SHARC INTERNATIONAL SYSTEMS INC.
Consolidated Financial Statements

For the year ended December 31, 2021

(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, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (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, 2021 and 2020, 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 audit 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 audit 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.

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

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 scepticism 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 18, 2022

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

	Note	December 31,2021 $	December 31,2020 $
ASSETS			
Current			
Cash		3,150,705	3,101,267
Receivables	4	1,355,196	71,993
Prepaid expenses		61,375	92,687
Inventory	5	962,362	651,971
Total current assets		**5,529,638**	**3,917,918**
Restricted cash	6	50,000	25,000
Deposits		1,200	1,200
Property and equipment	7	389,547	426,516
Total assets		**5,970,385**	**4,370,634**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	8	460,913	146,244
Deferred revenue	9	-	57,816
Convertible debentures	10	1,620,254	291,440
Lease liabilities	11	103,035	105,421
Total current liabilities		**2,184,202**	**600,921**
Loans payable	12	-	60,000
Warranty provisions		61,144	-
Convertible debentures	10	3,066,400	4,843,495
Lease liabilities	11	201,616	304,650
Total liabilities		**5,513,362**	**5,809,066**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	13	24,428,640	18,952,467
Reserves	13	3,855,815	4,241,450
Convertible debentures - equity component	10	756,941	907,036
Deficit		(28,584,373)	(25,539,385)
Total shareholders' equity (deficiency)		**457,023**	**(1,438,432)**
Total liabilities and shareholders' equity (deficiency)		**5,970,385**	**4,370,634**

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

Nature of Operations and Going Concern [Note 1]
Subsequent Events [Note 19]

Approved on behalf of the Board of Directors on April 18 2022:

/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, 2021	2020
		$	$
Revenue		2,696,772	630,568
Cost of sales		(1,705,694)	(357,480)
Gross margin		**991,078**	**273,088**
Expenses			
Accounting and legal		189,382	120,894
Advertising and promotion		248,143	256,660
Bad debt recovery		-	(7,311)
Consulting	8	352,882	451,097
Depreciation	7	157,337	142,921
Insurance		31,594	25,464
Interest and financing expense	10,11	1,095,722	1,286,596
Office and miscellaneous		107,356	66,141
Regulatory and filing fees		87,650	77,087
Rent	11	48,000	48,000
Repairs and maintenance		31,122	31,254
Research and development		71,762	56,949
Share-based payments	8,13	374,047	359,125
Telephone and utilities		82,195	84,873
Travel		67,086	28,345
Wages and benefits	8	1,071,971	1,016,207
Warranty expense		61,260	14,572
		(4,077,509)	**(4,058,874)**
		(3,086,431)	**(3,785,786)**
Loan forgiven	12	20,000	-
Gain on debt settlement	10	-	605,238
Revaluation of warrants on debt settlement	10	-	(194,074)
Interest income		4,973	-
Foreign exchange		(2,181)	(3,415)
Loss before income taxes		**(3,063,639)**	**(3,378,037)**
Deferred tax recovery		18,651	483,698
Loss and comprehensive loss for the year		**(3,044,988)**	**(2,894,339)**
Basic and diluted loss per common share		**(0.03)**	**(0.05)**
Weighted average number of common shares outstanding		**91,564,625**	**56,977,850**

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

SHARC International Systems Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Common Shares		Reserves	Convertible debenture	Deficit	Total
	Number	$	$	$	$	$
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)**
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 services	2,368,935	264,938	-	-	-	**264,938**
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)	-	-	-
Share-based payments	-	-	359,125	-	-	**359,125**
Shares for debt	45,455	6,818	-	-	-	**6,818**
Revaluation of warrants issued for debt settlement	-	-	194,074	-	-	**194,074**
Reversal of expired and forfeited options	-	-	(5,298)	-	5,298	-
Loss for the year	-	-	-	-	(2,894,339)	**(2,894,339)**
Balance, December 31, 2020	**78,406,348**	**18,952,467**	**4,241,450**	**907,036**	**(25,539,385)**	**(1,438,432)**
Common shares issued	1,500,000	450,000	-	-	-	**450,000**
Share issue cost	-	(61,326)	37,768	-	-	**(23,558)**
Stock options exercised	548,125	52,953	-	-	-	**52,953**
Fair value of stock options exercised	-	42,800	(42,800)	-	-	-
Warrants exercised	8,930,400	2,485,600	-	-	-	**2,485,600**
Fair value of warrants exercised	-	778,623	(778,623)	-	-	-
Issuance of convertible debt	-	-	23,973	26,454	-	**50,427**
Conversion of convertible debt	11,165,206	1,659,273	-	(176,549)	-	**1,482,724**
Shares for services	155,113	68,250	-	-	-	**68,250**
Share-based payments	-	-	374,047	-	-	**374,047**
Loss for the year	-	-	-	-	(3,044,988)	**(3,044,988)**
Balance, December 31, 2021	**100,705,192**	**24,428,640**	**3,855,815**	**756,941**	**(28,584,373)**	**457,023**

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)

	Year Ended December 31,	
	2021	2020
	$	$
OPERATING ACTIVITIES		
Loss for the year	(3,044,988)	(2,894,339)
Add items not affecting cash:		
Depreciation	157,337	142,921
Bad debt recovery	-	(7,311)
Share-based payments	374,047	359,125
Shares for services	68,250	221,822
Accrued interest expense	1,095,722	1,286,596
Loan forgiven	(20,000)	-
Gain on debt settlement	-	(605,238)
Revaluation of warrants on debt settlement	-	194,074
Deferred tax recovery	(18,653)	(483,698)
Changes in non-cash working capital items:		
Receivables	(1,283,203)	(10,629)
Prepaid expenses	31,312	(30,714)
Inventory	(192,141)	(332,436)
Accounts payable and accrued liabilities	234,735	(485,575)
Deferred revenue	(57,816)	17,884
Warranty provisions	61,144	-
Cash used in operating activities	**(2,594,254)**	**(2,627,518)**
INVESTING ACTIVITIES		
Purchase of property and equipment	(108,684)	(21,831)
Addition to restricted cash	(25,000)	-
Redemption of restricted cash	-	(5,000)
Cash used in investing activities	**(133,684)**	**(26,831)**
FINANCING ACTIVITIES		
Proceeds from loans payable	-	60,000
Proceeds on exercise of stock options	52,953	29,750
Proceeds on exercise of warrants	2,435,600	865,097
Proceeds on exercise of debenture warrants	284,000	-
Proceeds on private placement, net of costs	426,442	3,003,892
Proceeds on convertible debentures, net of costs	-	4,490,760
Repayment of convertible debenture	(234,332)	(2,218,877)
Repayment of loans payable	(40,000)	(428,400)
Payment of lease liabilities	(147,287)	(156,116)
Cash provided by financing activities	**2,777,376**	**5,646,106**
Increase in cash	**49,438**	**2,991,757**
Cash, beginning of year	3,101,267	109,510
Cash, end of the year	**3,150,705**	**3,101,267**

Supplemental disclosure with respect to cash flow (Note 16)

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 Energy**") 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, 2021, the Company has an accumulated deficit of $28,584,373 and positive working capital of $3,345,436. 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.

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

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**"). These Financial Statements were approved by the Company's Board of Directors on April 18th, 2022.

[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, 2021 Ownership %**	**December 31, 2020 Ownership %**
SHARC Energy Systems Inc. ("**SES**")	Canada	100	100
SHARC Energy Systems Australasia Pty Ltd. ("**SHARC Australasia")** [(1)]	Australia	-	80
2336882 Ontario Inc. [(2)]	Canada	100	100

[(1)]The subsidiary was dissolved and was inactive prior to dissolving.
[(2)]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.

Certain comparative figures on the statements of loss and comprehensive loss have been reclassified to conform to the current years presentation.

[c] Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the functional and presentation 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.

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 stand-alone 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.

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
Leasehold improvements	5 year straight line
Demonstration units	Duration of the project
Right-of-use assets	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 of the related impairment 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, performance obligations are complete, 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 completion of performance obligations 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.

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.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting standards issued but not yet effective

On May 14, 2020, the International Accounting Standards Board published an amendment to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use. The amendments prohibit deducting from the cost of property, plant and equipment any proceeds received from selling items produced while bringing that asset for its intended use. Instead, proceeds received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible. The amendment to this standard is not expected to have a material impact on the Company's consolidated financial statements.

As at December 31, 2021, there are no other accounting pronouncements with future effective dates that are applicable or are expected to have a material impact on the Company's consolidated financial statements.

4. RECEIVABLES

	As at December 31, 2021 $	As at December 31, 2020 $
GST recoverable	74,221	43,760
Other receivables	15,415	426
Interest receivable	617	—
Trade receivables	1,264,943	27,807
Total	**1,355,196**	**71,993**

5. INVENTORY

	As at December 31, 2021 $	As at December 31, 2020 $
Materials and supplies	92,853	10,294
Work-in-progress	705,807	486,709
Finished goods	163,702	154,968
Total	**962,362**	**651,971**

6. RESTRICTED CASH

The restricted cash balance of $50,000 (December 31, 2020 - $25,000) 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 assets	Total
	$	$	$	$	$	$
Cost:						
Balance, December 31, 2019	**46,080**	**337,547**	**27,926**	**19,025**	**548,680**	**979,258**
Additions	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**
Additions	72,126	-	39,061	9,181	-	**120,368**
Balance, December 31, 2021	**122,902**	**337,547**	**79,606**	**32,722**	**548,680**	**1,121,457**
Accumulated depreciation:						
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**
Depreciation	10,252	15,106	15,895	2,739	113,345	**157,337**
Balance, December 31, 2021	**45,829**	**337,547**	**47,071**	**21,764**	**279,699**	**731,910**
Net book value:						
Balance, December 31, 2020	15,199	15,106	9,369	4,516	382,326	426,516
Balance, December 31, 2021	**77,073**	**-**	**32,535**	**10,958**	**268,981**	**389,547**

(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, 2021	**Year Ended December 31, 2020**
	$	**$**
Consulting fees [i]	149,000	168,500
Wages and benefits [ii]	372,483	367,233
Share-based payments [iii]	301,737	229,858
	823,220	**765,591**

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

[ii] The Company paid wages and benefits to the Chief Executive Officer and Director, a Director, and the Chief Operating Officer.

[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 $301,737 during the year ended December 31, 2021 (December 31, 2020 - $235,156). Furthermore, options were terminated and cancelled during the year ended December 31, 2021 which resulted in reversal of $Nil (December 30, 2020 - $5,298).

Included in accounts payable is $5 (December 31, 2020 – $Nil) due to related parties.

Other transactions

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. DEFERRED REVENUE

Deferred revenue relates to on-going projects and service agreements at year end. Revenue will be recognized on completion and sale of projects and over the length of term for the service agreements. As at December 31, 2021 the balance was $Nil (December 31, 2020 - $57,816).

10. 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 was 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.

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**").

10. CONVERTIBLE DEBENTURES (CONTINUED)

The Debentureholders 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**").

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 on the statements of loss and comprehensive loss, attributable to the debentures for the year ended December 31, 2020 was $230,304, of which $125,635 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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

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).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debentures for the year ended December 31, 2021 was $421,447, of which $148,700 (December 31, 2020 - $489,102, of which $204,863) 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.

During the year ended December 31, 2021, $878,000 of principal amount was converted into 2,743,750 common shares. Upon conversion, the present value of the liability of $757,917 and the residual equity reserve value of $59,420 was transferred to share capital.

During the year ended December 31, 2021, 49 debenture warrants issued under this financing were exercised for proceeds of $49,000. On initial recognition, the liability component was $45,880, the warrants were $1,892 ($1,381 net of transaction costs and tax effect) and the residual equity components were $1,228 ($896 net of transaction costs and tax effect). The $49,000 principal was immediately converted into 153,125 common shares (Note 13). Upon conversion, the liability and equity components were 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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

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

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

On initial recognition, the liability component was $774,544 ($751,412 net of transaction costs), and the residual equity components were $255,456 ($178,853 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debentures for the year ended December 31, 2021 was $Nil (December 31, 2020 - $79,674, of which $44,567 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.

During year ended December 31, 2021, 15 debenture warrants issued under this financing were exercised for proceeds of $15,000. On initial recognition, the liability component was $13,844 and the residual equity components were $1,156 ($844 net of transaction costs and tax effect). The $15,000 principal was immediately converted into 150,000 common shares (Note 13). Upon conversion, the liability and equity components were transferred to share capital.

[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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

Total finders' fees of $102,000 in cash and 203 debenture warrants were incurred on the issuances. Each debenture warrant is exercisable into one debenture unit of the Company at $1,000 per unit three years from issuance under the same terms as 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 $385,564 ($259,772 net of transaction costs and tax effect) and the residual equity components were $385,564 ($259,772 net of transaction costs and tax effect).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the year ended December 31, 2021 was $259,215, of which $33,669 (December 31, 2020 - $231,527, of which $35,758) relates to accrued interest.

During the year ended December 31, 2021, $484,500 of principal amount was converted into 4,845,000 common shares. Upon conversion, the present value of the liability of $348,279 and the residual equity reserve value of $61,684 was transferred to share capital.

During the year ended December 31, 2021, 91 debenture warrants issued under this financing were exercised for proceeds of $91,000. On initial recognition, the liability component was $62,956, the warrants were $13,433 ($9,806 net of transaction costs and tax effect) and the residual equity components were $14,611 ($10,664 net of transaction costs and tax effect). The $91,000 principal was immediately converted into 910,000 common shares (Note 13). Upon conversion, the liability and equity components were transferred to share capital.

[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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

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.

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 statements of loss and comprehensive loss, attributable to the debenture for the year ended December 31, 2021 was $373,193, of which $51,963 (December 31, 2020 - $196,158, of which $31,144) relates to accrued interest.

During the year ended December 31, 2021, $225,500 of principal amount was converted into 1,503,331 common shares. Upon conversion, the present value of the liability of $161,607 and the residual equity reserve value of $28,991 was transferred to share capital.

During the year ended December 31, 2021, 129 debenture warrants issued under this financing were exercised for proceeds of $129,000. On initial recognition, the liability component was $92,240 the warrants were $17,514 ($12,786 net of transaction costs and tax effect) and the residual equity components were $19,246 ($14,049 net of transaction costs and tax effect). The $129,000 principal was immediately converted into 860,000 common shares (Note 13). Upon conversion, the liability and equity components were transferred to share capital.

(Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

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

	Note 10 i $	Note 10 ii $	Note 10 iii $	Note 10 iv $	Note 10 v $	Total $
Cost:						
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	230,304	489,102	79,674	231,527	196,158	1,226,765
Interest payment	(125,637)	(204,863)	(44,567)	(35,758)	(31,144)	(441,969)
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**
Principal	-	49,000	15,000	91,000	129,000	284,000
Equity component	-	(1,228)	(1,156)	(14,611)	(19,246)	(36,241)
Warrant component	-	(1,892)	-	(13,433)	(17,514)	(32,839)
Accretion expense	-	421,447	-	259,215	373,193	1,053,855
Interest payment	-	(148,700)	-	(33,669)	(51,963)	(234,332)
Conversion of debt	-	(803,797)	(13,844)	(411,236)	(253,847)	(1,482,724)
Balance, December 31, 2021	-	**1,495,498**	-	**1,270,524**	**1,920,632**	**4,686,654**

Of the total convertible debentures payable, the current amount is $1,620,254 (December 31, 2020 - $291,440).

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

	Number	**Weighted Average Exercise Price** $
Balance, December 31, 2019	**192**	**1,000**
Issued	472	1,000
Balance, December 31, 2020	**664**	**1,000**
Exercised	(284)	1,000
Balance, December 31, 2021	**380**	**1,000**

(Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
May 9, 2022	1,000	80
June 28, 2022	1,000	33
December 20, 2022	1,000	15
February 13, 2023	1,000	93
February 24, 2023	1,000	19
May 29, 2023	1,000	100
June 12, 2013	1,000	40
Balance, December 31, 2021	**1,000**	**380**

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 $
2022	426,347	626,538	571,269	28,030	3,080	37,900	11,590	1,704,754
2023	-	-	-	1,405,714	154,828	1,911,031	585,198	4,056,771
2024	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-
	426,347	**626,538**	**571,269**	**1,433,744**	**157,908**	**1,948,931**	**596,788**	**5,761,525**

(Expressed in Canadian dollars)

11. 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 as of January 1, 2019 and are discounted using an incremental borrowing rate of 12%.

	As at December 31, 2021 $	As at December 31, 2020 $
Balance, beginning of year	**410,071**	**511,807**
Interest	41,867	54,381
Lease payments	(147,287)	(156,117)
Balance, end of year	**304,651**	**410,071**
Less: non-current portion	(201,616)	(304,650)
	103,035	**105,421**

Undiscounted lease payments	
Not later than one year	**132,529**
Later than one year and not later than 5 years	222,306
December 31, 2021	**354,835**

The Company has 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, 2021, $48,000 of variable lease payments (December 31, 2020 - $48,000) were included in rent expense on the statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

12. LOANS PAYABLE

[i] 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%. The balance of the loan as at December 31, 2019 was $260,570. The loan was repaid in full during the year ended December 31, 2020.

[ii] 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 in full during the year ended December 31, 2020.

[iii] 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 was interest free until December 31, 2022. On December 10, 2021, $40,000 of the loan was repaid and the remaining $20,000 of the loan was forgiven.

	As at December 31, 2021 $	**As at December 31, 2020 $**
Balance, beginning of year	**60,000**	**422,948**
Proceeds from loans	—	60,000
Repayment of loans	(40,000)	(428,400)
Loan forgiven	(20,000)	—
Interest expense	—	5,452
Balance, end of year	—	**60,000**

13. SHARE CAPITAL

[a] Authorized Share Capital

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

13. SHARE CAPITAL (CONTINUED)

[b] Common shares

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 settlments (Note 8).

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

On March 5, 2020, 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.

[iv] On March 16, 2020, the Company issued 180,558 common shares valued at $18,959 pursuant to an employment agreement.

[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.

13. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[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 10[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.

[x] 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.

The Company had the following share capital transactions during the year ended December 31, 2021:

[i] 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 valued at $67,500 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. The Company incurred legal, regulatory and other share issuance costs of $1,058.

[ii] On June 8, 2021, the Company issued 155,113 common shares valued at $68,250 pursuant to a debt settlement agreement for consulting services.

[ii] During the year ended December 31, 2021, the Company issued 548,125 common shares pursuant to the exercise of stock options for aggregate gross proceeds of $52,953. The fair value of the options of $42,800 was transferred from reserves to share capital.

[iii] During the year ended December 31, 2021, the Company issued 8,930,400 common shares pursuant to the exercise of warrants for aggregate gross proceeds of $2,485,600. The fair value of the warrants of $778,623 was transferred from reserves to share capital.

[iv] During the year ended December 31, 2021, the Company issued 9,092,081 common shares pursuant to the conversion of $1,588,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is $1,267,804 and the convertible debt equity portion is $150,095 for a total value of $1,417,899 transferred to share capital (Note 10[ii] [iv] and [v]).

[v] During the year ended December 31, 2021, 284 debenture warrants were exercised for total proceeds of $284,000. Upon issuance, the debentures were immediately converted into 2,073,125 common shares (Note 10[ii],[iii], [iv] and [v]).

(Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

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

	Number	Weighted Average $
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**
Issued	1,111,544	0.27
Exercised	(8,930,400)	(0.28)
Expired	(914,286)	(0.35)
Balance, December 31, 2021	**25,964,547**	**0.29**

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
February 11, 2022 (i)	0.25	3,100,000
March 8, 2022 (ii)	0.40	1,342,617
May 3, 2022	0.40	2,078,790
May 30, 2022	0.25	103,572
June 28, 2022	0.40	859,650
June 29, 2022	0.25	465,714
December 18, 2022	0.45	1,000,100
December 23, 2022	1.00	700,000
January 26, 2023	0.45	150,000
February 13, 2023	0.20	5,945,000
February 24, 2023	0.20	1,420,000
May 29, 2023	0.25	6,565,997
June 12, 2023	0.25	2,233,107
Balance, December 31, 2021		**25,964,547**

(i) 2,000,000 warrants expired on February 11, 2022 without exercise.
(ii) 1,342,617 warrants expired on March 8, 2022 without exercise.

(Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[d] Stock options

During the year ended December 31, 2021, the Company recorded share-based payments of $374,047 (December 31, 2020 - $359,125). The fair values of share options granted during the year ended December 31, 2021 and 2020 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2021	**2020**
Risk-free interest rate	Nil	1.10%
Estimated annualized volatility	Nil	114.58%
Expected life	Nil	5.0 years
Expected dividend yield	Nil	0%
Exercise price	Nil	$0.16
Fair value per option	Nil	$0.1272
Share price	Nil	$0.16

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

	Number	**Weighted Average Exercise Price $**
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**
Exercised	(548,125)	(0.10)
Expired	(100,000)	(1.05)
Balance, December 31, 2021	**5,889,875**	**0.16**

Date of Expiry	**Exercise Price $**	**Number of Options Outstanding**	**Number of Options Exercisable**
October 29, 2024	0.09	333,000	333,000
January 19, 2025	0.075	2,485,000	2,485,000
February 26, 2025	0.125	950,000	950,000
March 16, 2025	0.105	200,000	200,000
July 15, 2025	0.25	700,000	233,333
December 20, 2025	0.345	1,221,875	796,875
Balance, December 31, 2021	**0.16**	**5,889,875**	**4,998,208**

As of December 31, 2021, the weighted average remaining life for outstanding options was 3.31 years (December 31, 2020 – 4.24 years).

13. SHARE CAPITAL (CONTINUED)

[e] Restricted 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 during the years ended December 31, 2021 and 2020.

14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to support the development of its business and maintain the necessary corporate and administration functions to facilitate these activities. The capital of the Company consists of items included in shareholders' equity (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.

15. 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 and restricted cash is based on Level 1 inputs. The fair value of the Company's cash, restricted 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.

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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. 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, 2021 the Company is exposed to credit risk arising from receivables.

[b] Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through debt financing. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. As at December 31, 2021, the Company is not exposed to significant liquidity risk.

[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, 2021 the Company is not exposed to any significant interest rate risk.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Conversion of convertible debt into common shares	1,659,273	1,176,502
Conversion of convertible debt into shares - equity portion	150,095	197,645
Fair value of stock options and warrants exercised	821,423	102,404
Finders' warrants issued as share issuance costs	37,768	203,789
Reversal of share-based payments	—	5,298
Issuance of convertible debt – equity component	36,241	848,639
Issuance of convertible debt – warrant component	32,839	848,639
Private placement units issued for debt	—	494,000
Prepaid expenses paid by common shares	—	43,116
Equipment in accounts payable and accrued liabilities	11,685	—
Warrants exercised for debt	50,000	—
Share for debt	—	6,818

(Expressed in Canadian dollars)

17. INCOME TAXES

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

		Year ended December 31, 2021		Year ended December 31, 2020
Loss before tax		(3,063,639)		(3,378,037)
Expected income tax (recovery)	$	(827,000)	$	(912,000)
Changes in statutory rates, foreign tax, foreign exchange rates and other		(93,651)		60,302
Permanent differences		104,000		(12,000)
Share issue costs		(6,000)		(41,000)
Adjustment to prior year provision versus statutory returns		(24,000)		12,000
Change in unrecognized deductible temporary difference		828,000		409,000
Total income tax recovery	$	(18,651)	$	(483,698)

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

		Year ended December 31, 2021		Year ended December 31, 2020
Current income tax	$	-	$	-
Deferred tax recovery		(18,651)		(483,698)
Income tax recovery per statements of loss and comprehensive loss		(18,651)		(483,698)

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

		Year ended December 31, 2021		Year ended December 31, 2020
Balance, beginning of year	$	-	$	-
Amount charged to equity		18,651		483,698
Deferred tax recovery		(18,651)		(483,698)
Balance, end of year	$	-	$	-

(Expressed in Canadian dollars)

17. 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 statements of financial position are as follows:

	2021 **$**	**Expiry dates**	**2020** **$**	**Expiry dates**
Mineral property costs	534,000	No expiry	534,000	No expiry
Share issue costs	464,000	2042-2045	667,000	2041-2044
Equipment	492,000	No expiry	450,000	No expiry
Non-capital losses:	17,641,000	2031-2041	14,502,000	2031-2040

18. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of Wastewater Energy Transfer ("**WET**") Equipment. As at December 31, 2021 and 2020, all of the Company's operations, assets and employees are in Canada.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2021:

[a] 7 debenture warrants were exercised for total proceeds of $7,000. Upon issuance, the debentures were immediately converted into 70,000 common shares. Pursuant to the issuance of the debenture units, 35,000 common share purchase warrants were issued. 35,000 of these common share purchase warrants were exercised for total proceeds of $7,000.

[b] 1,100,000 warrants were exercised for gross proceeds of $275,000.

[c] Holders of convertible debentures converted $20,000 of principal into 200,000 common shares.

[d] On March 8, 2022, the Company's 8% unsecured, convertible debentures of $420,000 matured and repaid in full including interest.