
**SHARC INTERNATIONAL SYSTEMS INC.
(FORMERLY INTERNATIONAL WASTEWATER
SYSTEMS INC.)**

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2018 AND 2017
(EXPRESSED IN CANADIAN DOLLARS)**

**SHARC INTERNATIONAL SYSTEMS INC.
(FORMERLY INTERNATIONAL WASTEWATER SYSTEMS INC.)**

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

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

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

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

	As at March 31, 2018	As at December 31, 2017
ASSETS		
Current assets		
Cash	\$ 169,296	\$ 526,036
Receivables (note 5)	299,568	350,215
Prepaid expenses	215,9923	81,483
Inventory (note 6)	512,238	528,838
Loans receivable (note 17)	3,707	74,197
Total current assets	1,200,732	1,560,769
Non-current liabilities		
Restricted cash (note 4)	50,000	50,000
Deposits	9,999	9,999
Equipment (note 8)	71,453	83,718
Total assets	\$ 1,332,184	\$ 1,704,486
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	\$ 819,198	\$ 791,192
Loans payable (note 9)	228,792	17,604
Deferred revenue (note 11)	3,218	200,168
Warranty provisions (note 12)	14,719	14,926
Total current liabilities	1,065,927	1,023,890
Non-current liabilities		
Warranty provisions (note 12)	4,000	4,000
Loans payable (note 9)	27,718	30,313
Convertible debentures (note 10)	1,981,543	1,877,661
	2,013,261	2,935,864
Shareholders' deficiency		
Share capital (note 13)	9,369,643	9,255,241
Subscriptions received (note 13)	576,250	309,000
Reserves (note 14 & 15)	2,670,351	2,594,075
Currency translation reserve	(187,968)	(10,715)
Convertible debentures – equity component	125,042	125,042
Deficit	(14,300,322)	(13,504,021)
Total shareholders' deficiency	(1,747,004)	(1,231,378)
Total liabilities and shareholders' deficiency	\$ 1,332,183	\$ 1,704,486

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

Commitment & Contingencies (note 18, 20)

Subsequent events (note 22)

Approved on behalf of the Board:

"Lynn Mueller", Director

"Mark McCoey", Director

SHARC International Systems Inc.
(formerly International Wastewater Systems Inc.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenues	\$ 418,247	\$ —
Cost of sales	(199,195)	(139,672)
Gross margin	219,052	(139,672)
Expenses		
Accounting and legal	51,157	42,789
Advertising and promotion	101,144	67,100
Consulting (note 16)	223,212	202,180
Depreciation (note 8)	12,265	3,139
Foreign exchange	(171,269)	4,832
Insurance	7,460	4,440
Office and miscellaneous	97,274	59,851
Regulatory and filing fees	7,898	11,571
Rent	38,441	27,961
Research and development	56,725	1,400
Share-based payments (notes 14, 16)	102,678	196,311
Telephone and utilities	11,757	10,489
Trademarks	—	—
Travel	31,863	23,878
Wages and benefits (note 16)	339,177	290,436
Warranty expense (note 12)	—	104
	(909,782)	(946,481)
Interest and financing expense	(105,571)	(18,228)
Loss on debt settlement (note 13)	—	(7,000)
Loss for the period	\$ (796,301)	\$ (1,111,381)
Other comprehensive income (loss)		
Foreign currency translation	177,253	(1,349)
Total comprehensive loss for the year	\$ (619,048)	\$ (1,112,730)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)
Weighted average number of common shares outstanding:		
Basic and diluted	28,485,925	24,001,554

SHARC International Systems Inc.
(formerly International Wastewater Systems Inc.)
Condensed Consolidated Interim Statement of Cash Flows
(Unaudited - Expressed in Canadian Dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Operating activities		
Loss for the year	\$ (796,301)	\$ (1,111,381)
Adjustments for:		
Depreciation	12,265	3,139
Unrealized foreign exchange	(168,007)	(1,242)
Share-based payments	102,678	196,311
Accrued interest expense	105,309	2,103
Shares for services	—	28,000
Loss on debt settlement	—	7,000
Changes in non-cash working capital items:		
Receivables	57,391	(28,103)
Prepaid expenses	(134,440)	20,736
Inventory	30,164	(163,064)
Accounts payable and accrued liabilities	9,363	248,066
Deferred revenue	(196,950)	81,600
Warranty provisions	(207)	(8,455)
Net cash used in operating activities	(978,735)	(725,650)
Financing activities		
Proceeds from loans payable	210,000	—
Repayment of loans payable	(5,939)	(210,961)
Repayment of loans receivable	70,490	1,024
Proceeds on exercise of stock options	88,000	—
Proceeds on exercise of warrants	—	31,640
Proceeds on private placement, net of costs	—	706,858
Subscriptions received	294,750	—
Subscriptions refunded	(27,500)	—
Net cash provided by financing activities	629,801	528,561
Net change in cash	(348,934)	(197,089)
Impact of exchange rate changes on cash	(7,806)	657
Cash, beginning of year	576,036	373,430
Cash, end of year	\$ 219,296	\$ 176,998
Cash consists of:		
Cash	\$ 169,296	\$ 176,998
Restricted cash	50,000	—
Total cash	\$ 219,296	\$ 176,998

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

Supplemental disclosure with respect to cash flows (note 21)

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

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

(Unaudited - Expressed in Canadian Dollars)

	Share Capital		Subscriptions received	Reserves	Currency translation reserve	Convertible debenture	Deficit	Total
	Number	\$		\$	\$	\$	\$	\$
Balance, December 31, 2017	26,379,302	7,876,677	—	2,183,696	36,934	—	(9,780,690)	316,617
Common shares issued	759,957	797,955	—	—	—	—	—	797,955
Share issue costs	—	(119,963)	—	28,866	—	—	—	(91,097)
Residual value of warrants granted	—	(79,795)	—	79,795	—	—	—	—
Shares issued for debt	100,000	112,000	—	—	—	—	—	112,000
Shares issued for services	25,000	28,000	—	—	—	—	—	28,000
Warrants exercised	64,571	31,640	—	—	—	—	—	31,640
Share-based payments	—	—	—	196,311	—	—	—	196,311
Currency translation adjustment	—	—	—	—	(1,349)	—	—	(1,349)
Loss for the year	—	—	—	—	—	—	(1,111,381)	(1,111,381)
Balance, March 31, 2017	27,328,830	8,646,514	—	2,488,668	35,585	—	(10,892,071)	278,696
Common shares issued	690,571	725,099	—	—	—	—	—	725,099
Share issue costs	—	(54,997)	—	23,714	—	—	—	(31,283)
Residual value of warrants granted	—	(351,935)	—	351,935	—	—	—	—
Shares issued for services	25,000	14,438	—	—	—	—	—	14,438
Warrants exercised	239,143	117,180	—	—	—	—	—	117,180
Stock options exercised	135,714	78,750	—	—	—	—	—	78,750
Fair value of stock options exercised	—	80,192	—	(80,192)	—	—	—	—
Share-based payments	—	—	—	433,772	—	—	—	433,772
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	—	—	—	—	(46,300)	—	—	(46,300)
Loss for the year	—	—	—	—	—	—	(3,410,160)	(3,410,160)
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 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 (Deficiency)

(Unaudited - Expressed in Canadian Dollars)

	Share Capital		Subscriptions received	Reserves	Currency translation reserve	Convertible debenture	Deficit	Total
	Number	\$		\$	\$	\$	\$	\$
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)
Stock options exercised	200,000	88,000	—	—	—	—	—	88,000
Fair value of stock options exercised	—	26,402	—	(26,402)	—	—	—	—
Subscriptions received	—	—	294,750	—	—	—	—	294,750
Subscriptions refunded	—	—	(27,500)	—	—	—	—	(27,500)
Share-based payments	—	—	—	102,678	—	—	—	102,678
Currency translation adjustment	—	—	—	—	(177,253)	—	—	(177,253)
Loss for the year	—	—	—	—	—	—	(796,301)	(796,301)
Balance, March 31, 2018	28,619,258	9,369,643	576,250	2,670,351	(187,968)	125,042	(14,300,322)	(1,747,004)

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

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

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 March 31, 2018, the Company incurred a loss of \$796,301 (Three months ended March 31, 2017 - \$1,111,381). As of March 31, 2018, the Company has a deficit of \$14,300,322 (December 31, 2017 - \$13,504,021) and working capital of \$134,805 (December 31, 2017 - \$536,879). 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

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"). The 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 May 30, 2018, the date the Board of Directors approved these financial 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, 2017. 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 the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

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, 2019. Pronouncements that are not applicable to the Company have been excluded from this note.

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. 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 March 31, 2018 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 \$1,000 (December 31, 2017 - \$5,000).

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 March 31, 2018 and December 31, 2017, the Company is exposed to credit risk arising from receivables and loans receivable (note 17).

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

3. Financial instruments (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at March 31, 2018, 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.

4. 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.

5. Receivables

	As at March 31, 2018 \$	As at December 31, 2017 \$
GST recoverable (Canada)	97,692	113,684
VAT and government assistance receivable (UK)	77,162	88,550
Holdback receivables	56,676	60,165
Other receivables	6,156	13,279
Trade receivables	61,882	74,537
	299,568	350,215

6. Inventory

	As at March 31, 2018 \$	As at December 31, 2017 \$
Materials and supplies	56,865	260,593
Work-in-progress	455,373	268,245
	512,238	528,838

7. 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 three months ended March 31, 2018 was \$21,232 for a balance at March 31, 2018 of \$235,730 (December 31, 2017 - \$214,498).

As at December 31, 2017 and March 31, 2018, the equity investment was \$Nil.

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

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

7. Equity investment (continued)

	As at March 31, 2018 \$	As at December 31, 2017 \$
Current assets	90,401	79,043
Non-current assets	1,204,562	1,221,276
Current liabilities	(89,295)	(110,445)
Non-current liabilities	(1,654,740)	(1,509,863)
Revenue	37,460	90,234
Total comprehensive loss	(53,081)	(274,779)

8. Equipment

	Equipment, furniture and fixtures \$	Demonstration units \$	Computer hardware \$	Computer software \$	Leasehold improvements \$	Total \$
Cost:						
Balance, December 31, 2016	46,080	—	27,926	163,123	19,025	256,907
Additions	19,733	271,613	—	—	—	291,346
Balance, December 31, 2017	65,813	271,613	27,926	163,123	19,025	547,500
Additions	—	—	—	—	—	—
Balance, March 31, 2018	65,813	271,613	27,926	163,123	19,025	547,500
Accumulated depreciation:						
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
Depreciation	1,977	9,003	334	—	951	12,265
Balance, March 31, 2018	28,456	244,602	25,832	163,123	14,034	476,047
Carrying amounts:						
As at December 31, 2017	39,333	36,014	2,248	—	5,942	83,718
As at March 31, 2018	37,357	27,011	2,094	—	4,991	71,453

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.

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

9. 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 three months ended March 31, 2018, the Company made payments totaling \$5,940 (£3,375), of which \$1,427 (£811) related to interest and \$4,513 (£2,564), related to principal. The balance of the loan as at March 31, 2018 is \$46,510 (£25,688), of which \$18,792 (£10,379) is recognized as short-term.

(ii) 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.

(iii) 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.

(iv) In February 2018, the Company received a \$150,000 loan from a third-party lender. The loan was unsecured, bears interest at 12% and due on demand. The loan was repaid in May 2018.

(v) In March 2018, the Company received a \$60,000 loan from a company controlled by the Chief Financial Officer of the Company. The loan was unsecured, non-interest bearing and due on demand. The loan was repaid in May 2018.

	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of year	\$ 47,917	\$ 267,402
Proceeds from loans	210,000	80,000
Repayment of loans	(5,940)	(324,330)
Interest expense	1,427	23,575
Foreign exchange	3,106	1,270
Balance, end of year	256,510	47,917
Less: non-current portion	(228,792)	(17,604)
	\$ 27,718	\$ 30,313

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

10. 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.

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

Accretion charges, included in interest and financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the three month period ended March 31, 2018 was \$103,882, of which \$69,327 relates to accrued interest as at March 31, 2018.

11. Deferred revenue

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

SHARC International Systems Inc.

(formerly International Wastewater Systems Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017 (Unaudited - Expressed in Canadian Dollars)

12. Warranty provisions

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

	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of year	\$ 18,926	\$ 169,370
Warranty provisions recognized	—	13,798
Warranty expenses incurred	(207)	(164,242)
	18,719	18,926
Less: non-current portion	(4,000)	(4,000)
	\$ 14,719	\$ 14,926

13. 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.

b) Common shares issued

(i) 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 13. (v)).

(ii) 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.

(iii) 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.

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13. Share capital (continued)

b) Common shares issued (continued)

(iv) 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.

(v) 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.

(vi) 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

At March 31, 2018 4,028,572 shares were held in escrow (December 31, 2017 – 4,028,572).

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13. Share capital (continued)

d) Performance shares

In connection with the acquisition of IWWS in 2015, the Company will allocate 1,000,000 performance 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 March 31, 2018 and December 31, 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 and refunded

The Company received \$309,000 of subscription receipts towards a financing that closed subsequent to March 31, 2018. The Company received an additional \$294,750 and refunded \$27,500 for an aggregate of \$576,250 subscriptions received as of March 31, 2018.

14. Stock options

	Number of stock options	Weighted average exercise price \$
Balance, December 31, 2016	1,738,572	1.07
Exercised	(135,714)	0.58
Issued	2,500,000	0.52
Cancelled	(1,460,000)	1.05
Balance, December 31, 2017	2,642,858	0.58
Issued	550,000	0.41
Exercised	(200,000)	0.44
Balance, March 31, 2018	2,992,858	0.56

(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.

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14. 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 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 March 31, 2018:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
July 28, 2018	0.63	0.33	752,750	752,750
October, 27, 2020	1.47	2.58	142,858	142,858
July 12, 2021	1.05	3.28	100,000	100,000
October 3, 2018	0.44	0.51	1,247,250	1,247,250
October 23, 2018	0.60	0.56	200,000	200,000
March 13, 2019	0.36	0.95	300,000	300,000
March 13, 2019	0.46	0.98	250,000	250,000
	0.56	0.74	2,992,858	2,992,858

Share-based payments

During the three months ended March 31, 2018, the Company recognized share-based payments of \$102,678 (three months ended March 31, 2017 - \$196,311) relating to stock options granted and vesting during the year.

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15. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2016	494,286	\$ 0.61
Issued	4,036,919	1.24
Exercised	(303,714)	0.67
Balance, December 31, 2017 and March 31, 2018	4,227,491	1.22

The following are the warrants outstanding at March 31, 2018:

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	

16. 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 March 31, 2018 (three months ended March 31, 2017), the Company incurred the following charges with key management personnel:

(i) Consulting fees of \$15,000 (\$30,000) to companies controlled by directors and officers of the Company and a company controlled by a director of IWHES.

(ii) Wages and benefits of \$99,287 (\$82,050) to the CEO, director of the Company and a director of IWHES.

(iii) Share-based payments of \$Nil (\$161,850) 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:

Cost of sales of \$Nil (\$2,832) and expenses associated with ongoing projects capitalized to inventory or research and development costs which have been expensed of \$XX (\$2,832) due to a company controlled by a director of IWWS.

Included in accounts payable is \$209,595 (December 31, 2017 - \$205,587) due to related parties.

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17. 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 March 31, 2018 the outstanding balance was \$Nil (\$41,832) as the loan was repaid. In addition, there is an advance of \$Nil (March 31, 2017 - \$27,702) to the CEO which is non-interest bearing and is due on demand.

18. 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.

19. Segmented information

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

Geographic information as at March 31, 2018 is as follows:

	Canada	United Kingdom	Total
Assets			
Inventory	\$ 297,747	\$ 214,491	\$ 512,238
Equipment	54,413	17,040	71,453
	\$ 352,160	\$ 231,530	\$ 583,690

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 for the year ended March 31, 2018 is as following:

	Canada	United Kingdom	Total
Revenues	\$ 418,247	\$ —	\$ 418,247
Cost of sales	(189,698)	(9,497)	(199,195)
Gross margin	228,549	(9,497)	219,052
Loss for the year	\$ (467,430)	\$ (328,873)	\$(796,303)

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

	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)	\$(812,596)

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20. Contingencies

During the three months ended March 31, 2018, in connection with two wastewater heat recovery demonstration projects IWWS received \$44,839 (year ended December 31, 2017 - \$295,590), in aggregate \$340,429 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.

21. Supplemental disclosure with respect to cash flows

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

	March 31, 2018 \$	March 31, 2017 \$
Fair value of stock options exercised	26,402	—

22. Subsequent events

- (i) On May 11, 2018, the Company closed the first tranche of a Non-Brokered Private Placement raising gross proceeds of \$2,332,598 from the issuance and sale of 5,831,495 units at a price of \$0.40 per unit. Each unit consists of 1 common share and 1 common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.60 for a period of 24 months from the closing date of the private placement. In the event that the Company's common shares trade at a closing price on the Exchange of greater than \$1.00 per share for a period of 10 consecutive trading days at any time after the closing date, the Company may accelerate the expiry date of the common share purchase warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date hereafter.

In connection with the private placement, the Company paid finder's fees of \$53,200 and issued 133,000 finder's warrants. Each warrant has the same terms as common share purchase warrants issued under the private placement.

- (ii) Subsequent to March 31, 2018, 300,000 stock options were exercised for proceeds of \$108,000.