SHARC INTERNATIONAL SYSTEMS INC.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023

Unaudited
Expressed in Canadian dollars

SHARC INTERNATIONAL SYSTEMS INC.

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

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

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

SHARC International Systems Inc.
Condensed Consolidated Interim Statement of Financial Position
(Unaudited - expressed in Canadian dollars)

	Note	March 31, 2023 (unaudited) $	December 31, 2022 (audited) $
ASSETS			
Current			
Cash		2,267,198	1,069,813
Receivables	4	59,063	522,079
Prepaid expenses		42,203	80,867
Inventory	5	815,950	970,834
Total current assets		**3,184,414**	**2,693,593**
Restricted cash	6	50,000	50,000
Deposits		51,200	51,200
Property and equipment	7	365,933	409,176
Total assets		**3,651,547**	**3,153,969**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities		430,517	1,002,618
Deferred revenue	9	18,217	18,534
Convertible debentures	10	2,382,892	3,733,871
Lease liabilities	11	121,640	118,062
Total current liabilities		**2,953,266**	**4,873,085**
Warranty provisions		85,720	85,720
Lease liabilities	11	109,364	141,149
Total Liabilities		**3,148,350**	**5,099,954**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	29,791,773	26,324,022
Reserves	12	4,368,432	4,441,397
Currency translation reserve		1,831	1,727
Convertible debentures, equity component	10	492,881	684,016
Deficit		(34,151,720)	(33,397,147)
Total shareholders' equity (deficiency)		**503,197**	**(1,945,985)**
Total liabilities and shareholders' equity (deficiency)		**3,651,547**	**3,153,969**

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

Nature of Operations and Going Concern [Note 1]
Subsequent Events [Note 17]

Approved on behalf of the Board of Directors on May 26, 2023:

/s/ Lynn Mueller — Director

/s/ Eleanor Chiu — Director

SHARC International Systems Inc.
Condensed Consolidated Interim Statement of Loss and Comprehensive Loss
(Unaudited - expressed in Canadian dollars)

	Note	Three months ended March 31, 2023 $	2022 $
Revenue		733,686	884,021
Cost of Sales		(428,906)	(662,041)
Gross Margin		**304,780**	**221,980**
Expenses			
Accounting and legal		37,743	51,035
Advertising and promotion		45,308	83,551
Consulting	8	67,857	88,657
Depreciation	7	44,907	35,957
Insurance		14,759	11,184
Interest and financing expense	10,11	146,163	260,793
Office and miscellaneous		25,667	23,924
Regulatory and filing fees		10,879	18,900
Rent		12,000	12,000
Repairs and maintenance		2,545	8,048
Research and development		2,772	7,618
Share-based payments	8,12	108,924	28,332
Telephone and utilities		24,002	25,471
Travel		22,218	28,764
Wages and benefits	8	479,077	361,611
Warranty expense		-	5,600
		1,044,821	**1,051,445**
		(740,041)	**(829,465)**
Interest income		634	1,983
Foreign exchange		(15,212)	(9,437)
Loss before income taxes		**(754,619)**	**(836,919)**
Deferred tax recovery		46	348
Loss for the period		**(754,573)**	**(836,571)**
Other comprehensive income			
Foreign currency translation		1,831	-
Loss and comprehensive loss for the period		**(752,742)**	**(836,571)**
Basic and diluted loss per common share		**(0.01)**	**(0.01)**
Weighted average number of common shares outstanding – basic and diluted		**121,689,285**	**101,903,226**

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

SHARC International Systems Inc.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (Deficiency)

(Unaudited - expressed in Canadian dollars)

	Common Shares		Reserves	Currency translation reserve	Convertible Debenture	Deficit	Total
	Number	$	$	$	$	$	$
Balance, December 31, 2021	**100,705,192**	**24,428,640**	**3,855,815**	**-**	**756,941**	**(28,584,373)**	**457,023**
Warrants exercise	1,135,000	282,000	-	-	-	-	**282,000**
Fair value of warrants exercised	-	389	(389)	-	-	-	**-**
Issuance of convertible debt	-	-	389	-	552	-	**941**
Conversion of convertible debt	270,000	25,795	-	-	(3,099)	-	**22,696**
Share-based payments	-	-	28,332	-	-	-	**28,332**
Comprehensive loss for the period	-	-	-	-	-	(836,571)	**(836,571)**
Balance, March 31, 2022	**102,110,192**	**24,736,824**	**3,884,147**	**-**	**754,394**	**(29,420,944)**	**(45,579)**
Stock option exercise	716,667	147,917	-	-	-	-	**147,917**
Fair value of stock options exercised	-	118,347	(118,347)	-	-	-	**-**
Warrants exercise	805,714	189,178	-	-	-	-	**189,178**
Fair value of warrants exercised	-	71,447	(71,447)	-	-	-	**-**
Issuance of convertible debt	-	-	807	-	1,360	-	**2,167**
Conversion of convertible debt	3,517,292	943,159	-	-	(71,738)	-	**871,421**
Settlement of RSU Units	349,701	117,150	(117,150)	-	-	-	**-**
Share-based payments	-	-	868,579	-	-	-	**868,579**
Reversal of expired and forfeited options	-	-	(5,192)	-	-	5,192	**-**
Currency translation adjustment	-	-	-	1,727	-	-	**1,727**
Comprehensive loss for the period	-	-		-	-	(3,981,395)	**(3,981,395)**
Balance, December 31, 2022	**107,499,566**	**26,324,022**	**4,441,397**	**1,727**	**684,016**	**(33,397,147)**	**(1,945,985)**
Warrants exercise	7,645,000	1,529,000	-	-	-	-	**1,529,000**
Fair value of warrants exercised	-	181,925	(181,925)	-	-	-	**-**
Issuance of convertible debt	-	-	36	-	124	-	**160**
Conversion of convertible debt	15,695,000	1,756,826	-	-	(191,259)	-	**1,565,567**
Share-based payments	-	-	108,924	-	-	-	**108,924**
Currency translation adjustment	-	-	-	104	-	-	**104**
Comprehensive loss for the period	-	-	-	-	-	(754,573)	**(754,573)**
Balance, March 31, 2023	**130,839,566**	**29,791,773**	**4,368,432**	**1,831**	**492,881**	**(34,151,720)**	**503,197**

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

SHARC International Systems Inc.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited - expressed in Canadian dollars)

	Three months ended March 31, 2023	2022
	$	$
OPERATING ACTIVITIES		
Loss for the period	(754,573)	(836,571)
Add: Items not affecting cash		
Depreciation	44,907	35,957
Unrealized foreign exchange	104	-
Share based payments	108,924	28,332
Accrued interest expense	146,162	260,794
Deferred tax recovery	(47)	(348)
Changes in non-cash working capital items:		
Receivables	463,016	(5,291)
Prepaid expenses and deposits	38,664	391
Inventory	181,055	(54,105)
Accounts payable and accrued liabilities	(598,272)	241,358
Deferred revenue	(317)	13,078
Warranty provisions	-	5,152
Cash used in operating activities	**(370,377)**	**(311,253)**
INVESTING ACTIVITY		
Purchase of property and equipment	(1,664)	(9,104)
Cash used in investing activity	**(1,664)**	**(9,104)**
FINANCING ACTIVITIES		
Proceeds on:		
exercise of warrants	1,529,000	282,000
exercise of debenture warrants	79,000	7,000
Repayment of convertible debentures	(3,225)	(426,331)
Payment of lease liabilities	(35,350)	(35,056)
Cash provided by (used in) financing activities	**1,569,425**	**(172,387)**
Increase (decrease) in cash	1,197,384	(492,744)
Cash, beginning of the period	1,069,813	3,150,705
Cash, end of the period	**2,267,198**	**2,657,961**

Supplemental disclosure with respect to cash flow (Note 15)

The accompanying notes are an integral part of these condensed consolidated interim 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 Energy Transfer ("**WET**") 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 condensed consolidated interim financial statements (the "**Financial Statements**") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. As at March 31, 2023, the Company has an accumulated deficit of $34,151,720 and positive working capital of $231,148. 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 can maintain operating activities 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.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic from March 2020, and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors 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 Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2022, which have been prepared with International Financial Reporting Standards ("IFRS"). These Financial Statements were approved by the Company's Board of Directors on May 26, 2023.

[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**	**March 31, 2023 Ownership %**	**December 31, 2022 Ownership %**
SHARC Energy Systems Inc. ("**SES**")	Canada	100	100
SHARC Energy (US) Systems Inc. (**"SHARC US"**) (1)	United States	100	100

(1)The subsidiary was created and incorporated in the State of Delaware on January 5, 2022.

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 presentation currency of the Company and its subsidiaries SES. The functional currency of its subsidiary, SHARC US is US dollars. The results of SHARC US have been converted and are reflected in Canadian dollars within these Financial Statements.

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 into the original sales price and recognizes the associated 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.

(Unaudited - expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2022.

4. RECEIVABLES

	As at March 31 2023, $	**As at December 31 2022, $**
GST recoverable	8,136	23,816
Other receivables	19,525	19,184
Interest receivable	-	4,255
Trade receivables	31,402	474,824
Total	**59,063**	**522,079**

5. INVENTORY

	As at March31 2023, $	**As at December 31 2022, $**
Materials and supplies	86,300	86,300
Work-in-progress	580,153	735,037
Finished goods	149,497	149,497
Total	**815,950**	**970,834**

6. RESTRICTED CASH

The restricted cash balance of $50,000 (year ended December 31, 2022 - $50,000) is comprised of a bank lien on funds held as collateral for the Company's corporate credit card limits.

(Unaudited - expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

	Equipment, Furniture & Fixtures	Demo Units	Computer Hardware	Leasehold Improvements	Right-of-use assets	Total
	$	$	$	$	$	$
COST:						
Balance, December 31, 2021	122,902	337,547	79,606	32,722	548,680	1,121,457
Additions	54,848	-	26,230	39,773	61,874	182,725
Balance, December 31, 2022	**177,750**	**337,547**	**105,836**	**72,495**	**610,554**	**1,304,182**
Additions	1,664	-	-	-	-	1,664
Balance, March 31, 2023	**179,414**	**337,547**	**105,836**	**72,496**	**610,553**	**1,305,846**
ACCUMULATED DEPRECIATION:						
Balance, December 31, 2021	45,829	337,547	47,071	21,764	279,699	731,910
Depreciation expense	20,900	-	25,108	10,145	105,844	161,997
Dispositions	-	-	-	-	1,099	1,099
Balance, December 31, 2022	**66,729**	**337,547**	**72,179**	**31,909**	**386,642**	**895,006**
Depreciation expense	5,551	-	4,628	8,117	26,611	44,907
Balance, March 31, 2023	**72,280**	**337,547**	**76,806**	**40,027**	**413,252**	**939,912**
NET BOOK VALUE:						
Balance, December 31, 2022	111,020	-	33,658	40,586	223,912	409,176
Balance, March 31, 2023	**107,133**	**-**	**29,030**	**32,469**	**197,301**	**365,933**

(Unaudited - 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:

	Three months ended March 31,	
	2023	**2022**
	$	**$**
Consulting Fees [i]	39,000	39,000
Wages and Benefits [ii]	55,380	89,050
Share-based payments [iii]	70,980	21,753
	165,360	**149,803**

[i] The Company paid consulting fees to a company controlled by the Chief Financial Officer.

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

[iii] Share-based payments were recognized in connection with the vesting of options granted to directors and officers of the Company.

9. DEFERRED REVENUE

Deferred revenue relates to on-going projects and service agreements at year end. Revenue is recognized on completion and sale of projects and over the length of term for the service agreements. As at March 31, 2022 the balance was $18,217 (December 31, 2022 - $18,534).

10. CONVERTIBLE DEBENTURES

[i] 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 matured on March 8, 2022, May 9, 2022 and June 28, 2022, respectively, and bore interest at an annual rate of 8% due semi-annually. The debentures were 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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

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 was $0.64 or greater for 20 consecutive trading days, the Company could have, 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 would have been converted into common shares on the second business day after dissemination of such press release. The warrants were not 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 was 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 were 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 consisted 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 three months ended March 31, 2023 was $Nil, of which $Nil (three months ended March 31, 2022 - $87,614, of which $23,200) related to accrued interest.

During the year ended December 31, 2022, $765,000 of principal amount was converted into 2,390,625 common shares (Note 12). Upon conversion, the present value of the liability of $763,776 and the residual equity reserve value of $62,113 was transferred to share capital. Furthermore, $815,000 of principal value matured and repaid in full including interest.

[ii] On December 20, 2019, the Company issued unsecured convertible debenture units with total principal amount of $1,030,000. The debenture matured on December 20, 2022, and bore interest at an annual rate of 8% due semi-annually. The debentures were 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.

10. CONVERTIBLE DEBENTURES (CONTINUED)

If at any time after May 21, 2020 the closing price of the common shares of the Company was $0.40 or greater for 20 consecutive trading days, the Company could have, 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 would have been 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 was 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 debentures were 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 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 consisted 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).

During year ended December 31, 2022, 15 debenture warrants issued under this financing were exercised for proceeds of $15,000. On initial recognition, the liability component was $14,992 and the residual equity components were $8 (net of transaction costs and tax effect). The $15,000 principal was immediately converted into 150,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

[iii] 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 matured on February 13 and February 24, 2023, respectively, and bore interest at an annual rate of 2% due semi-annually. The debentures were 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' 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.

10. 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 $1,268,870 ($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 three months ended March 31, 2023 was $22,273, of which $3,187 (three months ended March 31, 2022 - $66,083, of which $7,754) relates to accrued interest.

During the year ended December 30, 2022, $85,000 of principal amount was converted into 850,000 common shares. Upon conversion, the present value of the liability of $106,166 and the residual equity reserve value of $10,813 was transferred to share capital (Note 12).

During the year ended December 30, 2022, 33 debenture warrants issued under this financing were exercised for proceeds of $33,000. On initial recognition, the liability component was $29,578, the warrants were $1,313 ($959 net of transaction costs and tax effect) and the residual equity components were $2,109 ($1,539 net of transaction costs and tax effect). The $33,000 principal was immediately converted into 330,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

During the three months ended March 31, 2023, $1,470,500 of principal amount was converted into 14,705,000 common shares. Upon conversion, the present value of the liability of $1,458,731 and the residual equity reserve value of $187,276 was transferred to share capital (Note 12).

During the three months ended March 31, 2022, 79 debenture warrants issued under this financing were exercised for proceeds of $79,000. On initial recognition, the liability component was $78,827, the warrants were $49 ($49 net of transaction costs and tax effect) and the residual equity components were $124 ($124 net of transaction costs and tax effect). The $79,000 principal was immediately converted into 790,000 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

10. CONVERTIBLE DEBENTURES (CONTINUED)

[iv] 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.

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 three months ended March 31, 2023 was $116,747, of which $12,963 (three months ended March 31, 2022 - $98,572, of which $12,373) relates to accrued interest.

During the year ended December 31, 2022, 10 debenture warrants issued under this financing were exercised for proceeds of $10,000. On initial recognition, the liability component was $9,180, the warrants were $310 ($228 net of transaction costs and tax effect) and the residual equity components were $510 ($373 net of transaction costs and tax effect). The $10,000 principal was immediately converted into 66,667 common shares (Note 12). Upon conversion, the liability and equity components were transferred to share capital.

During the three months ended March 31, 2023, $30,000 of principal amount was converted into 200,000 common shares. Upon conversion, the present value of the liability of $28,039 and the residual equity reserve value of $3,859 was transferred to share capital (Note 12).

(Unaudited - 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]	TOTAL
	$	$	$	$	$
Balance, December 31, 2021	**1,495,498**	**-**	**1,270,524**	**1,920,632**	**4,686,654**
Principal	-	15,000	33,000	10,000	58,000
Equity component	-	(8)	(2,109)	(510)	(2,627)
Warrant component	-	-	(1,313)	(310)	(1,623)
Accretion expense	126,678	-	276,224	423,082	825,984
Interest payment	(43,400)	-	(30,511)	(49,491)	(123,402)
Principal	(815,000)	-	-	-	(815,000)
Conversion of debt	(763,776)	(14,992)	(106,166)	(9,181)	(894,115)
Balance, December 31, 2022	**-**	**-**	**1,439,649**	**2,294,222**	**3,733,871**
Principal	-	-	79,000	-	79,000
Equity component	-	-	(124)	-	(124)
Warrant component	-	-	(49)	-	(49)
Accretion expense	-	-	22.273	116,747	139,020
Interest payment	-	-	(3,191)	(38)	(3,229)
Conversion of debt	-	-	(1,537,558)	(28,039)	(1,565,558)
Balance, March 31, 2023	**-**	**-**	**-**	**2,382,892**	**2,382,892**

For the three months ended March 31, 2023, of the total convertible debentures payable, the current amount is $2,382,892 (year ended December 31, 2022 - $3,733,871).

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

	Number	Weighted Average Exercise Price
		$
Balance, December 31, 2021	**380**	**1,000**
Exercised	(58)	1,000
Expired	(113)	1,000
Balance, December 31, 2022	**209**	**1,000**
Exercised	(79)	1,000
Balance, March 31, 2023	**130**	**1,000**

(Unaudited - expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

Expiry date	Exercise Price $	Number of Warrants Outstanding
May 29, 2023	1,000	100
June 12, 2023	1,000	30
Balance, March 31, 2023	**1,000**	**130**

Payments for each series of debentures required over the next five years are as follows:

Year	May 29, 2023 $	June 12, 2023 $	Total $
2023	1,911,031	555,048	2,466,079
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
	1,911,031	**555,048**	**2,466,079**

11. LEASE LIABILITIES

The Company leases vehicles and office space in Canada. The lease liabilities are discounted using an incremental borrowing rate of 12%.

	As at March 31, 2023 $	As at December 31, 2022 $
Balance, beginning of year	**259,211**	**304,651**
Additions	-	61,874
Derecognition	-	(1,101)
Interest	7,143	33,614
Lease payments	(35,350)	(139,827)
Balance, end of year	**231,004**	**259,211**
Less: non-current portion	(109,364)	(141,149)
Balance, current portion	**121,640**	**118,062**

Undiscounted lease payments	$
Not later than one year	141,400
Later than one year and not later than 5 years	123,382
March 31, 2023	**264,782**

11. LEASE LIABILITIES (CONTINUED)

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 three months ended March 31, 2023, $12,000 of variable lease payments (three months ended March 31, 2022 - $12,000) were included in rent expense on the statements of loss and comprehensive loss.

During the year ended December 31, 2022, the company entered into a 6-year lease for truck to be used in business operations. The value of right of use for the truck, using a 12% discount rate, is $61,874.

12. SHARE CAPITAL

[a] Authorized Share Capital

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

[b] Common shares

The Company had the following share capital transactions during the year ended December 31, 2022:

[i] issued 716,667 common shares pursuant to the exercise of stock options for aggregate gross proceeds of $147,917. The fair value of the stock options of $118,347 was transferred from reserves to share capital.

[ii] issued 1,940,714 common shares pursuant to the exercise of warrants for aggregate gross proceeds of $471,178. The fair value of the warrants of $71,835 was transferred from reserves to share capital.

[iii] issued 3,240,625 common shares pursuant to the conversion of $850,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is $869,941 and the convertible debt equity portion is $72,926 for a total value of $942,867 transferred to share capital (Note 10[i] and [iii]).

[iv] 58 debenture warrants were exercised for total proceeds of $58,000. Upon issuance, the debentures were immediately converted into 546,667 common shares. The fair value of the convertible debt liability at the time of conversion is $53,750 and the convertible debt equity portion is $2,627 for a total value of $56,377 transferred to share capital (Note 10 [ii], [iii] and [iv]).

[v] issued 349,701 common shares pursuant to the exercise of restricted share units. The fair value of the restricted share units of $117,150 was transferred from reserve to share capital.

The Company had the following share capital transactions during the three months ended March 31, 2023:

[vi] issued 7,645,000 common shares pursuant to the exercise of warrants for aggregate gross proceeds of $1,529,000. The fair value of the warrants of $181,925 was transferred from reserves to share capital.

(Unaudited - expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[vii] 79 debenture warrants were exercised for total proceeds of $79,000. Upon issuance, the debentures were immediately converted into 790,000 common shares. The fair value of the convertible debt liability at the time of conversion is $78,827 and the convertible debt equity portion is $91 for a total value of $78,918 transferred to share capital.

[viii] issued 14,905,000 common shares pursuant to the conversion of $1,500,500 of convertible debt. The fair value of the convertible debt liability at the time of conversion is $1,486,770 and the convertible debt equity portion is $191,135 for a total value of $1,677,905 transferred to share capital (Note 10[iii] and [iv]).

[c] Common share purchase warrants

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

	Number of Shares	Weighted Average $
Balance, December 31, 2021	**25,964,547**	**0.29**
Issued	5,198,330	0.39
Exercised	(1,940,715)	(0.24)
Expired	(7,989,728)	(0.42)
Balance, December 31, 2022	**21,232,434**	**0.27**
Issued	395,000	0.20
Exercised	(7,645,000)	(0.20)
Expired	(150,000)	0.45
Balance, March 31, 2023	**13,832,434**	**0.30**

Date of Expiry	Exercise price $	Warrants outstanding
May 29, 2023	0.25	6,565,997
June 12, 2023	0.25	2,266,437
August 16, 2024	0.40	5,000,000
Balance, March 31, 2023		**13,832,434**

(Unaudited - expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[d] Stock options

During the three months ended March 31, 2023, the Company recorded share-based payments of $38,140 (three months ended March 31, 2022 - $28,332) directly related to the options outstanding.

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2021	**5,889,875**	**0.16**
Issued	1,104,522	0.34
Exercised	(716,667)	(0.21)
Expired	(423,756)	(0.29)
Balance, December 31, 2022 and March 31, 2023	**5,853,974**	**0.19**

Date of Expiry	Exercise Price $	Number of Options Outstanding	Number of Options Exercisable
October 29, 2024	0.090	333,000	333,000
January 19, 2025	0.075	2,485,000	2,485,000
February 26, 2025	0.125	700,000	700,000
March 16, 2025	0.105	200,000	200,000
December 20, 2025	0.345	1,186,875	1,186,875
May 30, 2027	0.335	949,099	—
Balance, March 31, 2023	**0.190**	**5,853,974**	**4,904,875**

As of March 31, 2023, the weighted average remaining life for outstanding options was 3.38 years (March 31, 2022 – 3.07 years).

[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.

On May 30, 2022 the Company granted 2,040,108 RSUs with a fair value of $282,315 to directors, officers, employees and consultants of the Company. On July 18, 2022, 349,701 RSUs with a fair value of $117,150 were exercised.

During the three months ended March 31, 2023, the Company recorded share-based payments of $70,784 related to the RSUs (three months ended March 31, 2022 - $Nil)

13. 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.

14. 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 and accounts payable and accrued liabilities approximate their carrying values due to the short-term to maturity. The fair value of long-term liabilities is initially recorded at fair value and subsequently carried at amortized cost using rates comparable to market interest rates.

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. Receivables are primarily from sales. The Company believes these parties to be of sound creditworthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions. As at March 31, 2023 the Company is exposed to credit risk arising from receivables.

(Unaudited - expressed in Canadian dollars)

14. 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. As at March 31, 2023, the Company is not exposed to significant liquidity risk.

[c] Market risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at March 31, 2023 the Company is not exposed to any significant interest rate risk.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Three months ended March 31,	
	2023	**2022**
	$	**$**
Conversion of convertible debt into common shares	1,565,601	25,795
Conversion of convertible debt into shares – equity portion	191,135	2,547
Fair value of stock options and warrants exercised	181,924	389
Issuance of convertible debt – equity component	124	756
Issuance of convertible debt – warrant component	49	533
Inventory in accounts payable and accrued liabilities	26,171	—

16. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of WET Equipment. As at March 31, 2023 and December 31, 2022, all of the Company's main operations, assets and employees are in Canada.

17. SUBSEQUENT EVENTS

Subsequent to March 31, 2022:

[a] The Company entered into a geothermal systems partnership agreement ("**Agreement**") with Subterra Capital Partners Inc. ("**Subterra**") whereby the Company and Subterra will co-develop up to $100,000,000 ("**Capital Commitment**") of projects with a Company option to renew the commitment with an additional $100,000,000 if Capital Commitment is used within the term. In connection with the Agreement, the Company issued 3,773,585 common share purchase warrants to Subterra. Each warrant allows the holder to purchase one common share at an exercise price of $0.265 per share for a period of 5 years from date of issuance. Each warrant holder will have the right to exercise the warrants held proportionately in 20% increments as the Company uses up the Capital Commitment.

[b] Holders of convertible debt converted $1,895,000 principal into 12,633,333 shares, fully extinguishing $1,849,864 that were held in liabilities during the three months ended March 31, 2023.

[c] The Company issued 1,930,000 stock options with an exercise price of $0.27 each, maturing 5 years from date of issuance, subject to vesting terms and 2,734,000 RSUs with an exercise price of $0.27 each, expiring on December 31, 2025.

[d] 6,565,997 warrants were exercised for total proceeds of $1,641,499.