SHARC INTERNATIONAL SYSTEMS INC.
Consolidated Financial Statements

For the year ended December 31, 2019

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sharc International Systems Inc.

Opinion

We have audited the accompanying consolidated financial statements of Sharc International Systems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2019, the Company has accumulated a deficit of $22,650,344 and has a working capital deficit of $3,472,779. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carmen Newnham.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

June 5, 2020

Sharc International Systems Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2019 $	December 31, 2018 $
ASSETS			
Current			
Cash		109,510	1,899,657
Receivables	5	54,053	1,244,773
Prepaid expenses		18,857	100,877
Inventory	6	319,535	330,482
Total current assets		**501,955**	**3,575,789**
Equity investments	7	—	945
Restricted cash	8	20,000	50,000
Deposits		1,200	9,999
Property and equipment	9	547,606	2,241,792
Total assets		**1,070,761**	**5,878,525**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	10	1,171,785	3,687,352
Loans payable	11	422,948	872,100
Deferred revenue	12	39,932	3,933
Warranty provisions	13	—	2,272
Convertible debentures	14	2,238,334	—
Lease liabilities	4	101,735	—
Total current liabilities		**3,974,734**	**4,565,657**
Loans payable	11	—	1,553,386
Warranty provisions	13	—	13,757
Convertible debentures	14	2,640,179	2,038,381
Lease liabilities	4	410,072	—
Total liabilities		**7,024,985**	**8,171,181**
SHAREHOLDERS' DEFICIENCY			
Share capital	15	13,212,855	13,201,868
Reserves	15	2,985,374	3,360,162
Currency translation reserve		—	(90,540)
Convertible debentures – equity component		497,891	125,042
Deficit		(22,650,344)	(18,889,188)
Total shareholders' deficiency		**(5,954,224)**	**(2,292,656)**
Total liabilities and shareholders' deficiency		**1,070,761**	**5,878,525**

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

Nature of Operations and Going Concern [Note 1]
Commitments and Contingencies [Note 16]
Subsequent Events [Note 23]

Approved on behalf of the Board:

/s/ Lynn Mueller — Director

/s/ Matt Engelhardt — Director

Sharc International Systems Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Note	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Revenue		143,584	530,864
Cost of sales		(66,672)	(285,141)
Gross margin		**76,912**	**245,723**
Expenses			
Accounting and legal		135,843	162,168
Advertising and promotion		219,227	371,318
Bad debt expense		58,558	—
Consulting	10	497,982	817,222
Depreciation	9	85,279	49,407
Insurance		27,170	23,728
Interest and financing expense		890,652	1,378,939
Office and miscellaneous		85,383	200,700
Regulatory and filing fees		60,579	51,247
Rent	4	70,315	77,753
Research and development		42,148	156,806
Share-based payments	10,15[d]	203,616	436,452
Telephone and utilities		67,858	21,597
Travel		81,305	142,159
Wages and benefits	10	1,012,395	834,839
Warranty expense		6,190	8,003
		(3,544,500)	**(4,732,338)**
		(3,467,588)	**(4,486,615)**
Gain on debt settlement	15[b]	4,708	816
Foreign exchange		(81,005)	57,261
Loss from continuing operations before income taxes		**(3,543,885)**	**(4,428,538)**
Deferred tax recovery	21	249,099	—
Loss from continuing operations		**(3,294,786)**	**(4,428,538)**
Loss on discontinued operations	17	**(1,205,159)**	**(1,467,938)**
Loss for the year		**(4,499,945)**	**(5,896,476)**
Other comprehensive gain (loss)			
Foreign currency translation on discontinued operations		47,819	(79,825)
Loss and comprehensive loss for the year		**(4,452,126)**	**(5,976,301)**
Continuing operations - Basic and diluted loss per common share		**(0.08)**	**(0.13)**
Discontinued operations - Basic and diluted loss per common share		**(0.03)**	**(0.04)**
Weighted average number of common shares outstanding		**38,720,176**	**34,790,471**

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

Sharc International Systems Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian dollars)

	Common Shares		Subscription 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)**
Common shares issued	9,777,745	3,911,098	(192,000)	–	–	–	–	**3,719,098**
Share issue costs	–	(243,110)	–	85,112	–	–	–	**(157,998)**
Stock option exercised	500,000	196,000	–	–	–	–	–	**196,000**
Fair value of stock options exercised	–	75,455	–	(75,455)	–	–	–	**–**
Subscriptions refunded	–	–	(117,000)	–	–	–	–	**(117,000)**
Shares for debt	23,173	7,184	–	–	–	–	–	**7,184**
Warrants issued for loan	–	–	–	831,287	–	–	–	**831,287**
Share-based payments	–	–	–	436,452	–	–	–	**436,452**
Reversal of expired options	–	–	–	(511,309)	–	–	511,309	**–**
Currency translation adjustment	–	–	–	–	(79,825)	–	–	**(79,825)**
Loss for the year	–	–	–	–	–	–	(5,896,476)	**(5,896,476)**
Balance, December 31, 2018	**38,720,176**	**13,201,868**	**–**	**3,360,162**	**(90,540)**	**125,042**	**(18,889,188)**	**(2,292,656)**
Issuance of convertible debt	–	–	–	193,995	–	372,849	–	**566,844**
Shares for debt	156,950	10,987	–	–	–	–	–	**10,987**
Warrants issued for loan	–	–	–	9,111	–	–	–	**9,111**
Share-based payments	–	–	–	203,616	–	–	–	**203,616**
Reversal of expired options	–	–	–	(781,510)	–	–	781,510	**–**
Currency translation adjustment	–	–	–	–	47,819	–	–	**47,819**
Reclass of currency translation reserve on loss of foreign operations	–	–	–	–	42,721	–	(42,721)	–
Loss for the year	–	–	–	–	–	–	(4,499,945)	**(4,499,945)**
Balance, Decmeber 31, 2019	**38,877,126**	**13,212,855**	**–**	**2,985,374**	**–**	**497,891**	**(22,650,344)**	**(5,954,224)**

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

Sharc International Systems Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Note	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
OPERATING ACTIVITIES			
Loss for the year		(4,499,945)	(5,896,476)
Add items not affecting cash:			
Depreciation	9	85,279	49,407
Bad debt expense		58,558	—
Loss on discontinued operations	17	1,205,159	1,467,938
Unrealized foreign exchange		(81,005)	(57,261)
Share-based payments	15[d]	203,616	436,452
Warrants issued for finance expense	11	9,111	831,287
Accrued interest expense	11,14	881,331	531,948
Gain on debt settlement	15[b]	(4,708)	(816)
Deferred tax recovery		(249,099)	—
Changes in non-cash working capital items:			
Receivables		167,421	(43,832)
Prepaid expenses		82,020	(19,394)
Inventory		(95,577)	12,030
Accounts payable and accrued liabilities		594,513	215,429
Deferred revenue		35,999	(196,235)
Warranty provisions		(16,029)	(2,897)
Cash used in continuing operating activities		**(1,623,356)**	**(2,672,420)**
Cash used in discontinued operating activities		**(526,588)**	**(1,108,692)**
Cash used in operating activities		**(2,149,944)**	**(3,781,112)**
INVESTING ACTIVITIES			
Purchase of property and equipment		(34,137)	(31,800)
Redemption of restricted cash		30,000	—
Cash used in continued investing activities		**(4,137)**	**(31,800)**
Cash used in discontinued investing activities		**(2,938,884)**	**(3,148,107)**
Cash used in investing activities		**(2,943,021)**	**(3,179,907)**
FINANCING ACTIVITIES			
Proceeds from loans payable	11	280,000	2,360,000
Repayment of loans payable	11	(778,817)	(1,596,069)
Repayment of loans receivable		—	74,197
Repayment of convertible debentures		(548,934)	(294,950)
Payment of lease liabilities		(59,128)	—
Proceeds on exercise of stock options	15[b]	—	196,000
Proceeds on private placement, net of costs	15[b]	—	3,561,100
Proceeds on convertible debentures, net of costs	14	3,289,722	—
Subscriptions refunded		—	(117,000)
Cash provided by continued financing activities		**2,182,843**	**4,183,278**
Cash provided by discontinued financing activities		**1,121,642**	**4,160,817**
Cash provided by financing activities		**3,304,485**	**8,344,095**
Increase (decrease) in cash during the year		**(1,788,480)**	**1,383,076**
Impact of exchange rate changes on cash		(1,667)	(9,455)
Cash, beginning of the year – continued operations		587,849	496,502
Cash, beginning of the year – discontinued operations		1,311,808	29,534
		1,899,657	526,036
Less: Cash, end of the year – discontinued operations		—	(1,311,808)
Cash, end of the year		**109,510**	**587,849**

Supplemental disclosure with respect to cash flow (Note 20)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Sharc International Systems Inc. (the "**Company**" or "**SHARC**") was incorporated under the *Business Corporations Act* (British Columbia) on February 4, 2011. The Company's shares are listed on the Canadian Securities Exchange (the "**CSE**") under the trading symbol "**SHRC**", Frankfurt Stock Exchange (the "**FSE**") under the trading symbol "**IWIA**" and the OTC under the symbol "**INTWF**". The Company is engaged in providing wastewater heat exchange expertise and products that service commercial, industrial, public utilities and residential development projects objectives of reducing their carbon footprint while saving on energy costs. The Company's registered and records office is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, Canada, V3C 6L4.

These consolidated financial statements (the "**Financial Statements**") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2019, the Company has accumulated a deficit of $22,650,344 and has a working capital deficit of $3,472,779. 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 on the Company's ability to continue as a going concern.

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

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

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**"). These Financial Statements were approved by the Company's Board of Directors on June XX, 2020.

[b] Basis of measurement and consolidation

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

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

Company	**Location**	**December 31, 2019 Ownership %**	**December 31, 2018 Ownership %**
Sharc Energy Systems Inc. ("**SES**")	Canada	100	100
Sharc Energy Ltd ("**Sharc UK**")	United Kingdom	—	100
Sharc Highlands Ltd. ("**Highlands**")	United Kingdom	—	100
Green Sharc Ltd. (1)	United Kingdom	—	100
Sharc Energy Services (UK) Ltd. (1)	United Kingdom	—	100
Sharc Energy Systems Australasia Pty Ltd. ("**Sharc Australasia"**) (1)	Australia	80	80
2336882 Ontario Inc. (1)	Canada	100	100

(1)The subsidiary was inactive.

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

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

[c] Presentation currency

These Financial Statements are presented in Canadian dollars.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

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

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

Critical Judgments

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

i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

ii. Management is required to assess the functional currency of the Company. The determination of functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

iii. The 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.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty

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

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

ii. Warranty provisions are recognized for the future obligations to provide services for the repairs and maintenance of products sold to its customers. The Company assesses its warranty provision based on experience. Actual costs incurred may differ from those amounts estimated.

iii. The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market drive changes that may reduce future selling prices.

iv. The Company has service agreements with regards to some of its product sales which requires management to make judgments regarding the timing and allocation of revenue. Specifically, installation is generally not assumed to have standalone value and is often recognized on the same basis as the remainder of the services fees. However, the Company defers the recognition of revenue associated with fees for services agreements or warranty costs that are built in to the original sales price and recognizes the assosciated revenue evenly over the term of the service or warranty is provided.

3. SIGNIFICANT ACCOUNTING POLICIES

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 SES is the Canadian dollar and the functional currency of Sharc UK and Highlands 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.

Property and equipment

Property and 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from all product sales of the Company is recognized when products are shipped to customers and control 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

The Company applies the requirements of IFRS 9 – Financial Instruments ("IFRS 9") which utilizes a model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The following is the Company's accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Receivables, accounts payable and accrued liabilities, loans payable, convertible debentures and lease liabilities are measured at amortized cost.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. Cash and restricted cash are measure at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

<u>Derecognition</u>

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss.

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.

3. 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.

(Expressed in Canadian dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of new accounting policy – leases

Impact of application of IFRS 16 Leases

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

In transitioning to IFRS 16, the Company analyzed its contracts to identify whether they are or contain a lease arrangement. This analysis identified contracts containing a lease that had an equivalent increase to both the Company's right of use ("ROU") assets and lease liabilities.

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

	As previously reported $	**Effect of change in accounting policy $**	**As reported under new accounting policy $**
Property and equipment	2,241,792	89,719	2,331,511
Lease liability (current)	—	(30,466)	(30,466)
Lease liability (non-current)	—	(59,253)	(59,253)
	2,241,792	**—**	**2,241,792**

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

Operating lease obligations as at December 31, 2018	182,187
Short term lease	(77,829)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(14,639)
	89,719

New Accounting policy for leases under IFRS 16

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

(Expressed in Canadian dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Adoption of new accounting policy – leases (continued)

New Accounting policy for leases under IFRS 16 (continued)

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

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

Lease liabilities

The Company leases vehicles and office space in Canada. The lease liabilities were measured at the present value of the remaining lease payments as of January 1, 2019, discounted using an incremental borrowing rate at that date of 12%. The Company recorded a ROU asset of the same amount (Note 9).

At adoption, the value of the lease liabilities and ROU asset was $604,569.

For the year ended December 31, 2019, the Company recognized interest expense on the lease liability of $22,491.

Lease liabilities	
Lease liabilities	**511,807**
Less: non-current portion	(410,072)
December 31, 2019	**101,735**

Undiscounted lease payments	
Not later than one year	**156,116**
Later than one year and not later than 5 years	502,122
December 31, 2019	**658,238**

The Company elected not to apply the new lease standard to short term leases with an initial term of 12 months or less but rather to recognise the lease expense on a straight line basis. For the year ended December 31, 2019, $58,315 related to a short-term office lease and $12,000 of variable lease payments were included in rent expense on the statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

5. RECEIVABLES

	As at December 31, 2019 $	As at December 31, 2018 $
GST recoverable (Canada)	37,785	107,407
VAT and government assistance receivable (UK)	—	577,283
Other receivables	—	215,009
Trade receivables	16,268	345,074
Total	**54,053**	**1,244,773**

6. INVENTORY

	As at December 31, 2019 $	As at December 31, 2018 $
Materials and supplies	9,950	9,536
Work-in-progress	253,129	320,946
Finished goods	56,456	—
Total	**319,535**	**330,482**

7. EQUITY INVESTMENTS

Sharc Caledonia Ltd. ("Caledonia")

During the year ended December 31, 2015, the Company acquired a 40% interest in Caledonia for £4,000 ($7,817). As the Company exerted significant influence over Caledonia but did not control it, the investment was accounted for as an equity investment.

The Company lost its significant influence over Caledonia when control of Sharc UK was lost on the appointment of a liquidator on October 29, 2019 (Note 17).

As at October 29, 2019 and December 31, 2018 the equity investment was $Nil. The Company's unrecognized share of loss for the period was $64,474 (December 31, 2018 – $79,850) for total balance to date of $358,822 (December 31, 2018 - $294,348).

The table below discloses the selected financial information for Caledonia on a 100% basis as at December 31, 2018:

	As at October 29, 2019 $	As at December 31, 2018 $
Current assets	60,574	130,089
Non-current assets	1,098,605	1,154,372
Current liabilities	(55,851)	(112,250)
Non-current liabilities	(1,793,976)	(1,715,538)
Revenue	122,969	142,977
Total comprehensive loss	(161,184)	(199,626)

(Expressed in Canadian dollars)

7. EQUITY INVESTMENTS (CONTINUED)

Bandwidth Energy Limited ("Bandwidth")

During the year ended December 31, 2018, the Company entered into a joint arrangement and holds a 50% interest in Bandwidth for £10,000 ($17,357). As the Company held joint control of the arrangement but the legal form of the arrangement and the contractual terms of the arrangement did not give or specify that the parties had rights to the assets, and obligations for the liabilities and therefore, the investment was treated as a joint venture and accounted for as an equity investment.

On September 17, 2019, the Company agreed to sell its 50% interest in Bandwidth for £10,000 cash to Scottish Water Horizons Ltd. ("**SWH**"), the other 50% shareholder, and terminated the agreement ("**Termination Agreement**") for the execution of certain works, namely the design, installation, testing and commissioning of a new sewage heat recovery system ("**Aqualibrium**") with Bandwidth (Note 16) for £15,000 . The Company recognized a gain on sale of $42,363 (£25,000) which is included in discontinued operations on the statement of loss and comprehensive loss (Note 17).

The Company's share of the loss for the period ended September 17, 2019 and the year ended December 31, 2018 was £6,390 ($10,829) and £9,487 ($16,412), respectively. The equity investment in Bandwidth as at September 17, 2019 and December 31, 2018 was calculated as the following:

	As at September 17, 2019 $	**As at December 31, 2018 $**
Cost	17,357	17,357
Net loss attributable to equity investment	(17,357)	(16,412)
Equity Investment	—	945

The table below discloses selected financial information for Bandwidth on a 100% basis as at September 17, 2019 and December 31, 2018:

	As at September 17, 2019 $	**As at December 31, 2018 $**
Current assets	9,717	412,889
Non-current assets	923,970	818,109
Current liabilities	(3,786)	(365,980)
Non-current liabilities	(957,393)	(863,231)
Revenue	—	—
Total comprehensive income	21,658	32,824

(Expressed in Canadian dollars)

8. RESTRICTED CASH

The restricted cash balance is comprised of a bank lien on funds held as collateral for the Company's corporate credit card limits. The Company reduced the credit card limits by $30,000 during the year ended December 31, 2019.

9. PROPERTY AND EQUIPMENT

	Equipment, furniture and fixtures $	Demo units $	Computer hardware $	Leasehold improvements $	Right of use asset $	Building under construction $	Total $
Cost:							
Balance, December 31, 2017	**65,813**	**271,614**	**27,926**	**19,025**	—	**—**	**384,378**
Addition	—	31,799	—	—	—	4,822,662	4,854,461
Government grant (Note 16)	—	—	—	—	—	(2,643,350)	(2,643,350)
Balance, December 31, 2018	**65,813**	**303,413**	**27,926**	**19,025**	—	**2,179,312**	**2,595,489**
Addition	9,059	34,134	—	—	604,569	2,394,931	3,042,693
Government grant (Note 16)	—	—	—	—	—	(285,386)	(285,386)
Disposition	—	—	—	—	(20,867)	—	(20,867)
Foreign currency translation	35	—	—	—	(531)	(119,058)	(119,554)
Discontinued operations (Note 17)	(28,827)	—	—	—	(34,491)	(4,169,799)	(4,233,117)
Balance, December 31, 2019	**46,080**	**337,547**	**27,926**	**19,025**	**548,680**	**—**	**979,258**
Accumulated depreciation:							
Balance, December 31, 2017	**26,479**	**235,600**	**25,498**	**13,083**	**—**	**—**	**300,660**
Depreciation	7,907	39,989	1,336	3,805	—	—	53,037
Balance, December 31, 2018	**34,386**	**275,589**	**26,834**	**16,888**	**—**	**—**	**353,697**
Depreciation	8,506	31,959	601	2,137	56,763	—	99,966
Disposition	—	—	—	—	(2,256)	—	(2,256)
Foreign currency translation	20	—	—	—	473	—	493
Discontinued operations (Note 17)	(10,548)	—	—	—	(9,700)	—	(20,248)
Balance, December 31, 2019	**32,364**	**307,548**	**27,435**	**19,025**	**45,280**	**—**	**431,652**
Net book value:							
As of December 31, 2018	31,427	27,824	1,092	2,137	—	2,179,312	2,241,792
As of December 31, 2019	**13,716**	**29,999**	**491**	**—**	**503,400**	**—**	**547,606**

(Expressed in Canadian dollars)

10. RELATED PARTY DISCLOSURE

Transactions with related parties

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

The Company incurred the following charges with key management personnel:

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Consulting fees [i]	267,726	94,516
Wages and benefits [ii]	558,955	392,898
Share-based payments [iii]	(391,488)	186,974
Inventory/cost of sales [iv]	166,994	32,202
	602,187	**706,590**

[i] The Company paid consulting fees to companies controlled by the Chief Financial Officer, former Senior Vice President of Finance, former Chief Operating Officer and a former Director of Sharc UK.

[ii] The Company paid wages and benefits to the Chief Executive Officer and Director, a Director, the former Chief Operating Officer and former Senior Vice President of Finance.

[iii] Share-based payments was recognized in connection with the vesting of options granted to directors and officers of the Company in the amount of $124,090. Furthermore, options were terminated and cancelled during the year which resulted in reversal of $515,578.

[iv] The Company paid consulting fees to companies controlled by the former Chief Operating Officer and a former Director of Sharc UK that were capitalized to inventory costs and expensed to cost of sales.

Included in accounts payable is $672,587 (December 31, 2018 – $252,025) due to related parties.

11. LOANS PAYABLE

[i] During the year ended December 31, 2015 Sharc UK received a loan of $102,035 (£50,000) from an unrelated company. The loan accrues interest at a rate of 12.5% per annum and is payable on April 17, 2020. The loan must be repaid in monthly payments of £1,125 with the first payment required on June 17, 2015. An arrangement fee of £1,000 was paid prior to the loan being advanced. The loan is guaranteed by the CEO of Sharc UK. During the year ended December 31, 2019, the Company made payments totaling $31,840 (£18,790) (December 31, 2018 - $28,354 (£13,500)), of which $2,140 (£1,263) (December 31, 2018 - $4,799 (£2,774)) related to interest and $29,700 (£17,527) (December 31, 2018 - $30,565 (£17,527) related to principal. The balance was repaid in full prior to liquidation and administration of Sharc UK.

[ii] In February 2018, the Company received a $150,000 loan from a third-party lender. The loan was unsecured, bore interest at 12%. The loan was repaid in May 2018 for $154,500.

[iii] In March 2018, the Company received a $60,000 loan from a company controlled by the former Chief Financial Officer. The loan was unsecured, non-interest bearing and was repaid in May 2018.

[iv] In March 2018, Highlands received a £1,000,000 loan facility from a third party lender. This facility is to be used to finance eligible costs incurred in connection with the Clyde Gateway Project. The loan is guaranteed by Sharc UK, bears interest at 3.5%, and is repayable in monthly payments of £7,160 (or pro-rata depending on how much is drawn down) for 180 consecutive payments beginning 4 months from initial draw down. As of October 11, 2019, the facility is fully drawn (December 31, 2018 - $930,556 (£533,606)). The Company has made pro-rata payments of $80,538 (£47,529), $32,794 (£19,353) related to interest and $47,744 (£28,176), related to principal. The balance of the loan as at October 11, 2019 was $1,669,011 (£971,824) and it was derecognized during the deconsolidation of subsidiaries (Note 17).

[v] In June 2018, Highlands received a £450,000 loan facility from a third party lender. This facility is to be used to pay costs incurred in connection with the Clyde Gateway Project. The loan provides the lender a bond and floating charge on Highlands, bears interest at 4.73% and interest is capitalized and added to the term loan to be repaid on June 25, 2024 or at such other times and in such amounts as the the Company and the lender may agree. As of October 11, 2019, the facility had $772,830 (£450,000) (December 31, 2018 - $610,365 (£350,000)) drawn. The loan has capitalized interest of $28,899 (£16,827) bringing the balance of the loan to $801,729 (£466,827). This loan was derecognized during the deconsolidation of subsidiaries (Note 17).

[vi] In November 2018, the Company received a $150,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 12% and was repayable on January 13, 2019. The loan repayment date was extended for 270 days to September 13, 2019. On December 31, 2018, the balance of the loan was $152,250. The loan was repaid in May 2019 for $158,926 including interest.

11. LOANS PAYABLE (CONTINUED)

[vii] In November 2018, the Company received aggregate loan proceeds of $1,300,000 from third-party lenders. Of the $1,300,000, $600,000 was guaranteed by the CEO and the remaining $700,000 was unsecured. The full $1,300,000 bears interest at 18% and is subject to a finance fee of 5% of the amount advanced. The third-party lenders received an aggregate of 3,714,286 common share purchase warrants exercisable at $0.35 for a period of three years, expiring November 22, 2021. The fair value of the share purchase warrants was $831,287 estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 102.93% which is based on historical volatility, risk-free rate of return of 2.2% and an expected maturity of 3 years. The warrants have been recorded as a financing expenses. The loan was repaid on December 19, 2018.

[viii] In December 2018, the Company received a $490,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate rises to 9%. During the year ended December 31, 2019, $265,418 of the loan was repaid. The balance of the loan as at December 31, 2019 is $260,570 (December 31, 2018 - $491,225). During the year ended December 31, 2019, the third-party lender received 490,000 common share purchase warrants exercisable at $1.00 for a period of three years, expiring December 31, 2022. The fair value of the share purchase warrants was $6,378 estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 115.80% which is based on historical volatility, risk-free rate of return of 1.69% and an expected maturity of 3 years. The warrants have been recorded as a financing expenses. The loan was repaid in full subsequent to year end.

[ix] In December 2018, the Company received a $210,000 loan from a third-party lender. The loan was guaranteed by the CEO, bore interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate rises to 9%. On December 31, 2018, the balance of the loan was $210,525. On March 13, 2019, the loan was repaid in full for $213,107. During the year ended December 31, 2019, the third-party lender received 210,000 common share purchase warrants exercisable at $1.00 for a period of three years, expiring December 31, 2022. The fair value of the share purchase warrants was $2,733 estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 115.80% which is based on historical volatility, risk-free rate of return of 1.69% and an expected maturity of 3 years.

[x] In April 2019, the Company received a $150,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 12% and is repayable on July 24, 2019. The balance of the loan as at December 31, 2019 is $162,378, including accrued interest of $12,378. The loan was repaid subsequent to year end.

[xi] In July 2019, the Company received a $100,000 loan from a third-party lender. The loan is guaranteed by the CEO, bears interest at 24% and is repayable on October 5, 2019. During the year ended December 31, 2019, the loan was repaid in full.

[xii] In October 2019, the Company received a $30,000 from a third party lender. The loan was unsecured, non-interest bearing and was repaid in November 2019.

(Expressed in Canadian dollars)

11. LOANS PAYABLE (CONTINUED)

	As at December 31, 2019 $	As at December 31, 2018 $
Balance, beginning of year	**2,425,486**	**47,917**
Proceeds from loans	1,239,755	3,900,921
Repayment of loans	(891,195)	(1,619,523)
Interest expense	131,212	94,968
Foreign exchange	(11,570)	1,203
Balance, end of year	**2,893,688**	**2,425,486**
Less: discontinued operations (Note 17)	(2,470,740)	—
Less: non-current portion	—	(1,553,386)
	422,948	**872,100**

12. DEFERRED REVENUE

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

13. WARRANTY PROVISIONS

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

14. CONVERTIBLE DEBENTURES

[i] On May 30, 2017 and June 29, 2017, the Company issued two tranches of 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 valued at $35,815 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 year ended December 31, 2019 was $481,113, of which $281,161 (December 31, 2018 -$441,880, of which $281,160) relates to accrued interest.

14. CONVERTIBLE DEBENTURES (CONTINUED)

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

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

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

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

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

On initial recognition, the liability components were $2,022,861 ($1,722,363 net of transaction costs), the warrants were $333,569 ($193,995 net of transaction costs and tax effect) and the residual equity components were $333,569 ($193,996 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, 2019 was $307,577, of which $145,699 relates to accrued interest.

14. CONVERTIBLE DEBENTURES (CONTINUED)

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

If at any time after the first year anniversary of the closing date the closing price of the common shares of the Company is $0.40 or greater for 20 consecutive trading days, the Company may, at its option, convert the debenture and any accrued and unpaid interest thereon into common shares by disseminating a press release, in which case the debentures shall be converted into common shares on the second business day after dissemination of such press release.

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

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

On initial recognition, the liability component was $774,544 ($751,412 net of transaction costs), and the residual equity components were $255,456 ($178,853 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 debenture for the year ended December 31, 2019 was $4,525.

(Expressed in Canadian dollars)

14. CONVERTIBLE DEBENTURES (CONTINUED)

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

	May 30, 2017 $	June 29, 2017 $	March 8, 2019 $	May 9, 2019 $	June 28, 2019 $	Dec. 20, 2019 $	Total $
Balance, December 31, 2017	**1,054,911**	**822,750**	—	—	—	—	**1,877,661**
Accretion expense	251,489	190,391	—	—	—	—	441,880
Interest payment	(158,400)	(122,760)	—	—	—	—	(281,160)
Balance, December 31, 2018	**1,148,000**	**890,381**	—	—	—	—	**2,038,381**
Principal	—	—	810,000	1,330,000	550,000	1,030,000	3,720,000
Equity component	—	—	(68,402)	(152,318)	(63,339)	(247,827)	(531,886)
Warrant component	—	—	(68,402)	(152,318)	(63,339)	—	(284,059)
Transaction costs	—	—	(257,652)	(103,405)	(38,460)	(30,761)	(430,278)
Accretion	274,498	206,614	124,718	139,204	43,655	4,525	793,214
Interest payment	(158,400)	(122,760)	(52,920)	(70,047)	(22,732)	—	(426,859)
Balance, December 31, 2019	**1,264,098**	**974,235**	**487,342**	**991,116**	**405,785**	**755,937**	**4,878,513**

Of the total convertible debentures payable, the current amount is $2,238,334 (December 31, 2018 - $Nil).

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2017 and 2018	**—**	**—**
Issued	192	1,000
Balance, December 31, 2019	**192**	**1,000**

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
March 8, 2022	1,000	48
May 9, 2022	1,000	80
June 28, 2022	1,000	30
December 20, 2022	1,000	33
Balance, December 31, 2019	**1,000**	**192**

(Expressed in Canadian dollars)

14. CONVERTIBLE DEBENTURES (CONTINUED)

Payments required over the next five years are as follows:

	May 30, 2017 $	June 29, 2017 $	March 8, 2019 $	May 9, 2019 $	June 28, 2019 $	Dec. 20, 2019 $	Total $
2020	1,385,530*	1,083,876*	64,800	106,400	44,000	84,689	2,769,295
2021	—	—	64,800	106,400	44,000	84,689	297,600
2022	—	—	821,895	1,366,353	571,269	1,110,111	3,869,628
2023	—	—	—	—	—	—	—
2024	—	—	—	—	—	—	—
	1,385,530	**1,083,876**	**951,495**	**1,579,153**	**659,269**	**1,277,200**	**6,936,523**

* Subsequent to year end, the Company settled the principal balances of these convertible debentures (Note 23) and paid the remaining interest for the May 30, 2017 and June 29, 2017 issuance.

15. SHARE CAPITAL

[a] Authorized Share Capital

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

[b] Common shares

The Company had the following share capital transactions during the year ended December 31, 2018:

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

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

15. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

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

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

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

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

The Company had the following share capital transactions during the year ended December 31, 2019:

[i] During the year ended December 31, 2019, the Company issued 156,950 common shares valued at $10,987 to settle an outstanding debt of $15,695. As a result, the Company recognized a gain on debt settlement of $4,708 on the consolidated statement of loss and comprehensive loss

(Expressed in Canadian dollars)

15. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2017	**4,227,491**	**1.22**
Issued	13,859,431	0.53
Expired	(877,131)	(1.25)
Balance, December 31, 2018	**17,209,791**	**0.67**
Issued	4,904,470	0.49
Expired	(1,676,789)	(1.38)
Balance, December 31, 2019	**20,437,472**	**0.56**

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
May 11, 2020	0.60	5,964,495*
May 30, 2020	1.05	942,857**
June 7, 2020	0.60	4,180,650
June 29, 2020	1.05	730,714**
November 22, 2021	0.35	3,714,286
March 8, 2022	0.40	1,266,030
May 3, 2022	0.40	2,078,790
June 28, 2022	0.40	859,650
December 31, 2022	1.00	700,000
Balance, December 31, 2019	**0.56**	**20,437,472**

**Expired unexercised subsequent to year end (Note 23)* *********Amended subsequent to year end (Note 23)*

(Expressed in Canadian dollars)

15. SHARE CAPITAL (CONTINUED)

[d] Stock options

During the year ended Decembe 31, 2019, the Company granted 1,208,000 stock options with a weighted average exercise price of $0.20.

During the year ended December 31, 2019, the Company recorded share-based payments of $203,616 (December 31, 2018 - $436,452). During the year ended December 31, 2019, the Company recorded a reversal of reserves on expired and forfeited options of $781,510 (December 31, 2018 - $511,309). The fair values of share options granted during the year ended December 31, 2019 and 2018 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2019	**2018**
Risk-free interest rate	1.67%	2.10%
Estimated annualized volatility	82.34%	104.44%
Expected life	2.3 years	2.17 year
Expected dividend yield	0%	0%
Exercise price	$0.20	$0.38
Fair value per option	$0.0968	$0.2142
Share price	$0.20	$0.38

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

	Number	**Weighted Average Exercise Price** $
Balance, December 31, 2017	**2,642,858**	**0.58**
Issued	3,239,000	0.38
Exercised	(500,000)	(0.39)
Expired	(2,200,000)	(0.52)
Balance, December 31, 2018	**3,181,858**	**0.45**
Issued	1,208,000	0.20
Expired	(3,781,858)	(0.40)
Balance, December 31, 2019	**608,000**	**0.28**

Date of Expiry	**Exercise Price** $	**Number of Options Outstanding**	**Number of Options Exercisable**
July 12, 2021	1.05	100,000	100,000
February 15, 2020	0.26	100,000*	33,333
October, 29, 2024	0.09	408,000	68,000
Balance, December 31, 2019	**0.28**	**608,000**	**201,333**

**Expired unexercised subsequent to year end (Note 23).*

As of December 31, 2019 the weighted average remaining life for outstanding options was 3.52 years (December 31, 2018 – 2.05 years).

16. COMMITMENTS AND CONTINGENCIES

[a]Low Carbon Infrastructure Transition Programme ("LCITP") Grant for Clyde Gateway

Sharc UK has received grant funding of £100,000 for eligible enabling costs associated with the Clyde Gateway Project. During the year ended December 31, 2019, $Nil (December 31, 2018 - $43,911 (£24,975)) was received.

Sharc UK has received grant funding of £1,684,188 for 50% of eligible capital costs associated with the Clyde Gateway Project. During the year ended December 31, 2019, $285,386 (£168,419) (December 31, 2018 - $2,643,350 (£1,515,769)) was received for a total of $2,928,736 (£1,684,188) grant received to date.

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.

This contingent liability is no longer applicable as of October 29, 2019 when Sharc UK entered into liquidation (Note 17).

[b]Parent Company Guarantee to SWH for the Finance Facility to Bandwidth

The Company provided a guarantee to SWH for the finance facility provided to Bandwidth for the Aqualibrium project totalling £604,726. The guarantee is limited to 50% of the finance facility provided, excluding any interest accrued per the original loan facility. Bandwidth was sold to SWH during the year ended December 31, 2019 (Note 7), and the Company continues to work with Bandwidth to bring Aqualibrium to commissioning.

[c]Parent Company Guarantee for Bandwidth for Installation and Operations and Maintenance of Aqualibrium

The Company provided certain guarantees over the installation and operations and maintenance of Aqualibrium (the **"Performance Guarantees**"). During the year ended December 31, 2019, on sale of the Company's interest in Bandwith to SWH, the parties entered into a Termination Agreement (Note 7). The Company however continues to work with Bandwidth to ensure these Performance Guarantees are achieved.

(Expressed in Canadian dollars)

17. DISCONTINUED OPERATIONS

On October 7, 2019, the Company signed an engagement letter with a liquidator for the liquidation and wind-up of Sharc UK. The liquidator was officialy appointed October 29, 2019. Furthermore, on October 11, 2019, the Company appointed an administrator for Highlands. Both the liquidator and administrator for Sharc UK and Highlands, respectively, have taken possession of the subsidiaries and all of their assets and liabilities. The liquidator and administrator are also responsible for all ongoing costs of the subsidiaries until the administrator for Highlands is able to sell Clyde Gateway. Any profits obtained or losses incurred by the liquidator and administrator in the insolvency processes have no impact on the Company since all financial assets and obligations were transferred to the liquidator and administrator.

The Company established that following the appointments of the liquidator and administrator, it effectively lost control of the operations of Sharc UK and Highlands. The operating results and cash flow of Sharc UK and Highlands have been classified as discontinued operations on the statement of loss and comprehensive loss and as cash flow from discontinued operations respectively, for each of the years ended December 31, 2019 and 2018. The consolidated statement of financial position as at December 31, 2019 does not include any balances of Highlands and Sharc UK as these have been deconsolidated as at October 11, 2019 and October 29, 2019 respectively.

As a result of the insolvency and the appointment of the administrator and liquidator, the Company has derecognized the assets and liabilities of Highlands and Sharc UK. The Company has received no consideration in the deconsolidation of Highlands and Sharc UK.

Loss on insolvency of Net Assets

Carrying value of Net Assets	**$**
Current Assets	
Cash	113,776
Receivables	253,384
Prepaid expenses	8,352
Inventory	17,868
Deposits	8,799
Property and equipment	4,212,869
Current Liabilities	
Accounts payable and accrued liabilities	(1,520,087)
Loans payable	(91,492)
Lease liability	(12,760)
Loans payable	(2,379,248)
Lease liability	(13,112)
Loss on insolvency of Net Assets	**598,349**

(Expressed in Canadian dollars)

17. DISCONTINUED OPERATIONS (CONTINUED)

Net Loss from Discontinued Operations

	Note	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Revenue		971,692	1,605,534
Cost of Sales	10	(616,909)	(2,150,164)
Gross Margin		**354,783**	**(544,630)**
Expenses			
Accounting and legal		58,474	33,088
Advertising and promotion		53,843	95,188
Consulting	10	138,734	116,263
Depreciation	9	14,687	3,630
Insurance		22,847	14,389
Office and miscellaneous		23,236	95,484
Rent		30,071	95,337
Research and development		42,154	62,121
Telephone and utilities		30,252	55,421
Travel		137,429	93,831
Wages and benefits	10	637,176	237,345
		(1,188,903)	**(902,097)**
Other income (expense)			
Gain (loss) on equity investment		(869)	(16,412)
Gain on sale of equity investment	8	42,363	—
Government grants and assistance		251,879	—
Interest and financing expense	11	(66,063)	(4,799)
Loss on discontinued operations		**(606,810)**	**(1,467,938)**

As at December 31, 2019, the total insolvency of net assets and loss on discontinued operations was $1,205,159 (December 31, 2018 - $1,467,938).

18. 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' deficiency.

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

There were no changes to the Company's approach to capital management during the period other than disclosed in Note 17. The Company is not subject to externally imposed capital requirements.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

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

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 – inputs for the asset or liability that are not based upon observable market data.

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

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. Receivables are primarily from sales 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, 2019 and December 31, 2018, the Company is exposed to credit risk arising from receivables.

[b] Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through debt financing. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. The Company is exposed to liquidity risk.

(Expressed in Canadian dollars)

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2019 the Company is not exposed to any significant interest rate risk.

[ii] Currency risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. During the year ended December 31, 2018, the Company had exposure to the British pound that was subject to fluctuations as a result of exchange rate variations to the extent that transactions were made and balances were held in this currency. The Company did not hedge 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 as at December 31, 2018 would change the Company's net loss by approximately $6,527. As at December 31, 2019, the Company is not exposed to currency risk.

20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Year ended December 31, 2019 $	**Year ended December 31, 2018 $**
ROU asset recognized upon accounting policy change	604,038	—
Additions to property and equipment in accounts payable and accrued liabilities	1,025,209	1,688,741
Reversal of share-based payments	781,510	511,309
Issuance of convertible debt – equity component	531,886	—
Issuance of convertible debt – warrant component	284,059	—
Inventory transferred to property and equipment	91,923	—
Derecognition of ROU asset	18,963	—
Fair value of stock options exercised	—	75,455
Finders' warrants issued as share issuance costs	—	85,112
Accrued interest on debt in accounts payable and accrued liabilities	19,660	141,735
Shares issued for debt	—	7,184
Discontinued operations (Note 17)		

(Expressed in Canadian dollars)

21. INCOME TAXES

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

	Year ended December 31, 2019	Year ended December 31, 2018
Loss before tax from continuing operations	$ (3,543,885)	$ (4,428,538)
Loss before tax from discontinued operations and on insolvency of net assets	(1,205,159)	(1,467,938)
	(4,749,044)	(5,896,476)
Expected income tax (recovery)	$ (1,282,000)	$ (1,592,000)
Changes in statutory rates, foreign tax, foreign exchange rates and other	41,901	78,000
Permanent differences	55,000	373,000
Share issue costs	-	(43,000)
Adjustment to prior year provision versus statutory returns	(5,000)	(2,000)
Impact of discontinued operations and liquidations	1,053,000	(2,000)
Change in unrecognized deductible temporary difference	(112,000)	1,186,000
Total income tax recovery	$ (249,099)	$ -
Income tax recovery reported in the statement of profit and loss	(249,099)	-
Income tax attributable to discontinued operations and on insolvency of net assets	-	-
	$ (249,099)	$ -

The components of income tax expense for the years are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Current income tax	$ -	$ -
Deferred tax recovery	(249,099)	-
Income tax recovery reported in the statement of profit or loss	(249,099)	-

The change for the year in the Company's net deferred tax liability was as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	$ -	$ -
Amount charged to equity	249,099	-
Deferred tax recovery	(249,099)	-
Balance, end of year	$ -	$ -

(Expressed in Canadian dollars)

21. INCOME TAXES (CONTINUED)

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

	2019 $	Expiry dates	2018 $	Expiry dates
Mineral property costs	534,000	No expiry	534,000	No expiry
Share issue costs	532,000	2040-2043	270,000	2039-2042
Equipment	352,000	No expiry	419,000	No expiry
Non-capital losses:	13,217,000		15,048,000	
Canada	13,217,000	2035-2039	10,917,000	2030-2038
United Kingdom	-	N/A	4,131,000	No expiry

22. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of sewage heat recovery systems. As at December 31, 2019, all of the Company's continuing operations, assets and employees are in Canada (December 31, 2018 – Canada and United Kingdom).

Geographic information as at and for the year ended December 31, 2018 as follows:

	Canada	United Kingdom	Total
Asset			
Inventory	$ 315,882	$ 14,600	$ 330,482
Property and equipment	104,947	2,136,845	2,241,792
	$ 420,829	**$ 2,151,445**	**$ 2,572,274**

	Canada	United Kingdom	Total
Revenues	$ 530,864	$ 1,605,534	$ 2,136,398
Cost of sales	(285,141)	(2,150,164)	(2,435,305)
Gross margin	**$ 245,723**	**$ (544,630)**	**$ (298,907)**
Loss for the year	**$ (4,428,540)**	**$ (1,467,936)**	**$ (5,896,476)**

23. SUBSEQUENT EVENTS

[a] On January 13, 2020, the Company issued 1,093,750 common shares pursuant to a consulting agreement.

[b] On February 11, 2020, the Company issued 10,000,000 units at a price of $0.065 for cash proceeds of $156,000 and the settlement of debt of $494,000 owed to officers, directors and consultants (the "Financing"). Debt settlement of officers and directors of the Company account for $326,794 of the total settlments.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable into one common share at a price of $0.10 for a period of two years from closing. In the event that the Company's shares trade above $0.25 for a period of 10 consecutive trading days at any time after June 12, 2020, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case, the warrants will expire on the 30th day after the date of giving such notice.

On March 5, 2020, insiders and consultants agreed to amend the exercise price of 7,027,596 out of 10,000,000 common share purchase warrants originally granted in the Financing to $0.25 from $0.10 subject to an acceleration clause.

[c] On February 17, 2020 the Company issued 550,000 common shares in connection with the termination of the former Chief Operating Officer and an employee.

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

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

Total finders' fee of $102,000 in cash and 203 debenture warrants were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at $1,000 per unit three years from issuance under the same terms as this units in the placement.

[e] On March 16, 2020 the Company issued 180,558 common shares pursuant to an employment agreement.

[f] On May 7, 2020, the Company issued 45,455 common shares to settle an outstanding debt of $8,925.

23. SUBSEQUENT EVENTS (CONTINUED)

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

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

Total finders' fee of $100,000 in cash and 200 debenture warrants were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at $1,000 per unit three years from issuance under the same terms as this units in the placement.

[h] On May 29, 2020, the Company settled with all holders ("**Debentureholders**") of the Company's $1,320,000 and $1,023,000 12% unsecured, convertible debentures which were set to mature on May 30, 2020 and June 29, 2020 (the "**Maturing Debentures**").

The Debentureholders have entered into settlement agreements with the Company (the **"Settlement Agreements**") pursuant to which the Debentureholders accepted 75% cash payout of the outstanding principal amount of the Maturing Debentures, the payout of any accrued and unpaid interest up to the date of maturity and the amendment of 1,673,571 common share purchase warrants (the **"Warrants**") in consideration for the cancellation of the Maturing Debentures and a release of the Company's obligations under the Maturing Debentures. The expiry date of the Warrants will be extended by two years from May 30, 2020 and June 29, 2020 to May 30, 2022 and June 29, 2022, respectively, and the exercise price of the Warrants will be repriced to $0.25 from $1.05 (collectively, the "**Warrant Amendments**"). The Warrant Amendments are subject to the approval of the CSE.

[i] Subsequent to December 31, 2019, the Company has granted 4,400,000 stock options to officers, employees, directors and consultants. The stock options are exercisable at an average price of $0.09 per share for a period of 5 years.

[j] Subsequent to December 31, 2019, 100,000 stock options were cancelled and 6,907,352 common share purchase warrants expired unexercised.

[k] Subsequent to December 31, 2019, holders of convertible debentures converted $650,000 of principal into 5,125,000 common shares.