SHARC INTERNATIONAL SYSTEMS INC.

(FORMERLY INTERNATIONAL WASTEWATER SYSTEMS INC.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sharc International Systems Inc. (formerly International Wastewater Systems Inc.)

We have audited the accompanying consolidated financial statements of Sharc International Systems Inc. (formerly International Wastewater Systems Inc.), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sharc International Systems Inc. (formerly International Wastewater Systems Inc.) as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Sharc International Systems Inc. (formerly International Wastewater Systems Inc.)'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 30, 2018

SHARC International Systems Inc.
(formerly International Wastewater Systems Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2017	As at December 31, 2016
ASSETS		
Current assets		
Cash	**$ 526,036**	$ 373,430
Receivables (note 6)	**350,215**	268,146
Prepaid expenses	**81,483**	61,940
Inventory (note 7)	**528,838**	452,674
Loans receivable (note 18)	**74,197**	73,967
Total current assets	**1,560,769**	1,230,157
Non-current liabilities		
Restricted cash (note 5)	**50,000**	—
Deposits	**9,999**	1,200
Equipment (note 9)	**83,718**	41,876
Total assets	**$ 1,704,486**	$ 1,273,233
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	**$ 791,192**	$ 499,444
Loans payable (note 10)	**17,604**	222,008
Deferred revenue (note 12)	**200,168**	20,400
Warranty provisions (note 13)	**14,926**	151,391
Total current liabilities	**1,023,890**	893,243
Non-current liabilities		
Warranty provisions (note 13)	**4,000**	17,979
Loans payable (note 10)	**30,313**	45,394
Convertible debentures (note 11)	**1,877,661**	—
	2,935,864	956,616
Shareholders' equity (deficiency)		
Share capital (note 14)	**9,255,241**	7,876,677
Subscriptions received (note 14)	**309,000**	—
Reserves (note 15 & 16)	**2,594,075**	2,183,696
Currency translation reserve	**(10,715)**	36,934
Convertible debentures – equity component	**125,042**	—
Deficit	**(13,504,021)**	(9,780,690)
Total shareholders' equity (deficiency)	**(1,231,378)**	316,617
Total liabilities and shareholders' equity (deficiency)	**$ 1,704,486**	$ 1,273,233

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

Nature and continuance of operations (note 1)
Commitment & Contingencies (note 19, 21)
Subsequent events (note 24)

Approved on behalf of the Board:

"Lynn Mueller", Director "Mark McCooey", Director

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	**$ 268,810**	$ 1,019,021
Cost of sales	**(207,486)**	(814,451)
Gross margin	**61,324**	204,570
Expenses		
Accounting and legal (note 17)	**234,075**	198,072
Advertising and promotion	**356,353**	132,606
Consulting (note 17)	**848,496**	599,015
Depreciation (note 9)	**249,505**	92,673
Foreign exchange	**(11,197)**	(19,324)
Insurance	**23,221**	34,264
Office and miscellaneous	**402,456**	222,398
Regulatory and filing fees	**30,633**	19,365
Rent (note 17)	**130,831**	99,515
Repairs and maintenance	**127,821**	2,468
Research and development (note 17)	**121,967**	—
Share-based payments (notes 15, 17)	**630,083**	1,580,489
Telephone and utilities	**40,063**	46,441
Trademarks	**—**	4,422
Travel	**126,766**	105,023
Wages and benefits (note 17)	**1,171,534**	1,039,454
Warranty expense (note 13)	**13,798**	416,398
	(4,496,405)	(4,573,279)
Government grants and assistance	**88,201**	100,638
Interest and financing expense	**(266,661)**	(194,838)
Loss on debt settlement (note 14)	**(7,000)**	(28,117)
Loss before income taxes	**(4,620,541)**	(4,491,026)
Deferred tax recovery (note 22)	**99,000**	—
Loss for the year	**$ (4,521,541)**	$ (4,491,026)
Other comprehensive income (loss)		
Foreign currency translation	**(47,649)**	52,716
Total comprehensive loss for the year	**$ (4,569,190)**	$ (4,438,310)
Basic and diluted loss per share	**$ (0.16)**	$ (0.18)
Weighted average number of common shares outstanding:		
Basic and diluted	**27,906,176**	24,001,555

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

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
Operating activities		
Loss for the year	**$ (4,521,541)**	$ (4,491,026)
Adjustments for:		
Depreciation	**249,505**	92,673
Unrealized foreign exchange	**(43,543)**	19,659
Share-based payments	**630,083**	1,580,489
Accrued interest expense	**267,609**	155,467
Shares for services	**42,438**	36,750
Loss on debt settlement	**7,000**	28,117
Deferred tax recovery	**(99,000)**	—
Changes in non-cash working capital items:		
Receivables	**(80,133)**	114,001
Prepaid expenses	**(19,543)**	(19,795)
Inventory	**(342,570)**	134,545
Deposits	**(8,674)**	5,483
Accounts payable and accrued liabilities	**235,700**	277
Deferred revenue	**179,768**	(244,880)
Warranty provisions	**(151,770)**	157,251
Net cash used in operating activities	**(3,654,671)**	(2,430,989)
Investing activities		
Acquisition of equipment	**(19,733)**	—
Restricted cash	**(50,000)**	
Net cash used in investing activities	**(69,733)**	—
Financing activities		
Proceeds from loans payable	**80,000**	854,968
Repayment of loans payable	**(324,330)**	(708,765)
Repayment of loans receivable	**1,045**	42,245
Proceeds on exercise of stock options	**78,750**	18,750
Proceeds on exercise of warrants	**148,820**	119,180
Proceeds on private placement, net of costs	**1,400,674**	2,108,050
Proceeds on convertible debt, net of costs	**2,185,990**	—
Subscriptions received	**309,000**	—
Net cash provided by financing activities	**3,879,949**	2,434,428
Net change in cash	**155,545**	3,439
Impact of exchange rate changes on cash	**(2,939)**	2,179
Cash, beginning of year	**373,430**	367,812
Cash, end of year	**$ 526,036**	$ 373,430

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

Supplemental disclosure with respect to cash flows (note 23)

SHARC International Systems Inc.
(formerly International Wastewater Systems Inc.)
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Share Capital		Subscriptions received	Reserves	Currency translation reserve	Convertible debenture	Deficit	Total
	Number	$		$	$	$	$	$
Balance, December 31, 2015	**23,105,718**	**5,421,804**	**—**	**551,753**	**(15,782)**	**—**	**(5,335,741)**	**622,034**
Common shares issued	2,935,810	2,282,600	—	—	—	—	—	**2,282,600**
Share issue costs	—	(300,023)	—	125,473	—	—	—	**(174,550)**
Shares and warrants issued for debt	95,060	139,739	—	18,135	—	—	—	**157,874**
Shares issued for services	25,000	36,750	—	—	—	—	—	**36,750**
Warrants issued to acquire loan	—	—	—	111,800	—	—	—	**111,800**
Warrants exercised	182,000	119,180	—	—	—	—	—	**119,180**
Fair value of warrants exercised	—	111,800	—	(111,800)	—	—	—	—
Stock options exercised	35,714	18,750	—	—	—	—	—	**18,750**
Fair value of stock options exercised	—	46,077	—	(46,077)	—	—	—	—
Stock options expired	—	—	—	(46,077)	—	—	46,077	—
Share-based payments	—	—	—	1,580,489	—	—	—	**1,580,489**
Currency translation adjustment	—	—	—	—	52,716	—	—	**52,716**
Loss for the year	—	—	—	—	—	—	(4,491,026)	**(4,491,026)**
Balance, December 31, 2016	**26,379,302**	**7,876,677**	**—**	**2,183,696**	**36,934**	—	**(9,780,690)**	**316,617**
Common shares issued	1,450,528	1,523,054	—	—	—	—	—	**1,523,054**
Residual value of warrants granted	—	(431,730)	—	431,730	—	—	—	—
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	135,714	78,750	—	—	—	—	—	**78,750**
Fair value of stock options exercised	—	80,192	—	(80,192)	—	—	—	—
Share issue costs	—	(174,960)	—	52,580	—	—	—	**(122,380)**
Share-based payments	—	—	—	630,083	—	—	—	**630,083**
Reversal of forfeited options	—	—	—	(798,210)	—	—	798,210	—
Issuance of convertible debt	—	—	—	160,857	—	125,042	—	**285,899**
Warrants issued for loan extension	—	—	—	13,531	—	—	—	**13,531**
Subscriptions received	—	—	309,000	—	—	—	—	**309,000**
Currency translation adjustment	—	—	—	—	(47,649)	—	—	**(47,649)**
Loss for the year	—	—	—	—	—	—	(4,521,541)	**(4,521,541)**
Balance, December 31, 2017	**28,419,258**	**9,255,241**	**309,000**	**2,594,075**	**(10,715)**	**125,042**	**(13,504,021)**	**(1,231,378)**

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

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.

These consolidated 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 year ended December 31, 2017, the Company incurred a loss of $4,521,541 (year ended December 31, 2016 - $4,491,026). As of December 31, 2017, the Company has a deficit of $13,504,021 (December 31, 2016 - $9,780,690) and working capital of $536,879 (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.

On September 5, 2017, the Company changed its name from International Wastewater Systems Inc. to Sharc International Systems Inc. and 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. The share consolidation has been reflected to the number of shares, stock options, warrants and their strike price and per share information contained herein.

2. Significant accounting policies

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").

The policies applied in these consolidated financial statements are based on IFRSs issued and outstanding as of December 31, 2017. The Board of Directors approved these financial statements on April 30, 2018.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company balances and transactions, income and expenses have been eliminated upon consolidation.

Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Principles of consolidation (continued)

The subsidiaries of the Company are as follows:

Company	Location	December 31, 2017 Ownership %	December 31, 2016 Ownership %
International Wastewater Heat Exchange Systems Inc. (“IWHES”)	Canada	100%	100%
IWWS (UK) Ltd. ("IWWS")	United Kingdom	100%	100%
Green Sharc Limited (1)	United Kingdom	100%	100%
Sharc Energy Services (UK) Ltd. (1)	United Kingdom	100%	100%
2336882 Ontario Inc. (1)	Canada	100%	100%

(1) The subsidiary was inactive at year end.

Estimates, judgments and assumptions

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Significant judgments

(i) Deferred taxes

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.

(ii) Functional currency

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.

2. Significant accounting policies (continued)

Estimates, judgments and assumptions (continued)

Significant judgments (continued)

(iii) Going concern

The preparation of the consolidated financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in note 1.

Significant estimates

(i) Warranty provisions

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.

(ii) Inventories

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-driven changes that may reduce future selling prices.

(iii) Revenue recognition

The Company has service agreements with regards to some of its product sales which requires management to make judgements 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 service fees. However, the Company defers the recognition of revenue associated with fees for service agreements or warranty costs that are built in to the original sales price and recognizes the associated revenue evenly over the term the service or warranty is provided.

2. Significant accounting policies (continued)

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company and IWHES is the Canadian dollar and the functional currency of IWWS is the British Pound. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

Where applicable, the functional currency is translated into the presentation currency using the period end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

Equipment

Equipment is recorded at cost and amortized at the following rates.

Equipment	20% declining balance per annum
Furniture and fixtures	20% declining balance per annum
Computer hardware	55% declining balance per annum
Computer software	100% declining balance per annum
Leasehold improvements	5 year straight line
Demonstration units	1 year straight line

Equipment that is withdrawn from use or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of property, plant and equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. Significant accounting policies (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventory

Materials and supplies, work-in-progress and finished goods are measured at the lower of cost, determined on a weighted average basis, and net realizable value.

The cost of materials and supplies is comprised of the purchase price, applicable taxes and other costs incurred in bringing inventory to their present location and condition. The cost of finished goods includes cost of materials and cost of conversion. The cost of conversion includes costs directly related to the units of production, such as direct labour, and fixed and variable production overheads, based on normal operating capacity.

The net realizable value of inventory is generally considered to be the selling price in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale.

The amount of any impairment of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any impairment of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Revenue recognition

Revenue from all product sales of the Company is recognized when products are shipped to customers and ownership is transferred to customers, when the price is fixed or determinable and when the ultimate collection is reasonably assured. Customer prepayments are recorded as deferred revenue and revenue is not recognized until the shipment of goods occurs. Shipping and handling costs related to product sales are included in cost of sales.

Revenue from the rendering of services performed by the Company is recognized when the following conditions are met: amount of the revenue can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Company may sell its heating and ventilation unit and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where the Company enters into an agreement involving a bundled transaction, the Company records each of the separate components at their relative stand-alone selling price and recognizes the revenue on an appropriate basis for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. The Company determines the value of each of the components sold based on the selling price when they are sold separately. When the stand alone value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

2. Significant accounting policies (continued)

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government assistance received relating to expenses of future periods is deferred and deducted against the related expenditures as incurred.

Grants received for employees have been credited against the related expense, grants related to specific projects have been credits against the build-up of costs (ie. inventory) and grants received to assist in the development of the Company have been recorded as other income.

Warranty provision

The Company provides product warranties on certain products pursuant to the manufacturing contract, and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of loss and comprehensive loss.

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit and loss. The Company's receivables and loans receivable are classified as loans and receivables.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities, loans payable and convertible debentures are classified as other financial liabilities.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

2. Significant accounting policies (continued)

Income taxes (continued)

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed by assuming that outstanding options, warrants and similar instruments were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Investments in associated companies

Associated companies over which the Company has significant influence are accounted for using the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received. The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated.

Objective evidence of impairment of equity investment includes:

- Significant financial difficulty of the associated companies;
- Becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or
- National or local economic conditions that correlate with defaults of the associated companies.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and warrants. Depending on the terms and conditions, the warrants are exercisable into additional common shares at a price prior to the expiry as stipulated by the transaction. Warrants that are part of units are valued using the residual method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

2. Significant accounting policies (continued)

Recent accounting pronouncements
New standards not yet adopted and interpretations issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after January 1, 2018. Pronouncements that are not applicable to the Company have been excluded from this note.

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, 2018.

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.

The Company has analyzed the impact of adopting IFRS 9 and IFRS 15 and anticipates there will be no material changes as a result of adopting these new standards.

IFRS 16, Leases (“IFRS 16”) was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model and 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.

The Company has not yet completed the process of assessing the impact of IFRS 16 will have on the consolidated financial statements.

3. 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 year. The Company is not subject to externally imposed capital requirements.

4. Financial instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, loans receivable, accounts payable and accrued liabilities, loans payable and convertible debentures approximates their carrying values due to the short-term to maturity. The Company's cash is measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange 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 December 31, 2017 and December 31, 2016, 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 (2016 - $38,000).

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 December 31, 2017 and December 31, 2016, the Company is exposed to credit risk arising from receivables and loans receivable (note 18).

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 December 31, 2017 and December 31, 2016, the Company is not exposed to any significant interest rate risk.

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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

5. Restricted cash

The restricted cash balance is comprised of a guaranteed investment certificate and security deposit held as collateral for the Company's corporate credit cards.

6. Receivables

	As at December 31, 2017 $	As at December 31, 2016 $
GST recoverable (Canada)	113,684	110,985
VAT and government assistance receivable (UK)	88,550	25,341
Holdback receivables	60,165	72,218
Other receivables	13,279	—
Trade receivables	74,537	59,602
	350,215	**268,146**

7. Inventory

	As at December 31, 2017 $	As at December 31, 2016 $
Materials and supplies	260,593	105,301
Work-in-progress	268,245	347,373
	528,838	**452,674**

8. 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 year ended December 31, 2017 was $109,912 for a balance at December 31, 2017 of $214,498 (December 31, 2016 - $104,586).

As at December 31, 2015, 2016 and 2017, the equity investment was $Nil.

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

	As at December 31, 2017 $	As at December 31, 2016 $
Current assets	79,043	38,277
Non-current assets	1,221,276	1,312,170
Current liabilities	(110,445)	(24,125)
Non-current liabilities	(1,509,863)	(1,336,416)
Revenue	90,234	63,785
Total comprehensive loss	(274,779)	(140,289)

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

9. Equipment

	Equipment, furniture and fixtures $	Demonstration units $	Computer hardware $	Computer software $	Leasehold improvements $	Total $
Cost:						
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
Additions	19,733	271,613	—	—	—	291,346
Balance, December 31, 2017	65,813	271,613	27,926	163,123	19,025	547,500
Accumulated depreciation:						
Balance, December 31, 2015	12,335	—	15,936	87,861	5,473	121,605
Depreciation	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	7,133	235,599	2,967	—	3,805	249,505
Balance, December 31, 2017	26,479	235,599	25,498	163,123	13,083	463,782
Carrying amounts:						
As at December 31, 2016	26,734	—	5,395	—	9,747	41,876
As at December 31, 2017	39,333	36,014	2,428	—	5,942	83,718

Demonstration units relate to agreements the Company has entered into with third parties whereby the Company has installed units for a test period (one year) after which the third party will have the option but not obligated to purchase the unit. The costs associated with the unit are recorded in inventory until installation at which time they are reclassified to equipment and amortized over the test phase as there is no guarantee the Company will receive revenue from the unit.

10. 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 year ended December 31, 2017, the Company made payments totaling $22,752 (£13,500), of which $6,631 (£3,966) related to interest and $15,941 (£9,534), related to principal. The balance of the loan as at December 31, 2017 is $47,917 (£28,251), of which $17,604 (£10,379) is recognized as short-term.

(ii) In March 2016, the Company entered into an agreement with an arm's length private lender to loan the Company an aggregate of $400,000.

The loan was secured against the assets of the Company, bore interest at a rate of 2% per month and carried a commitment fee equal to 4% of the loan. The loan was to mature and become payable in 3 months. In consideration for the loan, the Company issued an aggregate of 142,857 share purchase warrants (valued at $103,500) exercisable into 142,857 common shares at a price of $0.98 per common share. The warrants are exercisable for three years and are subject to an acceleration clause in the event that the shares of the Company trade at a price of $1.96 or greater for a period of 20 consecutive days with an average daily trading volume of a minimum 100,000 shares during the same 20-day period. During the first year of the term of the warrants, the exercise price was subject to a downward adjustment in the event that the Company undertook an equity financing for aggregate gross proceeds of not less than $400,000. In such event, the exercise price of the warrants would be adjusted to a price equal to the price of at which securities were sold. The fair value of the warrants were $103,500 estimated by using the Black Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 129.28% which is based on historical volatility, risk-free rate of return of 0.56% and an expected maturity of 3 years. During the year ended December 31, 2016, the warrants were repriced as a result of the private placement (see note 14 b)(i)) resulting in an incremental increase in value of $8,300.

In June 2016 and subsequently in July 2016, the loan was extended for an additional month for a fee of $15,000 and $15,000 respectively. The loan was repaid in August 2016. All costs associated with the loan are included in interest and financing expense on the statement of loss and comprehensive loss.

(iii) In May 2016, the Company received a $70,000 loan from a company controlled by a director of IWHES. The loan was unsecured, non-interest bearing and due on demand. The loan was repaid in August 2016.

(iv) In June 2016, the Company entered into an agreement to factor trade receivables of $184,968 for a expected term of 45 days with an interest rate of 3% for a term of 45 days. The loan was repaid in September 2016.

(v) 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 outstanding balance of the loan and accrued interest as at December 31, 2016 was $204,816. On January 25, 2017, the Company received a loan extension to March 26, 2017. In consideration, the interest rate on the loan increased to 2.5% per month and the Company issued 28,571 share purchase warrants exercisable at $1.40 for a period of two years from the date of issuance. The fair value of the share purchase warrants was $13,531 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 2 years. The loan was repaid in March 2017.

Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

10. Loans payable (continued)

(vi) In February 2017, the Company received a loan of $80,000 from the former CFO of the Company. The loan bore interest at a rate of 35% per month and was repayable on demand. The loan was repaid in March 2017.

	Year ended December 31, 2017	Year ended December 31, 2016
Balance, beginning of year	$ 267,402	$ 137,048
Proceeds from loans	80,000	808,968
Repayment of loans	(324,330)	(699,559)
Interest expense	23,575	36,161
Foreign exchange	1,270	(15,216)
Balance, end of year	47,917	267,402
Less: non-current portion	(17,604)	(45,394)
	$ 30,313	$ 222,008

11. 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% 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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

11. Convertible debentures

On initial recognition, the liability components was $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 year ended December 31, 2017 was $231,768, of which $155,526 relates to accrued interest as at December 31, 2017 which has been recorded in accounts payable and accrued liabilities and was paid subsequent to year end.

12. Deferred revenue

Deferred revenue relates to on-going projects at year end. Revenue will be recognized on a completion and sale of the projects.

13. Warranty provisions

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

	Year ended December 31, 2017	Year ended December 31, 2016
Balance, beginning of year	$ 169,370	$ 24,011
Warranty provisions recognized	13,798	416,398
Warranty expenses incurred	(164,242)	(271,039)
	18,926	169,370
Less: non-current portion	(4,000)	(17,979)
	$ 14,926	$ 151,391

14. 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 retroactively 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.

14. Share capital (continued)

b) Common shares issued

(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.

(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 59,429 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 October 21, 2016, the Company issued 95,060 common shares and 21,429 warrants, with each warrant exercisable at a price of $1.58 for a period of two years from the date of issue, to settle outstanding debt of $129,757 (£77,236). The warrants are subject to an acceleration clause in the event that the shares of the Company trade at a price of $1.96 or greater for a period of 20 consecutive days with an average daily trading volume of a minimum 100,000 shares during the same 20-day period.

The fair value of $139,739 was assigned to the common shares based on the common share price on the date of issuance. The fair value of $18,135 was assigned to the 21,429 warrants as estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 115.98% which is based on historical volatility, risk-free rate of return of 0.52% and an expected maturity of 2 years.

As a result, the Company recognized a loss on debt settlement of $28,117 on the statement of loss and comprehensive loss.

(iv) On October 21, 2016, the Company issued 25,000 common shares for services. The valuation was based on the fair value of the shares issued.

(v) On December 23, 2016, the Company closed a non-brokered private placement pursuant to which the Company issued 650,095 common shares at a price of $1.05 per share for aggregate gross proceeds of $682,600. In connection with the placement, the Company paid finder's fees and expenses of $49,788.

On April 7, 2017, the Company amended the terms of the placement to be a brokered placement which consisted of a unit at a price of $1.05 per unit. As a result, investors in the December 23, 2016 closing were issued a warrant on the same terms as the brokered placement (see Note 14. (ix)).

(vi) 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 consolidated statement of loss and comprehensive loss.

14. Share capital (continued)

b) Common shares issued (continued)

(vii) 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.

(viii) 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 until February 27, 2019.The value of $79,795 was assigned to the 759,957 warrants using the residual value method.

In connection with the placement, the Company paid finders' fees and expenses of $91,097 and issued 56,997 finders' warrants. Each warrant is exercisable at a price of $1.05 until February 27, 2019. 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.

(ix) 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. The value of $181,275 was assigned to the 690,591 warrants using the residual method.

In connection with the final tranche of the placement, the Company paid finders' 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

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. The Company also issued an additional 36,464 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.

The value of $181,275 was assigned to the 1,340,666 warrants using the residual method.

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 107.34%-113.03% which is based on historical volatility, risk-free rate of return of 0.76% and an expected maturity of 1.71-1.89 years.

(x) 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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

14. Share capital (continued)

c) Escrow shares

At December 31, 2017 4,028,572 shares were held in escrow (December 31, 2016 – 8,057,143).

d) Performance shares

In connection with the acquisition of IWWS in 2015, the Company will allocate 1,000,000 performances shares to be issued to each of the two former minority shareholders subject to IWWS meeting the following revenue milestones:

i) 250,000 performance shares to each vendor if the revenues of IWWS are greater than £3,500,000 in the year ended December 31, 2016 (not met);
ii) 350,000 Performance shares to each vendor if the revenues of IWWS are greater than £6,000,000 in the year ended December 31, 2017 (not met); and
iii) 400,000 Performance shares to each vendor if the revenues of IWWS are greater than £10,000,000 in the year ended December 31, 2018.

As at December 31, 2016 and 2017, due to the uncertainty regarding whether the revenue milestones will be met, the Company has estimated the fair value of the performance shares to be $nil.

e) Subscriptions received

The Company received $309,000 of subscription receipts towards a financing expected to close in 2018.

15. Stock options

	Number of stock options	Weighted average exercise price
Balance, December 31, 2015	1,878,571	$ 1.65
Exercised	(35,714)	0.53
Issued (i)	1,560,000	1.05
Cancelled (i)	(1,628,571)	1.75
Expired	(35,714)	0.53
Balance, December 31, 2016	1,738,572	1.07
Exercised	(135,714)	0.58
Issued (ii), (iii), (iv)	2,500,000	0.52
Cancelled (ii)	(1,460,000)	1.05
Balance, December 31, 2017	2,642,858	$0.58

(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 $1.05 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 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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

15. Stock options (continued)

(ii) On July 28, 2017, the Company granted 752,750 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 and the share-based payment expense previously recognized for the forfeited options of $798,210 has been reversed.

(iii) On October 3, 2017, the Company granted 1,447,250 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 $0.44 per share for a period of one year. The options vested upon issuance. The fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%; expected volatility of 92.32% which is based on historical volatility, risk free rate of return of 1.52% and an expected maturity of 1 year.

(iv) On October 23, 2017, the Company granted 300,000 incentive stock options to certain directors consultants with each option exercisable into one common share of the Company at an exercise price of $0.60 per share for a period of one year. The options vested upon issuance. The options vested upon issuance. The fair value was estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%; expected volatility of 93.05% which is based on historical volatility, risk free rate of return of 1.45% and an expected maturity of 1 year.

The following table reflects the actual stock options issued and outstanding as of December 31, 2017:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
July 28, 2018	0.63	0.57	752,750	752,750
October, 27, 2020	1.47	2.82	142,858	142,858
July 12, 2021	1.05	3.53	100,000	100,000
October 3, 2018	0.44	0.76	1,447,250	1,447,250
October 23, 2018	0.60	0.81	200,000	200,000
	0.58	0.92	2,642,858	2,642,858

Share-based payments

During the year ended December 31, 2017, the Company recognized share-based payments of $630,083 (year ended December 31, 2016 - $1,580,489) relating to stock options granted and vesting during the year.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

16. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	342,857	$ 0.49
Issued	333,429	0.88
Exercised	(182,000)	0.67
Balance, December 31, 2016	494,286	0.61
Issued	4,036,919	1.24
Exercised	(303,714)	0.67
Balance, December 31, 2017	4,227,491	$ 1.22

The following are the warrants outstanding at December 31, 2017:

Number of Warrants	Exercise Price ($)	Expiry Date
109,714	0.70	August 22, 2018
59,429	0.70	September 2, 2018
21,429	1.58	October 21, 2018
650,095	1.40	December 23, 2018
36,464	1.05	December 23, 2018
1,450,528	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, 2019
28,571	1.40	June 6, 2019
730,714	1.05	June 29, 2020
44,900	1.40	June 29, 2019
4,227,491	1.22	

17. 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 year ended December 31, 2017 (year ended December 31, 2016), the Company incurred the following charges with key management personnel:

(i) Consulting fees of $111,000 ($169,966) to companies controlled by directors and officers of the Company and a company controlled by a director of IWHES.

(ii) Wages and benefits of $371,400 ($337,611) to the CEO, director of the Company and a director of IWHES.

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

(iv) Share-based payments of $196,143 ($1,303,204) was recognized in connection with the vesting of options granted to directors and officers of the Company and directors of the subsidiaries.

Other transactions with related parties included:

Rent of $11,671 ($11,123), cost of sales of $Nil ($10,300) and expenses associated with ongoing projects capitalized to inventory or research and development costs which have been expensed of $98,862 ($Nil) due to a company controlled by a director of IWWS.

Included in accounts payable is $205,857 (December 31, 2016 - $134,729) due to related parties.

18. 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 December 31, 2017 the outstanding balance was $42,788 ($41,523). 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. Subsequent to December 31, 2017, both loans were repaid to the Company.

19. Commitment

The Company entered into a lease agreement commencing March 1, 2017 for a one-and-a-half year term at an annual rate of $77,753 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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

20. Segmented information

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

Geographic information as at December 31, 2017 is as follows:

	Canada	United Kingdom	Total
Assets			
Inventory	$ 327,911	$ 200,927	$ 528,838
Equipment	65,771	17,947	83,718
	$ 393,682	$ 218,874	$ 612,556

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

	Canada	United Kingdom	Total
Assets			
Inventory	$ 409,694	$ 42,980	$ 452,674
Equipment	41,876	-	41,876
	$ 451,570	$ 42,980	$ 494,550

Geographic information for the year ended December 31, 2017 is as following:

	Canada	United Kingdom	Total
Revenues	$ 227,717	$ 41,093	$ 268,810
Cost of sales	(168,325)	(39,161)	(207,486)
Gross margin	59,392	1,932	61,324
Loss for the year	$ (3,708,945)	$ (812,596)	$(4,521,541)

Geographic information for the year ended December 31, 2016 is as follows:

	Canada	United Kingdom	Total
Revenues	$ 907,361	$ 111,660	$ 1,019,021
Cost of sales	(618,810)	(195,641)	(814,451)
Gross Margin	288,551	(83,981)	204,570
Loss for the year	$ (3,430,731)	$ (1,060,295)	$ (4,491,026)

21. Contingencies

During the year ended December 31, 2017, in connection with two wastewater heat recovery demonstration projects IWWS received $295,590 in government grants from the Energy Deployment Division of the Scottish government. The funds received to date have been offset against the capitalized inventory costs associated with the projects. 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.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

22. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Loss before income taxes	$ (4,620,541)	$ (4,491,026)
Expected income tax recovery	(1,201,000)	(1,168,000)
Change in statutory rates and other	64,000	63,000
Non-deductible expenditures and non-taxable revenues	79,000	414,000
Share issue costs	(32,000)	(45,000)
Adjustment to prior year provisions versus statutory tax returns	35,000	(28,000)
Change in unrecognized deductible temporary differences	956,000	764,000
Total income tax expense (recovery)	$ (99,000)	$ -

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company’s combined federal and provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company’s deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the statement of financial position are as follows:

	2017	Expiry Date Range	2016	Expiry Date Range
Temporary differences				
Mineral property costs	$ 534,000	No expiry date	$ 534,000	No expiry date
Share issue costs	203,000	2038 to 2041	140,000	2017 to 2020
Equipment	65,000	No expiry date	65,000	No expiry date
Non-capital losses:				
Canada	7,965,000	2030 to 2037	5,583,000	2032 to 2036
United Kingdom	2,717,000	No expiry date	1,385,000	No expiry date

Tax attributes are subject to review, and potential adjustment, by tax authorities.

December 31, 2017 and 2016 (Expressed in Canadian Dollars)

23. Supplemental disclosure with respect to cash flows

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

	December 31, 2017 $	December 31, 2016 $
Fair value of brokers' warrants	52,580	125,473
Residual value of warrants granted	431,730	—
Issuance of warrants for loans payable	60,165	111,800
Inventory reclassified to equipment	13,279	—
Issuance of convertible debt – brokers' warrants	74,537	—
Issuance of convertible debt – equity component	174,572	—
Issuance of convertible debt – warrant component	174,542	—
Reversal of stock based compensation	798,210	—

24. Subsequent events

(i) On February 13, 2018, the Company received a $150,000 unsecured loan that bears interest at a rate of 12% per annum.

(ii) On March 13, 2018, the Company issued 300,000 stock options at an exercise price of $0.36 per share for 1 year.

(iii) On March 23, 2018, the Company issued 250,000 stock options at an exercise price of $0.46 per share for 1 year.

(iv) Subsequent to December 31, 2017, 400,000 stock options were exercised for proceeds of $160,000.

(v) Subsequent to December 31, 2017, the Company announced its intention to complete a private placement of 6,250,000 units at a price of $0.40 per unit for aggregated gross proceeds of $2,500,000. The Company received an additional $388,850 in subscription proceeds towards the financing.