share purchase warrants, each exercisable into one common share of the Company at \$1.05 per share three years from issuance.

The Company may abridge the exercise period of the warrants at any time after the date that is four months after the closing date, by providing written notice to the warrant holders within 30 days, in the event that the volume weighted average closing price of the Company's common shares is greater than \$2.10 per common share for twenty consecutive trading days. The warrants will, unless exercised, expire on the 30th day after the Company provides such written notice to the warrant holders.

Total finders' fees of \$157,010 in cash and 110,900 finders' warrants were incurred on the issuances. Each finders' warrant is exercisable into one common share of the Company at \$1.40 per share two years from issuance. The fair value of \$35,815 was assigned to the 110,900 finders' warrants using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 102.68% which is based on historical volatility, risk-free rate of return of 0.85% and an expected maturity of 2 years.

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 \$1,962,798 (\$1,801,419 net of transaction costs), the warrants were \$190,101 (\$125,042 net of transaction costs and tax effect) and the residual equity components were \$190,101 (\$125,042 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the three and nine months ended September 30, 2019 was \$120,586 and \$353,706 (2018 - \$110,451 and \$325,181).

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**14. CONVERTIBLE DEBENTURES (CONTINUED)**

[ii] On March 8, 2019, May 9, 2019 and June 28, 2019, the Company issued 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 compensation warrants were incurred on the issuances. Each compensation 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 \$229,262.

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 \$2,022,882 (\$1,729,127 net of transaction costs), the warrants were \$333,559 (\$285,105 net of transaction costs and tax effect) and the residual equity components were \$333,559 (\$285,105 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the three and nine months ended September 30, 2019 was \$111,039 and \$188,928.



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**15. 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**

- [i] On May 11, 2018, the Company closed the first tranche of a non-brokered private placement raising gross proceeds of \$2,332,598 from the issuance and sale of 5,831,495 units at a price of \$0.40 per unit. \$309,000 of subscriptions were received prior to December 31, 2017. \$192,000 was included in this tranche. The remaining \$117,000 was refunded at the request of subscribers. Each unit consists of 1 common share and 1 share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.60 for a period of 24 months from the closing date of the private placement. In the event that the Company's common shares trade at a closing price on the CSE of greater than \$1.00 per share for a period of 10 consecutive trading days at any time after the closing date, the Company may accelerate the expiry date of the common share purchase warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date hereafter.

In connection with the private placement, the Company paid finder's fees of \$64,238 and issued 133,000 finder's warrants. Each warrant has the same terms as the share purchase warrants issued under the private placement. The fair value of \$30,840 was assigned to the 133,000 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 109.70% which is based on historical volatility, risk-free rate of return of 1.93% and an expected maturity of 2 years.

- [ii] On June 7, 2018, the Company closed the second tranche of a non-brokered private placement raising gross proceeds of \$1,578,500 from the issuance and sale of 3,946,250 units at a price of \$0.40 per unit. Each unit consists of 1 common share and 1 share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.60 for a period of 24 months from the closing date of the private placement. In the event that the Company's common shares trade at a closing price on the CSE of greater than \$1.00 per share for a period of 10 consecutive trading days at any time after the closing date, the Company may accelerate the expiry date of the common share purchase warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date hereafter.

In connection with the private placement, the Company paid finder's fees of \$93,760 and issued 234,400 finder's warrants. Each warrant has the same terms as the share purchase warrants issued under the private placement. The fair value of \$54,272 was assigned to the 234,400 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 107.85% which is based on historical volatility, risk-free rate of return of 1.90% and an expected maturity of 2 years.

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**15. SHARE CAPITAL (CONTINUED)**

**[b] Common shares (continued)**

[iii] On December 19, 2018 the Company issued 23,173 common shares to settle outstanding debt of \$8,000. The fair value of \$7,184 was assigned to the common shares based on the common share price on the date of issuance. As a result, the Company recognized a gain on debt settlement of \$816 on the consolidated statement of loss and comprehensive loss.

[iv] During the year ended December 31, 2018, the Company issued 500,000 common shares pursuant to the exercise of stock options for aggregate gross proceeds of \$196,000. The fair value of the options of \$75,455 was transferred from reserves to share capital.

**[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 Exercise Price \$
<b>Balance, December 31, 2017</b>	<b>4,227,491</b>	<b>1.22</b>
Issued	13,859,431	0.53
Expired	(877,131)	(1.25)
<b>Balance, December 31, 2018</b>	<b>17,209,791</b>	<b>0.67</b>
Issued	4,204,470	0.40
Expired	(1,676,789)	(1.38)
<b>Balance, September 30, 2019</b>	<b>19,737,472</b>	<b>0.55</b>

Date of Expiry	Exercise Price \$	Number of Warrants Outstanding
May 11, 2020	0.60	5,964,495
May 30, 2020	1.05	942,857
June 7, 2020	0.60	4,180,650
June 29, 2020	1.05	730,714
November 22, 2021	0.35	3,714,286
March 7, 2022	0.40	1,266,030
May 3, 2022	0.40	2,078,790
June 28, 2022	0.40	859,650
<b>Balance, September 30, 2019</b>	<b>0.55</b>	<b>19,737,472</b>

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**15. SHARE CAPITAL (CONTINUED)**

**[d] Stock options**

During the three and nine months ended September 30, 2019 and 2018, the Company recorded share-based payments of \$49,283 and \$216,132 (2018 - \$199 and \$105,264), respectively. During the nine months ended September 30, 2019, the Company recorded a reversal of reserves of expired and forfeited options of \$78,028 (2018 - \$Nil). The fair values of share options granted during the nine months ended September 30, 2019 and 2018 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<b>2019</b>	<b>2018</b>
Risk-free interest rate	1.65%	1.80%
Estimated annualized volatility	74.632%	119.79%
Expected life	0.92 years	1 year
Expected dividend yield	0%	0%
Exercise price	\$0.26	\$0.41
Fair value per option	\$0.1814	\$0.1814
Share price	\$0.07	\$0.40

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

	<b>Number</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance, December 31, 2017</b>	<b>2,642,858</b>	<b>0.58</b>
Issued	3,239,000	0.38
Exercised	(500,000)	(0.39)
Expiry	(2,200,000)	(0.52)
<b>Balance, December 31, 2018</b>	<b>3,181,858</b>	<b>0.45</b>
Issued	800,000	0.26
Expiry	(635,000)	(0.42)
<b>Balance, September 30, 2019</b>	<b>3,346,858</b>	<b>0.42</b>

<b>Date of Expiry</b>	<b>Exercise Price \$</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>
December 18, 2019	0.28	800,000	800,000
December 18, 2019	0.26	500,000	500,000
October, 27, 2020	1.47	142,858	142,858
July 12, 2021	1.05	100,000	100,000
September 4, 2021	0.47	400,000	400,000
October 1, 2021	0.40	1,304,000	434,666
May 6, 2022	0.26	100,000	33,333
<b>Balance, September 30, 2019</b>	<b>0.42</b>	<b>3,346,858</b>	<b>2,410,857</b>

As of September 30, 2019, the weighted average remaining life for outstanding options was 1.27 years (December 31, 2018 – 2.05 years).

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**16. COMMITMENTS AND CONTINGENCIES**

**[a] Government Grants from the Energy Deployment Division of the Scottish Government**

During the year ended December 31, 2018, in connection with two wastewater heat recovery demonstration projects Sharc UK received \$43,911 (year ended December 31, 2017 - \$295,590), in aggregate \$339,501 in government grants from the Energy Deployment Division of the Scottish government. The funds received to date have been offset against the related expenses associated with the project. Per the underlying funding agreements, the parties jointly forecasted the expected revenue that would be generated from the projects for the first five years after completion. Under the terms of the grant, should the projects actual revenue exceed 10% or more of the forecasted revenue, the Scottish government reserves the right to require the Company to repay part of the grant.

**[b] Low Carbon Infrastructure Transition Programme (“LCITP”) Grant for Clyde Gateway**

The Company has received grant funding of £1,684,188 for 50% of eligible capital costs associated with the Clyde Gateway Project. As of September 30, 2019, \$2,928,467 (Note 9) (£1,684,188) has been received. Per the underlying funding agreements, the parties jointly forecasted the expected revenue that would be generated from the projects for the first five years after completion. Under the terms of the grant, should the projects actual revenue exceed 10% or more of the forecasted revenue, the Scottish government reserves the right to require the Company to repay part of the grant.

**17. 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.

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.

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**18. 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 is based on Level 1 inputs. The fair value of the Company's receivables, loans receivable, accounts payable and accrued liabilities, loans payable and convertible debentures 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 or loans. 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 September 30, 2019 and December 31, 2018, the Company is exposed to credit risk arising from receivables.

**[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.

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**18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**[c] Market risk (continued)**

[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 September 30, 2019 the Company is not exposed to any significant interest rate risk.

[ii] Currency risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at September 30, 2019, the Company has exposure to the British pound that is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made and balances are held in this currency. The Company has not hedged its exposure to currency fluctuations. The sensitivity of the Company's net loss to changes in the exchange rate between the Canadian dollar and the British pound resulting from a 10% change in the British pound exchange rate relative to the Canadian dollar would change the Company's net loss by approximately \$5,000 (December 31, 2018 - \$6,527)

**19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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

	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Right of Use asset recognized upon accounting policy change	104,249	—
Additions to property and equipment in accounts payable and accrued liabilities	851,236	—
Reversal of share-based payment	78,028	—
Issuance of convertible debt – equity component	285,105	—
Issuance of convertible debt – warrant component	285,105	—
Inventory transferred to accounts payable	60,953	—
Fair value of stock options exercised	—	75,455
Finders' warrants issued as share issuance costs	—	85,112

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**20. SUBSEQUENT EVENTS**

- [a] Subsequent to September 30, 2019, the Company had 142,858 stock options expire unexercised and 2,634,000 stock options cancelled. The Company granted 408,000 stock options expiring in 5 years from issuance with an exercise price of \$0.09.
  
- [b] Subsequent to September 30, 2019, the Company received \$530,000 in subscription proceeds.