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**SHARC INTERNATIONAL SYSTEMS INC.  
(FORMERLY INTERNATIONAL WASTEWATER  
SYSTEMS INC.)  
CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS  
THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2017  
(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

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**Notice To Reader**

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

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

|   | As at<br>September 30,<br>2017 | As at<br>December 31,<br>2016 |
|---|--------------------------------|-------------------------------|
| <b>ASSETS</b>                                     |                                |                               |
| <b>Current assets</b>                             |                                |                               |
| Cash  | \$ 1,225,942                   | \$ 373,430                    |
| Receivables (note 3)                              | 329,610                        | 268,146                       |
| Prepaid expenses                                  | 71,478                         | 61,940                        |
| Inventory (note 4)                                | 758,006                        | 452,674                       |
| Loans receivable (note 14)                        | 73,875                         | 73,967                        |
| <b>Total current assets</b>                       | <b>2,458,911</b>               | <b>1,230,157</b>              |
| <b>Non-current assets</b>                         |                                |                               |
| Deposits  | 1,200                          | 1,200                         |
| Equipment (note 6)                                | 32,459                         | 41,876                        |
| <b>Total assets</b>                               | <b>\$ 2,492,570</b>            | <b>\$ 1,273,233</b>           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                                |                               |
| <b>Current liabilities</b>                        |                                |                               |
| Accounts payable and accrued liabilities          | \$ 582,363                     | \$ 499,444                    |
| Loans payable (note 7)                            | 17,319                         | 222,008                       |
| Deferred revenue (note 9)                         | 44,912                         | 20,400                        |
| Warranty provisions (note 10)                     | 151,770                        | 151,391                       |
| <b>Total current liabilities</b>                  | <b>796,364</b>                 | <b>893,243</b>                |
| <b>Non-current liabilities</b>                    |                                |                               |
| Warranty provisions (note 10)                     | 20,104                         | 17,979                        |
| Loans payable (note 7)                            | 33,977                         | 45,394                        |
| Convertible debentures (note 8)                   | 1,312,575                      | -                             |
| Deferred tax liability                            | 272,495                        | -                             |
|   | <b>2,435,515</b>               | <b>956,616</b>                |
| <b>Shareholders' equity</b>                       |                                |                               |
| Share capital (note 11)                           | 8,837,937                      | 7,876,677                     |
| Reserves (note 12)                                | 3,694,494                      | 2,183,696                     |
| Currency translation reserve                      | 16,656                         | 36,934                        |
| Convertible debentures (note 8)                   | 182,271                        | -                             |
| Deficit   | (12,674,303)                   | (9,780,690)                   |
| <b>Total shareholders' equity</b>                 | <b>57,055</b>                  | <b>316,617</b>                |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 2,492,570</b>            | <b>\$ 1,273,233</b>           |

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

Nature and continuance of operations (note 1)  
Subsequent events (note 17)

Commitment (note 15)

**Approved on behalf of the Board:**

"Lynn Mueller", Director

"Mark McCooley", Director

# Sharc International Systems Inc.

(Formerly International Wastewater Systems Inc.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

|   | Three months<br>ended<br>September 30,<br>2017 | Three months<br>ended<br>September 30,<br>2016 | Nine months<br>ended<br>September 30,<br>2017 | Nine months<br>ended<br>September 30,<br>2016 |
|---|--|--|---|---|
| <b>Revenues</b>   | \$ 174,537                                     | \$ 59,202                                      | \$ 381,924                                    | \$ 1,009,453                                  |
| <b>Cost of sales</b>  | (46,113)                                       | (37,962)                                       | (412,148)                                     | (885,786)                                     |
| <b>Gross margin</b>   | <b>128,424</b>                                 | <b>21,240</b>                                  | <b>(30,224)</b>                               | <b>123,667</b>                                |
| <b>Expenses</b>   |  |  |   |   |
| Accounting and legal (note 14)                                    | 21,461   | 25,602   | 88,247  | 112,907                                       |
| Advertising and promotion   | 85,628   | 8,274  | 198,096                                       | 69,303  |
| Consulting (note 14)  | 144,788  | 162,322  | 480,293                                       | 478,625                                       |
| Depreciation (note 6)   | 48,157   | 22,331   | 54,435  | 70,898  |
| Foreign exchange  | 3,799  | (1,472)  | 21,108  | (19,155)                                      |
| Insurance   | 6,766  | 7,193  | 15,115  | 26,027  |
| Office and miscellaneous  | 96,080   | 48,724   | 262,569                                       | 166,989                                       |
| Regulatory and filing fees  | 7,740  | 6,285  | 23,730  | 14,379  |
| Rent (note 14)  | 34,021   | 26,464   | 95,850  | 76,703  |
| Repairs and maintenance   | 2,833  | 153  | 14,048  | 2,468   |
| Research and development  | 232,487  | -  | 315,752                                       | -   |
| Share-based payments (notes 12, 14)                               | (162,233)                                      | 273,649  | 206,440                                       | 93,506  |
| Telephone and utilities   | 13,719   | 14,682   | 35,086  | 31,493  |
| Trademarks  | -  | -  | -   | 4,422   |
| Travel  | 15,567   | 19,888   | 74,449  | 74,317  |
| Wages and benefits (note 14)                                      | 193,897  | 263,177  | 808,359                                       | 756,243                                       |
| Warranty expense (note 10)  | -  | 8,186  | 18,171  | 59,281  |
|   | <b>(744,710)</b>                               | <b>(885,458)</b>                               | <b>(2,711,748)</b>                            | <b>(2,018,406)</b>                            |
| Government grant  | -  | (3,653)  | -   | 103,249                                       |
| Interest and financing expense                                    | (105,226)                                      | (34,562)                                       | (144,641)                                     | (189,191)                                     |
| Loss on debt settlement (note 11)                                 | -  | -  | (7,000)                                       | -   |
| <b>Loss for the period</b>  | <b>\$ (721,512)</b>                            | <b>\$ (902,433)</b>                            | <b>\$ (2,893,613)</b>                         | <b>\$ (1,980,681)</b>                         |
| <b>Other comprehensive income (loss)</b>                          |  |  |   |   |
| <b>Items that will not be reclassified subsequently to income</b> |  |  |   |   |
| Foreign currency translation                                      | \$ (18,929)                                    | \$ (5,426)                                     | \$ (20,278)                                   | \$ 27,339                                     |
| <b>Total comprehensive loss for the period</b>                    | <b>\$ (740,441)</b>                            | <b>\$ (907,859)</b>                            | <b>\$ (2,913,891)</b>                         | <b>\$ (1,953,342)</b>                         |
| <b>Basic loss per share</b>                                       | <b>\$ (0.03)</b>                               | <b>\$ (0.04)</b>                               | <b>\$ (0.11)</b>                              | <b>\$ (0.08)</b>                              |
| <b>Diluted loss per share</b>                                     | <b>\$ (0.03)</b>                               | <b>\$ (0.04)</b>                               | <b>\$ (0.11)</b>                              | <b>\$ (0.08)</b>                              |
| <b>Weighted average number of common shares outstanding:</b>      |  |  |   |   |
| Basic   | 28,310,016                                     | 24,037,950                                     | 27,739,761                                    | 23,427,070                                    |
| Diluted   | 28,310,016                                     | 24,037,950                                     | 27,739,761                                    | 23,427,070                                    |

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

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

|  | Nine months<br>ended<br>September 30,<br>2017 | Nine months<br>ended<br>September 30,<br>2016 |
|--|---|---|
| <b>Operating activities</b>                      |   |   |
| Loss for the period                              | \$ (2,893,613)                                | \$ (1,980,681)                                |
| Adjustments for:                                 |   |   |
| Depreciation                                     | 9,418   | 70,898  |
| Unrealized foreign exchange                      | (17,635)                                      | (11,271)                                      |
| Share-based payments                             | 206,440                                       | 93,506  |
| Accrued interest expense                         | 130,177                                       | 189,370                                       |
| Shares for services                              | 42,438  | -   |
| Loss on debt settlement                          | 7,000   | -   |
| Changes in non-cash working capital items:       |   |   |
| Receivables                                      | (61,204)                                      | 184,892                                       |
| Prepaid expenses                                 | (9,500)                                       | (71,750)                                      |
| Inventory  | (304,983)                                     | 229,149                                       |
| Accounts payable and accrued liabilities         | 186,292                                       | 44,205  |
| Deferred revenue                                 | 24,512  | (253,424)                                     |
| Warranty provisions                              | 1,463   | 41,483  |
| <b>Net cash used in operating activities</b>     | <b>(2,679,195)</b>                            | <b>(1,463,623)</b>                            |
| <b>Investing activities</b>                      |   |   |
| Deposits   | -   | 5,483   |
| <b>Net cash provided by investing activities</b> | <b>-</b>                                      | <b>5,483</b>                                  |
| <b>Financing activities</b>                      |   |   |
| Proceeds from loans payable                      | -   | 608,968                                       |
| Repayment of loans payable                       | (223,573)                                     | (708,685)                                     |
| Funds advanced from related party                | -   | 11,048  |
| Repayment of loans receivable                    | 1,042   | 43,455  |
| Proceeds on exercise of stock options            | 18,750  | 18,750  |
| Proceeds on exercise of warrants                 | 148,820                                       | 69,180  |
| Proceeds on private placement, net of costs      | 1,400,675                                     | 1,475,238                                     |
| Proceeds on convertible debentures, net of costs | 2,186,170                                     | -   |
| <b>Net cash provided by financing activities</b> | <b>3,531,884</b>                              | <b>1,517,954</b>                              |
| <b>Net change in cash</b>                        | <b>852,689</b>                                | <b>59,814</b>                                 |
| <b>Impact of exchange rate changes on cash</b>   | <b>(177)</b>                                  | <b>1,394</b>                                  |
| <b>Cash, beginning of period</b>                 | <b>373,430</b>                                | <b>367,812</b>                                |
| <b>Cash, end of period</b>                       | <b>\$ 1,225,942</b>                           | <b>\$ 429,020</b>                             |

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

## Sharc International Systems Inc.

(Formerly International Wastewater Systems Inc.)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

Unaudited

|   | Number of<br>shares | Share<br>capital    | Reserves            | Currency<br>translation<br>reserve | Convertible<br>debenture | Deficit                | Total             |
|---|---------------------|---------------------|---------------------|------------------------------------|--------------------------|------------------------|-------------------|
| <b>Balance, December 31, 2015</b>           | <b>23,105,717</b>   | <b>\$ 5,421,804</b> | <b>\$ 551,753</b>   | <b>\$ (15,782)</b>                 | <b>\$ -</b>              | <b>\$ (5,335,741)</b>  | <b>\$ 622,034</b> |
| Common shares issued                        | 2,285,715           | 1,600,000           | -                   | -                                  | -                        | -                      | 1,600,000         |
| Share issue costs                           | -                   | (250,235)           | 125,473             | -                                  | -                        | -                      | (124,762)         |
| Warrants exercised                          | 110,572             | 69,180              | -                   | -                                  | -                        | -                      | 69,180            |
| Fair value of warrants exercised            | -                   | 55,900              | (55,900)            | -                                  | -                        | -                      | -                 |
| Stock options exercised                     | 35,714              | 18,750              | -                   | -                                  | -                        | -                      | 18,750            |
| Fair value of stock options exercised       | -                   | 30,203              | (30,203)            | -                                  | -                        | -                      | -                 |
| Stock options expired                       | -                   | -                   | (30,203)            | -                                  | -                        | 30,203                 | -                 |
| Warrants issued to acquire loan             | -                   | -                   | 111,800             | -                                  | -                        | -                      | 111,800           |
| Share-based payments                        | -                   | -                   | 93,506              | -                                  | -                        | -                      | 93,506            |
| Currency translation adjustment             | -                   | -                   | -                   | 27,339                             | -                        | -                      | 27,339            |
| Loss for the period                         | -                   | -                   | -                   | -                                  | -                        | (1,980,681)            | (1,980,681)       |
| <b>Balance, September 30, 2016</b>          | <b>25,537,718</b>   | <b>\$ 6,945,602</b> | <b>\$ 766,226</b>   | <b>\$ 11,557</b>                   | <b>\$ -</b>              | <b>\$ (7,286,219)</b>  | <b>\$ 437,166</b> |
| <b>Balance, December 31, 2016</b>           | <b>26,379,302</b>   | <b>\$ 7,876,677</b> | <b>\$ 2,183,696</b> | <b>\$ 36,934</b>                   | <b>\$ -</b>              | <b>\$ (9,780,690)</b>  | <b>\$ 316,617</b> |
| Convertible debentures, net of deferred tax | -                   | -                   | 542,935             | -                                  | 182,271                  | -                      | 725,206           |
| Private placement                           | 1,450,528           | 1,523,055           | -                   | -                                  | -                        | -                      | 1,523,055         |
| Warrant valuation, net of deferred tax      | -                   | (800,997)           | 800,997             | -                                  | -                        | -                      | -                 |
| Share issue costs                           | -                   | (174,960)           | 52,580              | -                                  | -                        | -                      | (122,380)         |
| Shares issued for debt                      | 100,000             | 112,000             | -                   | -                                  | -                        | -                      | 112,000           |
| Shares issued for services                  | 50,000              | 42,438              | -                   | -                                  | -                        | -                      | 42,438            |
| Warrants exercised                          | 303,714             | 148,820             | -                   | -                                  | -                        | -                      | 148,820           |
| Stock options exercised                     | 35,714              | 18,750              | -                   | -                                  | -                        | -                      | 18,750            |
| Fair value of stock options exercised       | -                   | 92,154              | (92,154)            | -                                  | -                        | -                      | -                 |
| Share-based payments                        | -                   | -                   | 206,440             | -                                  | -                        | -                      | 206,440           |
| Currency translation adjustment             | -                   | -                   | -                   | (20,278)                           | -                        | -                      | (20,278)          |
| Loss for the period                         | -                   | -                   | -                   | -                                  | -                        | (2,893,613)            | (2,893,613)       |
| <b>Balance, September 30, 2017</b>          | <b>28,319,258</b>   | <b>\$ 8,837,937</b> | <b>\$ 3,694,494</b> | <b>\$ 16,656</b>                   | <b>\$ 182,271</b>        | <b>\$ (12,674,303)</b> | <b>\$ 57,055</b>  |

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

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**Sharc International Systems Inc.**  
**(Formerly International Wastewater Systems Inc.)**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

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**1. Nature and continuance of operations**

Sharc International Systems Inc. (formerly International Wastewater 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". The Company provides wastewater heat exchange products and services. The registered office of the Company is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, V3C 6L4.

International Wastewater Heat Exchange Systems Inc. ("IWHES"), was incorporated under the Business Corporations Act (British Columbia) on May 30, 2011. On October 27, 2015, the Company completed the acquisition (the "Acquisition") of IWHES pursuant to a share exchange agreement dated September 4, 2015. The Acquisition constituted a reverse takeover. Upon completion of the Acquisition, the Company changed its name from Amana Copper Ltd. to International Wastewater Systems Inc. On September 5, 2017, the Company changed its name from International Wastewater Systems Inc. to Sharc International Systems Inc.

These unaudited condensed consolidated interim financial statements of the Company have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they fall due for the foreseeable future. For the nine months ended September 30, 2017 the Company incurred a loss of \$2,893,613 (nine months ended September 30, 2016 - \$1,980,681). As of September 30, 2017 the Company has a deficit of \$12,674,303 (December 31, 2016 - \$9,780,690) and working capital of \$1,662,547 (December 31, 2016 - working capital of \$336,914). The Company has not generated positive cash flows from operations and additional financings will be required to maintain operations for the near term. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

**2. Significant accounting policies**

*Statement of compliance*

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

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of November 29, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2016. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2017 could result in restatement of these unaudited condensed consolidated interim financial statements.

**Sharc International Systems Inc.**  
(Formerly International Wastewater Systems Inc.)  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**2. Significant accounting policies (continued)**

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

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

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

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

**3. Receivables**

|                          | <b>As at<br/>September 30,<br/>2017</b> | <b>As at<br/>December 31,<br/>2016</b> |
|--------------------------|---|--|
| GST recoverable (Canada) | \$ 93,455                               | \$ 110,985                             |
| VAT recoverable (UK)     | 39,967                                  | 25,341                                 |
| Holdback receivables     | 68,315                                  | 72,218                                 |
| Other receivables        | 127,873                                 | -                                      |
| Trade receivables        | -                                       | 59,602                                 |
|                          | <b>\$ 329,610</b>                       | <b>\$ 268,146</b>                      |

**4. Inventory**

|                        | <b>As at<br/>September 30,<br/>2017</b> | <b>As at<br/>December 31,<br/>2016</b> |
|------------------------|---|--|
| Materials and supplies | \$ 331,243                              | \$ 105,301                             |
| Work-in-progress       | 426,763                                 | 347,373                                |
|                        | <b>\$ 758,006</b>                       | <b>\$ 452,674</b>                      |

**Sharc International Systems Inc.**  
(Formerly International Wastewater Systems Inc.)  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2017**  
(Expressed in Canadian Dollars)  
**Unaudited**

**5. Equity investment**

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

The Company's unrecognized share of the loss for the nine months ended September 30, 2017 was \$51,374 for a balance at September 30, 2017 of \$155,960 (December 31, 2016 - \$104,586).

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

|                          | As at<br>September 30,<br>2017 | As at<br>December 31,<br>2016 |
|--------------------------|--------------------------------|-------------------------------|
| Current assets           | \$ 39,261                      | \$ 38,277                     |
| Non-current assets       | 1,046,104                      | 1,312,170                     |
| Current liabilities      | (2,314)                        | (24,125)                      |
| Non-current liabilities  | (1,445,373)                    | (1,336,416)                   |
| Revenue                  | 51,853                         | 63,785                        |
| Total comprehensive loss | (128,434)                      | (140,289)                     |

**6. Equipment**

| <b>Cost</b>                     | <b>Equipment<br/>and furniture<br/>and fixtures</b> | <b>Computer<br/>hardware</b> | <b>Computer<br/>software</b> | <b>Leasehold<br/>improvements</b> | <b>Total</b> |
|---------------------------------|---|------------------------------|------------------------------|-----------------------------------|--------------|
| Balance, December 31, 2015      | \$ 46,080   | \$ 27,926                    | \$ 172,876                   | \$ 19,025                         | \$ 265,907   |
| Currency translation adjustment | -   | -                            | (9,753)                      | -                                 | (9,753)      |
| Balance, December 31, 2016      | 46,080  | 27,926                       | 163,123                      | 19,025                            | 256,154      |
| Balance, September 30, 2017     | \$ 46,080   | \$ 27,926                    | \$ 163,123                   | \$ 19,025                         | \$ 256,154   |

| <b>Accumulated Depreciation</b> | <b>Equipment<br/>and furniture<br/>and fixtures</b> | <b>Computer<br/>hardware</b> | <b>Computer<br/>software</b> | <b>Leasehold<br/>improvements</b> | <b>Total</b> |
|---------------------------------|---|------------------------------|------------------------------|-----------------------------------|--------------|
| Balance, December 31, 2015      | \$ 12,335   | \$ 15,936                    | \$ 87,861                    | \$ 5,473                          | \$ 121,605   |
| Depreciation for the year       | 7,011   | 6,595                        | 75,262                       | 3,805                             | 92,673       |
| Balance, December 31, 2016      | \$ 19,346   | \$ 22,531                    | \$ 163,123                   | \$ 9,278                          | \$ 214,278   |
| Depreciation for the period     | 4,338   | 2,226                        | -                            | 2,853                             | 9,417        |
| Balance, September 30, 2017     | \$ 23,684   | \$ 24,757                    | \$ 163,123                   | \$ 12,131                         | \$ 223,695   |

| <b>Carrying Value</b>       | <b>Equipment<br/>and furniture<br/>and fixtures</b> | <b>Computer<br/>hardware</b> | <b>Computer<br/>software</b> | <b>Leasehold<br/>improvements</b> | <b>Total</b> |
|-----------------------------|---|------------------------------|------------------------------|-----------------------------------|--------------|
| Balance, December 31, 2016  | \$ 26,734   | \$ 5,395                     | \$ -                         | \$ 9,747                          | \$ 41,876    |
| Balance, September 30, 2017 | \$ 22,396   | \$ 3,169                     | \$ -                         | \$ 6,894                          | \$ 32,459    |



**Sharc International Systems Inc.**  
**(Formerly International Wastewater Systems Inc.)**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**Three and Nine months Ended September 30, 2017**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**7. Loans payable**

(i) During the year ended December 31, 2015 IWWS received a loan of \$102,035 (£50,000) from an unrelated company. The loan accrues interest at a rate of 12.5% per annum and is payable on April 17, 2020. The loan must be repaid in monthly payments of £1,125 with the first payment required on June 17, 2015. An arrangement fee of £1,000 was paid prior to the loan being advanced. The loan is guaranteed by the CEO of IWWS. During the nine months ended September 30, 2017, the Company made payments totalling \$18,757 (£11,250), of which \$7,014 (£4,207) related to interest and \$11,743 (£7,043), related to principal. The balance of the loan as at September 30, 2017 is \$51,296 (£30,741), of which \$17,319 (£10,379) is recognized as short-term.

(ii) In November 2016, the Company received a loan of \$200,000. The loan was guaranteed by the CEO of the Company. The loan bore interest at a rate of 2% per month and was repayable within 60 days. The loan was repaid in March 2017.

|                              | Nine months<br>ended<br>September 30,<br>2017 | Year ended<br>December 31,<br>2016 |
|------------------------------|---|------------------------------------|
| Balance, beginning of period | \$ 267,402                                    | \$ 137,048                         |
| Proceeds from loans          | -   | 808,968                            |
| Repayment of loans           | (223,573)                                     | (699,559)                          |
| Interest expense             | 7,014   | 36,161                             |
| Foreign exchange             | 453   | (15,216)                           |
| Balance, end of period       | 51,296  | 267,402                            |
| Less: non-current portion    | (33,977)                                      | (45,394)                           |
|                              | \$ 17,319                                     | \$ 222,008                         |

**8. Convertible debentures**

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%. 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 \$0.60 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 \$156,830 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 \$1.05 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.

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**8. Convertible debentures (continued)**

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability, warrant and equity components. 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 30%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The Company valued the warrants using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 103.03% which is based on historical volatility, risk-free rate of return of 0.93% and an expected maturity of 3 years. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the warrant and liability element calculated.

Based on this calculation, the liability components are \$1,294,941 (\$1,188,469 net of transaction costs), the warrants are \$771,705 (\$254,123 net of transaction costs) and the residual equity components are \$276,354 (\$254,123 net of transaction costs).

Accretion charges attributable to the debentures for the nine months ended September 30, 2017 was \$237,265. This amount is added to the liability component on the statements of financial position and is included in interest and financing expense on the condensed consolidated interim statements of loss and comprehensive loss.

**9. Deferred revenue**

|                            | Nine months<br>ended<br>September 30,<br>2017 | Year ended<br>December 31,<br>2016 |
|----------------------------|---|------------------------------------|
| Balance, beginning of year | \$ 20,400                                     | \$ 265,280                         |
| Revenue recognized         | (102,000)                                     | (907,361)                          |
| Sales contracts            | 126,512                                       | 662,481                            |
|                            | <b>\$ 44,912</b>                              | <b>\$ 20,400</b>                   |

**10. Warranty provisions**

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

|                                | Nine months<br>ended<br>September 30,<br>2017 | Year ended<br>December 31,<br>2016 |
|--------------------------------|---|------------------------------------|
| Balance, beginning of year     | \$ 169,370                                    | \$ 24,011                          |
| Warranty provisions recognized | 10,200  | 416,398                            |
| Warranty expenses incurred     | (8,738)                                       | (271,039)                          |
| Foreign exchange               | 1,042   | -                                  |
|                                | 171,874                                       | 169,370                            |
| Less: non-current portion      | (20,104)                                      | (17,979)                           |
|                                | <b>\$ 151,770</b>                             | <b>\$ 151,391</b>                  |

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**11. Share capital**

On September 5, 2017, the Company completed the share consolidation of its issued and outstanding common shares on the basis of 1 post-consolidation common share for every 3.5 pre-consolidation common shares. As part of the share consolidation, the stock options and warrants were also consolidated and the exercise price adjusted to reflect the consolidation. The share consolidation has been reflected in these financial statements and all applicable references to the number of shares, stock options, warrants and their strike price and per share information has been restated.

a) Authorized share capital

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

b) Common shares issued

|  | <b>Number of<br/>common<br/>shares</b> | <b>Amount</b>       |
|--|--|---------------------|
| Balance, December 31, 2015             | 23,105,717                             | \$ 5,421,804        |
| Common shares issued (i), (ii)         | 2,285,715                              | 1,600,000           |
| Share issue costs (i), (ii)            | -                                      | (250,235)           |
| Warrants exercised (note 13)           | 110,572                                | 69,180              |
| Fair value of warrants exercised       | -                                      | 55,900              |
| Stock options exercised (note 12)      | 35,714                                 | 18,750              |
| Fair value of stock options exercised  | -                                      | 30,203              |
| <b>Balance, September 30, 2016</b>     | <b>25,537,718</b>                      | <b>6,945,602</b>    |
| Balance, December 31, 2016             | 26,379,302                             | \$ 7,876,677        |
| Private placement (v)                  | 1,450,528                              | 1,523,055           |
| Warrant valuation (v)                  | -                                      | (800,997)           |
| Share issue costs (v)                  | -                                      | (174,960)           |
| Warrants exercised (note 13)           | 303,714                                | 148,820             |
| Stock options exercised (note 12)      | 35,714                                 | 18,750              |
| Fair value of stock options exercised  | -                                      | 92,154              |
| Shares issued for debt (iii)           | 100,000                                | 112,000             |
| Shares issued for services (iv), (vii) | 50,000                                 | 42,438              |
| <b>Balance, September 30, 2017</b>     | <b>28,319,258</b>                      | <b>\$ 8,837,937</b> |

(i) On August 19, 2016, the Company closed the first tranche of a non-brokered private placement pursuant to which the Company issued 1,371,429 common shares at a price of \$0.70 per share for aggregate gross proceeds of \$960,000. In connection with the placement, the Company paid finder's fees and expenses of \$77,100 and issued 109,714 finders' warrants, each warrant exercisable at a price of \$0.70 for a period of two years from the date of issue.

The fair value of \$62,054 was assigned to the 109,714 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 109.93% which is based on historical volatility, risk-free rate of return of 0.55% and an expected maturity of 2 years.

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**11. Share capital (continued)**

(ii) On September 2, 2016, the Company closed the final tranche of a non-brokered private placement pursuant to which the Company issued 914,286 common shares at a price of \$0.70 per share for aggregate gross proceeds of \$640,000. In connection with the placement, the Company paid finder's fees and expenses of \$47,662 and issued 208,000 finders' warrants, each warrant exercisable at a price of \$0.70 for a period of two years from the date of issue.

The fair value of \$63,419 was assigned to the 59,429 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 114.09% which is based on historical volatility, risk-free rate of return of 0.59% and an expected maturity of 2 years.

(iii) On January 11, 2017, the Company issued 100,000 common shares to settle outstanding debt of \$105,000. The fair value of \$112,000 was assigned to the common shares based on the common share price on the date of issuance.

As a result, the Company recognized a loss on debt settlement of \$7,000 on the unaudited condensed consolidated interim statement of loss and comprehensive loss.

(iv) On January 16, 2017, the Company issued 25,000 common shares for services. The valuation was based on the fair value of the shares issued.

(v) On February 27, 2017, the Company closed the first tranche of a brokered private placement pursuant to which the Company issued 759,957 units at a price of \$1.05 per unit for aggregate gross proceeds of \$797,955. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at a price of \$1.40 for a period of two years from the date of issue.

The fair value of \$338,333 was assigned to the 759,957 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 108.30% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 2 years.

In connection with the placement, the Company paid finder's fees and expenses of \$91,097 and issued 56,997 finders' warrants. Each warrant is exercisable at a price of \$1.05 for a period of two years from the date of issue.

The fair value of \$28,866 was assigned to the 56,997 finders' warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 108.30% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 2 years.

(vi) On April 7, 2017, the Company completed the final tranche of a brokered private placement pursuant to which the Company issued 690,571 additional units at a price of \$1.05 per unit for aggregate gross proceeds of \$725,100. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share until February 27, 2019 at an exercise price of \$1.40 per share.

In conjunction with the closing, the Company amended the terms of the non-brokered private placement completed on December 23, 2016 to offer each participant in the non-brokered placement one warrant for each common share purchased on the same terms as the brokered placement. Accordingly, the Company issued a total of 650,095 warrants to purchasers from the non-brokered placement. As the Company issued an additional 29,793 finders' warrants. Each finders' warrant entitles the holder to purchase one common share until December 23, 2018 at an exercise price of \$1.05 per share.

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**11. Share capital (continued)**

(vi) (continued) The fair value of \$462,664 was assigned to the 1,340,666 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 99.66% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 1.7 years.

In connection with the final tranche of the placement, the Company paid finder's fees of \$31,283 and issued 29,793 finders' warrants. Each finders' warrant entitles the holder to purchase one common share until February 27, 2019 at an exercise price of \$1.05 per share.

The fair value of \$23,714 was assigned to the 66,257 finders' warrants as estimated by using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 105.67% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 1.8 years.

(vii) On August 3, 2017, the Company issued 25,000 common shares for services. The valuation was based on the fair value of the shares issued.

c) Escrow shares

In connection with the RTO, 13,428,571 common shares were placed into escrow with 10% released on the day after closing of the Acquisition and 15% released every six months thereafter. At September 30, 2017 6,042,857 shares were held in escrow (December 31, 2016 – 8,057,143).

**12. Stock options**

|                             | Number of<br>stock options | Weighted<br>average<br>exercise price |
|-----------------------------|----------------------------|---------------------------------------|
| Balance, December 31, 2015  | 1,878,571                  | \$ 1.65                               |
| Exercised                   | (35,714)                   | 0.53                                  |
| Issued (i)                  | 1,560,000                  | 1.05                                  |
| Cancelled                   | (1,628,571)                | 1.75                                  |
| Expired                     | (35,714)                   | 0.53                                  |
| Balance, September 30, 2016 | 1,738,572                  | 1.09                                  |
| Balance, December 31, 2016  | 1,738,572                  | \$ 1.09                               |
| Exercised                   | (35,714)                   | 0.53                                  |
| Issued (ii)                 | 752,750                    | 0.63                                  |
| Cancelled (ii)              | (1,460,000)                | 1.05                                  |
| Balance, September 30, 2017 | 995,608                    | \$ 0.79                               |

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**12. Stock options (continued)**

(i) On July 12, 2016, the Company granted 1,560,000 incentive stock options to certain directors, officers, employees and consultants with each option exercisable into one common share of the Company at an exercise price of \$0.30 per share for a period of five years. The options vest 20% each six months of service, with the first 20% vesting six months from the grant date.

These options were considered to be a modification of the previously issued and cancelled stock options. As a result an incremental fair value of \$132,678 was assigned to the new stock options determined based on the fair value of the new options on the date of grant less the fair value of the replaced options on the modification date. The new options fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 124.32% which is based on historical volatility, risk-free rate of return of 0.60% and an expected maturity of 5 years. The modified options fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 124.32% which is based on historical volatility, risk-free rate of return of 0.60% and an expected maturity of 4.4 years.

(i) On July 28, 2017, the Company granted 728,679 incentive stock options to certain directors, officers, employees and consultants with each option exercisable into one common share of the Company at an exercise price of \$0.63 per share for a period of one year. The options vested on grant date.

These options were considered to be a modification of the previously issued and cancelled stock options. As the incremental fair value of the new stock options, determined based on the fair value of the new options on the date of grant less the fair value of the replaced options on the modification date, was negative no additional expense was recorded. As a result of the accelerated vesting, the unamortized fair value of the replaced options has been recognized immediately. The new options fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 90.17% which is based on historical volatility, risk-free rate of return of 1.13% and an expected maturity of 1 year. The modified options fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 111.64% which is based on historical volatility, risk-free rate of return of 1.52% and an expected maturity of 4.0 years.

The following table reflects the actual stock options issued and outstanding as of September 30, 2017:

| <b>Expiry date</b> | <b>Exercise price (\$)</b> | <b>Weighted average remaining contractual life (years)</b> | <b>Number of options outstanding</b> | <b>Number of options vested (exercisable)</b> |
|--------------------|----------------------------|--|--------------------------------------|---|
| July 28, 2018      | 0.63                       | 0.82   | 752,750                              | 752,750                                       |
| October 27, 2020   | 1.47                       | 3.08   | 142,858                              | 142,858                                       |
| July 12, 2021      | 1.05                       | 3.78   | 100,000                              | 40,000  |
|                    | 0.79                       | 1.44   | 995,608                              | 935,608                                       |

**Share-based payments**

During the nine months ended September 30, 2017, the Company recognized share-based payments of \$206,440 (nine months ended September 30, 2016 - \$93,506) relating to the vesting terms of the stock options granted and modified.

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**13. Warrants**

|                                   | Number of<br>warrants | Weighted<br>average<br>exercise price |
|-----------------------------------|-----------------------|---------------------------------------|
| Balance, December 31, 2015        | 342,859               | \$ 0.49                               |
| Issued (notes 11 (i) and (ii))    | 312,000               | 0.84                                  |
| Exercised                         | (110,572)             | 0.63                                  |
| Balance, September 30, 2016       | 544,287               | 0.60                                  |
| Balance, December 31, 2016        | 494,287               | \$ 0.60                               |
| Issued (notes 8, 11 (v) and (vi)) | 4,008,348             | 1.26                                  |
| Exercised                         | (303,714)             | 0.49                                  |
| Balance, September 30, 2017       | 4,198,921             | \$ 1.23                               |

The following are the warrants outstanding at September 30, 2017:

| Number of<br>Warrants | Exercise<br>Price (\$) | Expiry<br>Date    |
|-----------------------|------------------------|-------------------|
| 109,714               | 0.70                   | August 22, 2018   |
| 59,429                | 0.70                   | September 2, 2018 |
| 21,429                | 1.58                   | October 21, 2018  |
| 36,464                | 1.05                   | December 23, 2018 |
| 2,100,624             | 1.40                   | February 27, 2019 |
| 86,790                | 1.05                   | February 27, 2019 |
| 942,857               | 1.05                   | May 30, 2020      |
| 66,000                | 1.40                   | May 30, 2020      |
| 730,714               | 1.05                   | June 29, 2020     |
| 44,900                | 1.40                   | June 29, 2020     |
| 4,198,921             | 1.23                   |                   |

**14. Related party transactions**

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

During the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016), the Company incurred the following charges with key management personnel:

(i) Consulting fees of \$15,000 and \$96,000 (\$55,323 and \$146,328) to companies controlled by directors, officers and former officers of the Company.

(ii) Wages and benefits of \$61,500 and \$184,500 (\$85,448 and \$246,056) to the CEO, director of the Company and a director of IWHES.

(iii) Accounting fees of \$nil (\$nil and \$4,000) to a company controlled by a director of IWHES.

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**14. Related party transactions (continued)**

(iv) Share-based payments of \$(148,298) and \$155,663 (\$225,616 and \$77,076) was recognized in connection with the vesting, modification and cancellation of options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of \$nil and \$nil (\$2,511 and \$8,009) and additional cost of sales of \$9,838 and \$83,101 (\$nil and \$1,017) due to a company controlled by a director of IWWS.

Included in accounts payable is \$131,027 (December 31, 2016 - \$134,729) due to related parties.

**Loans receivable**

During the year ended December 31, 2015 the Company advanced \$80,000 to the CEO of the Company. During the year ended December 31, 2016, \$40,000 was repaid. The advance bears interest at a rate of 3% per annum and is due on demand. As at September 30, 2017 the outstanding balance was \$42,466 (\$41,211). In addition there is an advance of \$27,702 (December 31, 2016 - \$27,702) to the CEO which is non-interest bearing and is due on demand.

**15. Commitment**

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

**16. Segmented information**

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

Geographic information as at September 30, 2017 is as follows:

|                          | Canada     | United Kingdom | Total        |
|--------------------------|------------|----------------|--------------|
| <b>Assets</b>            |            |                |              |
| Inventory                | \$ 676,150 | \$ 81,856      | \$ 758,006   |
| Equipment                | 32,459     | -              | 32,459       |
| Research and development | 232,360    | 244,829        | 477,189      |
|                          | \$ 940,969 | \$ 326,685     | \$ 1,267,654 |

Geographic information as at December 31, 2016 is as follows:

|               | Canada     | United Kingdom | Total      |
|---------------|------------|----------------|------------|
| <b>Assets</b> |            |                |            |
| Inventory     | \$ 409,694 | \$ 42,980      | \$ 452,674 |
| Equipment     | 41,876     | -              | 41,876     |
|               | \$ 451,570 | \$ 42,980      | \$ 494,550 |



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**16. Segmented information (continued)**

Geographic information for the nine months ended September 30, 2017 is as follows:

|                     | <b>Canada</b>  | <b>United Kingdom</b> | <b>Total</b>   |
|---------------------|----------------|-----------------------|----------------|
| Revenues            | \$ 246,566     | \$ 135,358            | \$ 381,924     |
| Cost of sales       | (329,641)      | (82,507)              | (412,148)      |
| Gross Margin        | (83,075)       | 52,851                | (30,224)       |
| Loss for the period | \$ (2,278,524) | \$ (615,089)          | \$ (2,893,613) |

Geographic information for the nine months ended September 30, 2016 is as follows:

|                     | <b>Canada</b>  | <b>United Kingdom</b> | <b>Total</b>   |
|---------------------|----------------|-----------------------|----------------|
| Revenues            | \$ 923,875     | \$ 85,578             | \$ 1,009,453   |
| Cost of sales       | (601,063)      | (284,723)             | (885,786)      |
| Gross Margin        | 322,812        | (199,145)             | 123,667        |
| Loss for the period | \$ (1,522,403) | \$ (458,278)          | \$ (1,980,681) |

**17. Subsequent events**

(i) Subsequent to September 30, 2017, the Company issued 1,447,250 stock options at \$0.44 for a period of one year and 300,000 stock options at \$0.60 for a period of one year to directors, management, and employees.

(ii) Subsequent to September 30, 2017, 100,000 options were exercised for proceeds of \$60,000.

(iii) Subsequent to September 30, 2017, the Company received advances of \$272,000 related to an offering to be closed at a later date.