SHARC INTERNATIONAL SYSTEMS INC.
Consolidated Financial Statements

For the year ended December 31, 2020

(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, 2020 and 2019, 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, 2020 and 2019, 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.

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

April 29, 2021

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

	Note	December 31, 2020 $	December 31, 2019 $
ASSETS			
Current			
Cash		3,101,267	109,510
Receivables	4	71,993	54,053
Prepaid expenses		92,687	18,857
Inventory	5	651,971	319,535
Total current assets		**3,917,918**	**501,955**
Restricted cash	6	25,000	20,000
Deposits		1,200	1,200
Property and equipment	7	426,516	547,606
Total assets		**4,370,634**	**1,070,761**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	8	146,244	1,171,785
Loans payable	9	—	422,948
Deferred revenue	10	57,816	39,932
Convertible debentures	11	291,440	2,238,334
Lease liabilities	12	105,421	101,735
Total current liabilities		**600,921**	**3,974,734**
Loans payable	9	60,000	—
Convertible debentures	11	4,843,495	2,640,179
Lease liabilities	12	304,650	410,072
Total liabilities		**5,809,066**	**7,024,985**
SHAREHOLDERS' DEFICIENCY			
Share capital	13	18,952,467	13,212,855
Reserves	13	4,241,450	2,985,374
Convertible debentures – equity component		907,036	497,891
Deficit		(25,539,385)	(22,650,344)
Total shareholders' deficiency		**(1,438,432)**	**(5,954,224)**
Total liabilities and shareholders' deficiency		**4,370,634**	**1,070,761**

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

Nature of Operations and Going Concern [Note 1]
Commitments and Contingencies [Note 14]
Subsequent Events [Note 21]

Approved on behalf of the Board on April 29, 2021:

/s/ Lynn Mueller — Director

/s/ Eleanor Chiu — Director

Sharc International Systems Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Note	Year Ended December 31, 2020 $	Year Ended December 31, 2019 $
Revenue		630,568	143,584
Cost of sales		(357,480)	(66,672)
Gross margin		**273,088**	**76,912**
Expenses			
Accounting and legal		120,894	135,843
Advertising and promotion		256,660	219,227
Bad debt expense (recovery)		(7,311)	58,558
Consulting	8	451,097	497,982
Depreciation	7	142,921	85,279
Insurance		25,464	27,170
Interest and financing expense	9,11,12	1,286,596	890,652
Office and miscellaneous		66,141	85,383
Regulatory and filing fees		77,087	60,579
Rent	12	48,000	70,315
Research and development		88,203	42,148
Share-based payments	8, 13[d]	359,125	203,616
Telephone and utilities		84,873	67,858
Travel		28,345	81,305
Wages and benefits	8	1,016,207	1,012,395
Warranty expense		14,572	6,190
		(4,058,874)	**(3,544,500)**
		(3,785,786)	**(3,467,588)**
Gain on debt settlement	11, 13[b]	605,238	4,708
Revaluation of warrants on debt settlement	11	(194,074)	—
Foreign exchange		(3,415)	(81,005)
Loss from continuing operations before income taxes		**(3,378,037)**	**(3,543,885)**
Deferred tax recovery	11,19	483,698	249,099
Loss from continuing operations		**(2,894,339)**	**(3,294,786)**
Loss on discontinued operations	15	—	**(1,205,159)**
Loss for the year		**(2,894,339)**	**(4,499,945)**
Other comprehensive income (loss)			
Foreign currency translation on discontinued operations		—	47,819
Loss and comprehensive loss for the year		**(2,894,339)**	**(4,452,126)**
Continuing operations - Basic and diluted loss per common share		**(0.05)**	**(0.08)**
Discontinued operations - Basic and diluted loss per common share		—	**(0.03)**
Weighted average number of common shares outstanding		**56,977,850**	**38,720,176**

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		Reserves	Currency translation reserve	Convertible debenture	Deficit	Total
	Number	**$**	**$**	**$**	**$**	**$**	**$**
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, December 31, 2019	**38,877,126**	**13,212,855**	**2,985,374**	–	**497,891**	**(22,650,344)**	**(5,954,224)**
Common shares issued	20,001,000	3,650,300	–	–	–	–	**3,650,300**
Share issue cost	–	(356,197)	203,789	–	–	–	**(152,408)**
Stock options exercised	295,000	29,750	–	–	–	–	**29,750**
Fair value of stock options exercised	–	23,983	(23,983)	–	–	–	–
Warrants exercised	5,793,832	865,097	–	–	–	–	**865,097**
Fair value of warrants exercised	–	78,421	(78,421)	–	–	–	–
Issuance of convertible debt	–	–	606,790	–	606,790	–	**1,213,580**
Conversion of convertible debt	11,025,000	1,176,502	–	–	(197,645)	–	**978,857**
Shares for debt	45,455	6,818	–	–	–	–	**6,818**
Revaluation of warrants issued for debt settlement	–	–	194,074	–	–	–	**194,074**
Shares for services	2,368,935	264,938	–	–	–	–	**264,938**
Share-based payments	–	–	359,125	–	–	–	**359,125**
Reversal of expired and forfeited options	–	–	(5,298)	–	–	5,298	**–**
Loss for the year	–	–	–	–	–	(2,894,339)	**(2,894,339)**
Balance, Decmeber 31, 2020	**78,406,348**	**18,952,467**	**4,241,450**	–	**907,036**	**(25,539,385)**	**(1,438,432)**

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, 2020 $	Year Ended December 31, 2019 $
OPERATING ACTIVITIES			
Loss for the year		(2,894,339)	(4,499,945)
Add items not affecting cash:			
Depreciation	7	142,921	85,279
Bad debt expense		(7,311)	58,558
Loss on discontinued operations	15	—	1,205,159
Unrealized foreign exchange		—	(81,005)
Share-based payments	13[d]	359,125	203,616
Warrants issued for finance expense	9	—	9,111
Shares for services	13	221,822	—
Accrued interest expense	9,11,12	1,286,596	881,331
Gain on debt settlement	11[i]	(605,238)	(4,708)
Revaluation of warrants on debt settlement	13[b]	194,074	—
Deferred tax recovery		(483,698)	(249,099)
Changes in non-cash working capital items:			
Receivables		(10,629)	167,421
Prepaid expenses		(30,714)	82,020
Inventory		(332,436)	(95,577)
Accounts payable and accrued liabilities		(485,575)	594,513
Deferred revenue		17,884	35,999
Warranty provisions		—	(16,029)
Cash used in continuing operating activities		**(2,627,518)**	**(1,623,356)**
Cash used in discontinued operating activities		—	**(526,588)**
Cash used in operating activities		**(2,627,518)**	**(2,149,944)**
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(21,831)	(34,137)
Addition to restricted cash		(5,000)	—
Redemption of restricted cash		—	30,000
Cash used in continued investing activities		**(26,831)**	**(4,137)**
Cash used in discontinued investing activities		—	**(2,938,884)**
Cash used in investing activities		**(26,831)**	**(2,943,021)**
FINANCING ACTIVITIES			
Proceeds from loans payable	9	60,000	280,000
Proceeds on exercise of stock options	13[b]	29,750	—
Proceeds on exercise of warrants	13[b]	865,097	—
Proceeds on private placement, net of costs	13[b]	3,003,892	—
Proceeds on convertible debentures, net of costs	12	4,490,760	3,289,722
Repayment of convertible debentures		(2,218,877)	(548,934)
Repayment of loans payable	9	(428,400)	(778,817)
Payment of lease liabilities		(156,116)	(59,128)
Cash provided by continued financing activities		**5,646,106**	**2,182,843**
Cash provided by discontinued financing activities		—	**1,121,642**
Cash provided by financing activities		**5,646,106**	**3,304,485**
Increase (decrease) in cash during the year		**2,991,757**	**(1,788,480)**
Impact of exchange rate changes on cash		—	(1,667)
Cash, beginning of the year – continued operations		109,510	587,849
Cash, beginning of the year – discontinued operations		—	1,311,808
		109,510	1,899,657
Less: Cash, end of the year – discontinued operations		—	—
Cash, end of the year		**3,101,267**	**109,510**

Supplemental disclosure with respect to cash flow (Note 18)

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 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. As at December 31, 2020, the Company has an accumulated deficit of $25,539,385 and positive working capital of $3,316,997 . The Company will continue to pursue opportunities to raise additional capital through equity markets and/or debt to fund its operating activities. Management anticipates it has sufficient working capital to maintain its activies for the subsequent 12 months. 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.

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 April 29, 2021.

[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, 2020 Ownership %	December 31, 2019 Ownership %
Sharc Energy Systems Inc. ("**SES**")	Canada	100	100
Sharc Energy Systems Australasia Pty Ltd. ("**Sharc Australasia"**) (1)	Australia	80	80
2336882 Ontario Inc. (1)	Canada	100	100

(1)The subsidiary is 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] Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the functional and presentationa currency of the Company and its subsidiaries.

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. 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.

iii. 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 (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.

v. The equity component of the convertible debenture is calculated using a discounted cash flow method which requires management to make an estimate on an appropriate discount rate.

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 Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries. 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.

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
Right of use asset	Straight line over term of lease

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Share-based payments

The Company grants restricted share units and stock options to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of all restricted share units and stock options granted is recorded using the graded attribution method. The fair value of stock options, as adjusted for the expected level of vesting, is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equityinstruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity instrument is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortized cost using the effective interest method. The equity component of a compound instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

When the Company subleases a right-of-use asset, the Company classifies the sublease as an operating lease if the head lease is a short-term lease. Otherwise, the sublease is classified as a finance lease. When the sublease is classified as a finance lease, the lessor derecognizes the right-of-use asset pertaining to the head lease that it transfers to the sublessee, at the commencement date, but continues to account for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in sublease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

4. RECEIVABLES

	As at December 31, 2020 $	**As at December 31, 2019 $**
GST recoverable (Canada)	43,760	37,785
Other receivables	426	—
Trade receivables	27,807	16,268
Total	**71,993**	**54,053**

(Expressed in Canadian dollars)

5. INVENTORY

	As at December 31, 2020 $	As at December 31, 2019 $
Materials and supplies	10,294	9,950
Work-in-progress	486,709	253,129
Finished goods	154,968	56,456
Total	**651,971**	**319,535**

6. RESTRICTED CASH

The restricted cash balance of $25,000 (December 31, 2019 - $20,000) is comprised of a bank lien on funds held as collateral for the Company’s corporate credit card limits.

(Expressed in Canadian dollars)

7. 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, 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 14)	—	—	—	—	—	(285,386)	(285,386)
Disposition	—	—	—	—	(20,867)	—	(20,867)
Foreign currency translation	35	—	—	—	(531)	(119,058)	(119,554)
Discontinued operations (Note 15)	(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**
Addition	4,696	—	12,619	4,516	—	—	21,831
Balance, December 31, 2020	**50,776**	**337,547**	**40,545**	**23,541**	**548,680**	**—**	**1,001,089**
Accumulated depreciation:							
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 15)	(10,548)	—	—	—	(9,700)	—	(20,248)
Balance, December 31, 2019	**32,364**	**307,548**	**27,435**	**19,025**	**45,280**	**—**	**431,652**
Depreciation	3,213	14,893	3,741	—	121,074	—	142,921
Balance, December 31, 2020	**35,577**	**322,441**	**31,176**	**19,025**	**166,354**	**—**	**574,573**
Net book value:							
As of December 31, 2019	13,716	29,999	491	—	503,400	—	547,606
As of December 31, 2020	**15,199**	**15,106**	**9,369**	**4,516**	**382,326**	**—**	**426,516**

(Expressed in Canadian dollars)

8. 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, 2020 $	**Year Ended December 31, 2019 $**
Consulting fees [i]	168,500	267,726
Wages and benefits [ii]	367,233	558,955
Share-based payments [iii]	229,858	(391,488)
Inventory/cost of sales [iv]	—	166,994
	765,591	**602,187**

[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 Energy Limited ("**SHARC UK")**.

[ii] The Company paid wages and benefits to the Chief Executive Officer and Director, a Director, the Chief Operating Officer, 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 $235,156. Furthermore, options were terminated and cancelled during the year which resulted in reversal of $5,298.

[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 $Nil (December 31, 2019 – $672,587) due to related parties.

On February 11, 2020, the Company issued 5,027,600 units at a price of $0.065 for the settlement of debt of $326,794 owed to companies controlled by the Chief Financial Officer and a Director. (Note 13).

9. 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 accrued interest at a rate of 12.5% per annum and was payable on April 17, 2020. The loan was to 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 was guaranteed by the CEO of SHARC UK. During the year ended December 31, 2019, the Company made payments totaling $31,840 (£18,790), of which $2,140 (£1,263) related to interest and $29,700 (£17,527) related to principal. The balance was repaid in full prior to liquidation and administration of SHARC UK.

[ii] In March 2018, SHARC Highlands Ltd. ("**Highlands**") received a £1,000,000 loan facility from a third-party lender. The facility was used to finance eligible costs incurred in connection with the Clyde Gateway Project. The loan was guaranteed by SHARC UK, and boar interest at 3.5%, and was repayable in monthly payments of £7,160 (or pro-rata depending on how much was drawn down) for 180 consecutive payments beginning 4 months from initial draw down. As of October 11, 2019, the facility was fully drawn. The Company has made pro-rata payments of $80,538 (£47,529), of which $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 15).

[iii] In June 2018, Highlands received a £450,000 loan facility from a third-party lender. The facility was used to pay costs incurred in connection with the Clyde Gateway Project. The loan provided the lender a bond and floating charge on Highlands, boar interest at 4.73% and interest was 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 third-party Company and the lender may agree. As of October 11, 2019, the facility had $772,830 (£450,000) drawn. The loan had 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 15).

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

9. LOANS PAYABLE (CONTINUED)

[v] In December 2018, the Company received a $490,000 loan from a third-party lender. The loan was guaranteed by the CEO, boar interest at 6% and was repayable on March 13, 2019. In the event of a default on repayment, the interest rate would rise 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 was $260,570. 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 expense. The loan was repaid in full during the year ended December 31, 2020.

[vi] 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 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. The warrants have been recorded as a financing expense.

[vii] In April 2019, the Company received a $150,000 loan from a third-party lender. The loan was guaranteed by the CEO, boar interest at 12% and was repayable on July 24, 2019. The balance of the loan as at December 31, 2019 was $162,378, including accrued interest of $12,378. The loan was repaid during the year ended December 31, 2020.

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

[ix] 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.

[x] During the year ended December 31, 2020, the Company received $60,000 in connection with the Canada Emergency Business Account Program from the Government of Canada. The loan is interest free until December 31, 2022. If $40,000 of the loan is repaid by December 31, 2022, the remaining $20,000 of the loan will be forgiven. If the loan cannot be repaid before the initial term of December 31, 2022, the loan will be extended automatically for a term of three years and interest will be payable at 5.0% annually, with no principal payments until December 31, 2025.

(Expressed in Canadian dollars)

9. LOANS PAYABLE (CONTINUED)

	As at December 31, 2020 $	As at December 31, 2019 $
Balance, beginning of year	**422,948**	**2,425,486**
Proceeds from loans	60,000	1,239,755
Repayment of loans	(428,400)	(891,195)
Interest expense	5,452	131,212
Foreign exchange	—	(11,570)
Balance, end of year	**60,000**	**2,893,688**
Less: discontinued operations (Note 15)	—	(2,470,740)
Less: non-current portion	—	—
	60,000	**422,948**

10. DEFERRED REVENUE

Deferred revenue of $57,816 (December 31, 2019 - $39,932) relates to on-going projects and service agreements at year end. Revenue will be recognized on a completion and sale of the projects and over the length of term for the service agreements.

11. 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 matured on May 30, 2020 and June 29, 2020, respectively, and boar interest at an annual rate of 12% due semi-annually. The debentures were 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.

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).

On May 29, 2020, the Company settled with all holders ("**Debentureholders**") of the Company's 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**") for the remaining principal of $2,343,000 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 are repriced to $0.25 from $1.05 (collectively, the "**Warrant Amendments**").

11. CONVERTIBLE DEBENTURES (CONTINUED)

Pursuant to the Settlement Agreements, the Company recognized a forgiveness of debt of $585,750. The fair value of the Warrants Amendment was $194,074 estimated by using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 123.44% which is based on historical volatility, risk-free rate of return of 0.26% and an expected maturity of 2 years. These have been recorded as a gain on debt settlement and revaluation of warrants on debt settlement in the statement of loss and comprehensive loss.

Accretion charges, included in interest and financing expense, attributable to the debentures for the year ended December 31, 2020 was $230,302, of which $125,635 (December 31, 2019 - $481,112 of which $281,160) relates to accrued interest.

[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 ($193,996 net of transaction costs and tax effect) and the residual equity components were $333,569 ($193,996 net of transaction costs and tax effect).

11. CONVERTIBLE DEBENTURES (CONTINUED)

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, 2020 was $489,102, of which $204,863 (December 31, 2019 -307,577, of which $145,699) relates to accrued interest.

During the year ended December 31, 2020, $232,000 of principal amount was converted into 725,000 common shares. Upon conversion, the present value of the liability of $187,814 and the residual equity reserve value of $18,791 was transferred to share capital.

[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 May 21, 2020 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 ($178,854 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, 2020 was $79,674 of which $44,567 (December 31, 2019 - $4,525, of which $nil) relates to accrued interest.

During the year ended December 31, 2020, $1,030,000 of principal amount was converted into 10,300,000 common shares. Upon conversion, the present value of the liability of $791,044 and the residual equity reserve value of $178,854 was transferred to share capital.

11. CONVERTIBLE DEBENTURES (CONTINUED)

[iv] 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, 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 $12,763.

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 $1,268,870 ($1,197,488 net of transaction costs), the warrants were $382,584 ($259,772 net of transaction costs and tax effect) and the residual equity components were $382,584 ($259,772 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, 2020 was $231,527 of which $35,758 relates to accrued interest.

[v] On May 29, 2020 and June 12, 2020, the Company issued unsecured convertible debenture units with total principal amounts of $2,000,000 and $700,000 respectively. The debentures mature on May 29 and June 12, 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 $0.15 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 three years from issuance.

Total finders' fee of $134,475 in cash and 269 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.

(Expressed in Canadian dollars)

11. CONVERTIBLE DEBENTURES (CONTINUED)

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 $1,679,650 ($1,595,994 net of transaction costs), the warrants were $510,175 ($347,018 net of transaction costs and tax effect) and the residual equity components were $510,175 ($347,018 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, 2020 was $196,158 of which $31,144 relates to accrued interest.

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

	Note 11 [i] $	Note 11 [ii] $	Note 11 [iii] $	Note 11 [iv] $	Note 11 [v] $	Total $
Balance, December 31, 2018	**2,038,381**	—	—	—	—	**2,038,381**
Principal	—	2,690,000	1,030,000	—	—	3,720,000
Equity component	—	(284,059)	(247,827)	—	—	(531,886)
Warrant component	—	(284,059)	—	—	—	(284,059)
Transaction costs	—	(399,517)	(30,761)	—	—	(430,278)
Accretion expense	481,112	307,577	4,525	—	—	793,214
Interest payment	(281,160)	(145,699)	—	—	—	(426,859)
Balance, December 31, 2019	**2,238,333**	**1,884,243**	**755,937**	—	—	**4,878,513**
Principal	—	—	—	2,040,000	2,700,000	4,740,000
Equity component	—	—	—	(363,874)	(484,765)	(848,639)
Warrant component	—	—	—	(363,874)	(484,765)	(848,639)
Transaction costs	—	—	—	(114,763)	(134,475)	(249,238)
Accretion expense	230,302	489,102	79,674	231,527	196,158	1,226,763
Interest payment	(125,635)	(204,863)	(44,567)	(35,758)	(31,144)	(441,967)
Principal payment	(1,757,250)	—	—	—	—	(1,757,250)
Gain on settlement of debt	(585,750)	—	—	—	—	(585,750)
Conversion of debt	—	(187,814)	(791,044)	—	—	(978,858)
Balance, December 31, 2020	—	**1,980,668**	—	**1,393,258**	**1,761,009**	**5,134,935**

Of the total convertible debentures payable, the current amount is $291,440 (December 31, 2019 - $2,238,334).

(Expressed in Canadian dollars)

11. CONVERTIBLE DEBENTURES (CONTINUED)

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2018	—	—
Issued	192	1,000
Balance, December 31, 2019	**192**	**1,000**
Issued	472	1,000
Balance, December 31, 2020	**664**	**1,000**

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
March 8, 2022	1,000	49
May 9, 2022	1,000	80
June 28, 2022	1,000	33
December 20, 2022**	1,000	30
February 13, 2023*	1,000	176
February 24, 2023	1,000	27
May 29, 2023	1,000	200
June 12, 2023	1,000	69
Balance, December 31, 2020	**1,000**	**664**

* Subsequent to year end, 83 warrants were exercised (Note 21)
** Subsequent to year end, 15 warrants were exercised (Note 21)

Payments required over the next five years are as follows:

	March 8, 2022 $	May 9, 2022 $	June 28, 2022 $	Feb. 13, 2023 $	Feb.24, 2023 $	May 29, 2023 $	June 12, 2023 $	Total $
2021	64,800	87,840	44,000	35,280	5,520	40,000	14,000	291,440
2022	821,895	1,128,012	571,269	35,280	5,520	40,000	14,000	2,615,976
2023	—	—	—	1,768,214	276,828	2,016,556	706,300	4,767,897
2024	—	—	—	—	—	—	—	—
2025	—	—	—	—	—	—	—	—
	886,695	**1,215,852**	**615,269**	**1,838,774**	**287,868**	**2,096,556**	**734,300**	**7,675,314**

(Expressed in Canadian dollars)

12. LEASE LIABILITIES

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 on the adoption of IFRS 16 on 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 7).

	As at December 31, 2020 $	**As at December 31, 2019 $**
Balance, beginning of year	**511,807**	**89,719**
Additions	—	514,851
Interest	54,381	22,491
Derecognition	—	(18,963)
Lease payments	(156,117)	(70,419)
Balance, end of year	**410,071**	**537,679**
Less: discontinued operations (Note 15)	—	(25,872)
Less: non-current portion	(304,650)	(410,072)
	105,421	**101,735**

Undiscounted lease payments	
Not later than one year	**147,288**
Later than one year and not later than 5 years	354,834
December 31, 2020	**502,122**

The Company elected not to apply the 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, 2020, $Nil related to a short-term office lease and $48,000 of variable lease payments (December 31, 2019 - $58,315 and $12,000 respectively) were included in rent expense.

13. SHARE CAPITAL

[a] Authorized Share Capital

The authorized share capital consisted of unlimited number of common shares without 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, 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

The Company had the following share capital transactions during the year ended December 31, 2020:

[i] On January 13, 2020, the Company issued 1,093,750 common shares valued at $87,500 pursuant to a consulting agreement.

[ii] 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 settlements (Note 8). The Company incurred closing costs of $2,819.

Each unit consisted 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 subject to an acceleration clause. These warrants were accelerated during the year ended December 31, 2020.

On March 5, 2020, related parties 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.

[iii] On February 17, 2020 the Company issued 550,000 common shares valued at $55,000 in connection with the termination of the former Chief Operating Officer and an employee. The valuation was based on the fair value of the shares issued.

[iv] On March 26, 2020 the Company issued 180,558 common shares valued at $18,959 pursuant to an employment agreement. The valuation was based on the fair value of the shares issued.

(Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[v] On May 7, 2020, the Company issued 45,455 common shares valued at $6,818 to settle an outstanding debt of $8,925. As a result, the Company recognized a gain on debt settlement of $2,107.

[vi] On June 24, 2020, the Company issued 544,627 common shares valued at $103,479 pursuant to a consulting agreement.

[vii] On December 19, 2020, the Company issued 10,001,000 common shares pursuant to a non-brokered private placement at a price of $0.30 per common share for gross proceeds of $3,000,300. Total finders' fee of $150,015 in cash and 1,000,100 compensation warrants were incurred on the issuances. Each compensation warrant is exercisable into one common share of the Company at $0.45 per common share for a period of two years from issuance. The Company incurred legal, regulatory and other share issuance costs of $426.

[viii] During the year ended December 31, 2020, the Company issued 11,025,000 common shares pursuant to the conversion of $1,262,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is $978,857 and the convertible debt equity portion is $197,645 for a total value of $1,176,502 transferred to share capital (Note 11[ii] and [iii]).

[iv] During the year ended December 31, 2020, the Company issued 295,000 common shares pursuant to the exercise of stock options for aggregate gross proceeds of $29,750. The fair value of the options of $23,983 was transferred from reserves to share capital.

[v] During the year ended December 31, 2020, the Company issued 5,793,832 common shares pursuant to the exercise of warrants for aggregate gross proceeds of $865,097. The fair value of the warrants of $78,421 was transferred from reserves to share capital.

[c] Common share purchase warrants

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

	Number	Weighted Average Exercise Price $
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**	**0.50**
Issued	30,199,194	0.22
Exercised	(5,793,832)	(0.15)
Expired	(10,145,145)	(0.60)
Balance, December 31, 2020	**34,697,689**	**0.29**

(Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants (continued)

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
May 30, 2022	0.25	942,857
June 29, 2022	0.25	659,286
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 18, 2022	0.45	1,000,100
December 31, 2022	1.00	700,000
February 11, 2022	0.25	7,027,596
February 13, 2023	0.20	6,070,000
February 24, 2023	0.20	1,380,000
May 29, 2023	0.25	6,665,997
June 12, 2023	0.25	2,333,097
Balance, December 31, 2020	**0.29**	**34,697,689**

[d] Stock options

During the year ended December 31, 2020, the Company recorded share-based payments of $359,125 (December 31, 2019 - $203,616). During the year ended December 31, 2020, the Company recorded a reversal of reserves on expired and forfeited options of $5,298 (December 31, 2019 - $781,510). The fair values of share options granted during the year ended December 31, 2020 and 2019 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2020	**2019**
Risk-free interest rate	1.10%	1.67%
Estimated annualized volatility	114.58%	82.34%
Expected life	5.0 years	2.3 years
Expected dividend yield	0%	0%
Exercise price	$0.16	$0.20
Fair value per option	$0.1272	$0.0968
Share price	$0.16	$0.20

(Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[d] Stock options (continued)

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

	Number	Weighted Average Exercise Price $
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**
Issued	6,325,000	0.16
Exercised	(295,000)	(0.10)
Expired	(100,000)	(0.26)
Balance, December 31, 2020	**6,538,000**	**0.17**

Date of Expiry	Exercise Price $	Number of Options Outstanding	Number of Options Exercisable
July 12, 2021	1.05	100,000	100,000
October, 29, 2024	0.09	333,000	333,000
January 19, 2025	0.075	2,780,000	1,853,333
February 26, 2025	0.125	950,000	633,333
March 1, 2025	0.14	100,000	100,000
March 16, 2025	0.105	350,000	350,000
July 15, 2025	0.25	700,000	—
December 20, 2025	0.345	1,225,000	—
Balance, December 31, 2020	**0.17**	**6,538,000**	**3,369,666**

As of December 31, 2020, the weighted average remaining life for outstanding options was 4.24 years (December 31, 2019 – 3.52 years).

[e] Restriceted Share Units ("RSU")

On August 7, 2020, the Company adopted an RSU plan for directors, officers, employees and consultants of the Company. Under the terms of the plan, each vested RSU awarded entitles the RSU holder to receive, subject to adjustment as provided for in the RSU Plan, either one common share in the Company or, at the Company's option, an equivalent cash payment. The maximum number of RSUs granted should not exceed 10% of the issued shares of the Company aggregated with all other security-based compensation arrangements. The Company did not grant any RSU's for the year ended December 31, 2020.

14. COMMITMENTS AND CONTINGENCIES

[a]Parent Company Guarantee to Scottish Water Horizon Ltd. ("SWH") for the Finance Facility to Bandwidth Energy Ltd. ("Bandwidth")

During the year ended December 31, 2018, the Company entered into a joint arrangement and held a 50% interest in Bandwidth for £10,000 ($17,357) with the other 50% held by SWH. 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.

The Company provided a guarantee to SWH for the finance facility provided to Bandwidth for the execution of certain works, namely the design, installation, testing and commissioning of a new sewage heat recovery system ("**Aqualibrium**") totaling £604,726. The guarantee is limited to 50% of the finance facility provided, excluding any interest accrued per the original loan facility.

On September 17, 2019, the Company agreed to sell its 50% interest in Bandwidth for £10,000 cash to SWH, the other 50% shareholder, and terminated the agreement ("**Termination Agreement**") for Aqualibrium with Bandwidth for £15,000.

[b]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 14 [a]).

(Expressed in Canadian dollars)

15. 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 had 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 the year ended December 31, 2019. 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)

15. DISCONTINUED OPERATIONS (CONTINUED)

Net Loss from Discontinued Operations

	Note	Year Ended December 31, 2020 $	Year Ended December 31, 2019 $
Revenue		—	971,692
Cost of Sales	8	—	(616,909)
Gross Margin		**—**	**354,783**
Expenses			
Accounting and legal		—	58,474
Advertising and promotion		—	53,843
Consulting	8	—	138,734
Depreciation	7	—	14,687
Insurance		—	22,847
Office and miscellaneous		—	23,236
Rent		—	30,071
Research and development		—	42,154
Telephone and utilities		—	30,252
Travel		—	137,429
Wages and benefits	8	—	637,176
		—	**(1,188,903)**
Other income (expense)			
Gain (loss) on equity investment		—	(869)
Gain on sale of equity investment	8	—	42,363
Government grants and assistance		—	251,879
Interest and financing expense	9	—	(66,063)
Loss on discontinued operations		**—**	**(606,810)**

As at December 31, 2019, the total insolvency of net assets and loss on discontinued operations was $1,205,159.

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

17. 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. The carrying value of the Company's lease liabilities is measured as the present value of the discounted future cash flows.

[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, 2020, the Company is nominally exposed to credit risk arising from receivables.

(Expressed in Canadian dollars)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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.

[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, 2020 the Company is not exposed to any significant interest rate risk.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
ROU asset recognized upon accounting policy change	—	604,038
Additions to property and equipment in accounts payable and accrued liabilities	—	1,025,209
Reversal of share-based payments	5,298	781,510
Issuance of convertible debt – equity component	848,639	531,886
Issuance of convertible debt – warrant component	848,639	284,059
Inventory transferred to property and equipment	—	91,923
Derecognition of ROU asset	—	18,963
Private placement units issued for debt	494,000	—
Prepaid expenses paid by common shares	43,116	—
Conversion of convertible debt into common shares	1,176,502	—
Fair value of stock options and warrants exercised	102,404	—
Finders' warrants issued as share issuance costs	203,789	—
Accrued interest on debt in accounts payable and accrued liabilities	—	19,660
Shares for debt	6,818	—
Discontinued operations (Note 15)		

(Expressed in Canadian dollars)

19. INCOME TAXES

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

		Year ended December 31, 2020		Year ended December 31, 2019
Loss before tax from continuing operations	$	(3,378,037)	$	(3,543,885)
Loss before tax from discontinued operations and on insolvency of net assets		-		(1,205,159)
		(3,378,037)		(4,749,044)
Expected income tax (recovery)	$	(912,000)	$	(1,282,000)
Changes in statutory rates, foreign tax, foreign exchange rates and other		60,302		41,901
Permanent differences		(12,000)		55,000
Share issue costs		(41,000)		-
Adjustment to prior year provision versus statutory returns		12,000		(5,000)
Impact of discontinued operations and liquidations		-		1,053,000
Change in unrecognized deductible temporary difference		409,000		(112,000)
Total income tax recovery	$	(483,698)	$	(249,099)
Income tax recovery reported in the statement of profit and loss		(483,698)		(249,099)
Income tax attributable to discontinued operations and on insolvency of net assets		-		-
	$	(483,698)	$	(249,099)

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

		Year ended December 31, 2020		Year ended December 31, 2019
Current income tax	$	-	$	-
Deferred tax recovery		(483,698)		(249,099)
Income tax recovery reported in the statement of profit or loss		(483,698)		(249,099)

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

		Year ended December 31, 2020		Year ended December 31, 2019
Balance, beginning of year	$	-	$	-
Amount charged to equity		483,698		249,099
Deferred tax recovery		(483,698)		(249,099)
Balance, end of year	$	-	$	-

(Expressed in Canadian dollars)

19. 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:

	2020 $	Expiry dates	2019 $	Expiry dates
Mineral property costs	534,000	No expiry	534,000	No expiry
Share issue costs	667,000	2041-2044	532,000	2040-2043
Equipment	450,000	No expiry	352,000	No expiry
Non-capital losses:	14,502,000	2035-2040	13,217,000	2035-2039

20. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of sewage heat recovery systems. As at December 31, 2020 and 2019, all of the Company's continuing operations, assets and employees are in Canada.

21. SUBSEQUENT EVENTS

Subsequent to December 31, 2020:

[a] On January 26, 2021, the Company issued 1,500,000 common shares at a price of $0.30 for gross proceeds of $450,000 pursuant to a non-brokered private placement. Total finders' fees of $22,500 in cash and 150,000 compensation warrants were incurred in the issuance. Each compensation warrant is exercisable into one common share of the Company at $0.45 per common share for a period of two years following the date of the issuance.

[b] 518,125 stock options were exercised for gross proceeds of $50,703.

[c] 3,596,428 common share purchase warrants were exercised for gross proceeds of $1,164,821.

[d] Holders of convertible debentures converted $952,500 of principal into 5,482,500 common shares.

[e] 98 debenture units were exercised for total proceeds of $98,000. Upon exercise, the debentures were immediately converted into 980,000 common shares. Pursuant to the issuance of the debenture units, 415,000 common share purchase warrants were issued. 415,000 of these common share purchase warrants were exercised for total proceeds of $83,000.