SHARC INTERNATIONAL SYSTEMS INC.
Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 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	September 30, 2023 (unaudited) $	December 31, 2022 (audited) $
ASSETS			
Current			
Cash		2,004,856	1,069,813
Receivables	4	610,743	522,079
Prepaid expenses		70,110	80,867
Inventory	5	1,395,262	970,834
Total current assets		**4,080,971**	**2,643,593**
Restricted cash	6	50,000	50,000
Deposits		51,200	51,200
Property and equipment	7	300,874	409,176
Total assets		**4,483,045**	**3,153,969**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities		411,904	1,002,618
Deferred revenue	9	12,511	18,534
Convertible debentures	10	-	3,733,871
Lease liabilities	11	129,123	118,062
Total current liabilities		**553,538**	**4,873,085**
Warranty provisions		93,705	85,720
Lease liabilities	11	42,876	141,149
Total Liabilities		**672,051**	**5,099,954**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	35,045,174	26,324,022
Reserves	12	5,272,439	4,441,397
Currency translation reserve		(8,751)	1,727
Convertible debentures, equity component	10	178,714	684,016
Deficit		(36,694,650)	(33,397,147)
Total shareholders' equity (deficiency)		**3,792,926**	**(1,945,985)**
Total liabilities and shareholders' equity (deficiency)		**4,483,045**	**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]

Approved on behalf of the Board of Directors on November 28, 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)

		Three months ended September 30,		Nine months ended September 30,	
		2023	**2022**	**2023**	**2022**
	Note	**$**	**$**	**$**	**$**
Revenue		545,350	81,799	1,733,490	1,132,588
Cost of Sales		(329,833)	(26,129)	(988,742)	(762,288)
Gross Margin		**215,517**	**55,670**	**744,748**	**370,300**
Expenses					
Accounting and legal		52,139	56,131	148,198	188,470
Advertising and promotion		64,719	67,525	200,455	232,528
Consulting	8	53,361	50,755	179,963	212,469
Depreciation	7	36,873	37,313	118,653	109,056
Insurance		15,702	13,305	46,164	37,732
Interest and financing expense	10,11	5,407	186,986	240,068	666,998
Office and miscellaneous		26,738	26,751	77,990	95,642
Regulatory and filing fees		22,050	10,258	49,780	63,876
Rent		12,000	12,000	36,000	36,000
Repairs and maintenance		5,718	7,130	12,192	23,545
Research and development		-	19,063	14,664	32,960
Share-based payments	8,12	243,240	578,829	1,344,268	784,465
Telephone and utilities		21,808	29,650	67,127	79,416
Travel		55,415	48,423	118,593	145,387
Wages and benefits	8	517,997	406,911	1,389,174	1,229,152
Warranty expense		-	-	-	20,778
		1,133,167	**1,551,030**	**4,043,289**	**3,958,474**
		(917,650)	**(1,495,360)**	**(3,298,541)**	**(3,588,174)**
Interest income		8,986	5,472	15,714	11,222
Foreign exchange		3,542	26,088	(14,722)	36,574
Loss before income taxes		**(905,122)**	**(1,463,800)**	**(3,297,549)**	**(3,540,378)**
Deferred tax recovery		-	797	46	1,145
Loss for the period		**(905,122)**	**(1,463,003)**	**(3,297,503)**	**(3,539,233)**
Other comprehensive income					
Foreign currency translation		(5,233)	175	(8,751)	612
Loss and comprehensive loss for the period		**(910,355)**	**(1,462,828)**	**(3,306,254)**	**(3,538,621)**
Basic and diluted loss per common share		**(0.01)**	**(0.01)**	**(0.02)**	**(0.03)**
Weighted average number of common shares outstanding – basic and diluted		**156,949,660**	**106,017,479**	**140,762,730**	**103,811,064**

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**
Stock Option exercise	716,667	147,917		-	-	-	147,917
Fair Value of stock options exercised	-	118,347	(118,347)	-	-	-	-
Warrants exercise	1,695,714	422,178		-	-	-	**422,178**
Fair value increment of warrants exercised	-	65,864	(65,864)	-	-	-	**-**
Issuance of convertible debt	-	-	1,187	-	1,912	-	**3,099**
Conversion of convertible debt	3,137,292	901,751	-	-	(68,479)	-	**833,272**
Settlement of RSU Units	349,701	117,150	(117,150)	-	-	-	**-**
Share-based payments	-	-	784,465	-	-	-	**784,465**
Reversal of expired & forfeited options	-	-	(5,184)	-	-	5,184	**-**
Currency translation adjustment	-	-	-	612	-	-	**612**
Comprehensive loss for the period	-	-	-	-	-	(3,539,233)	**(3,539,233)**
Balance, September 30, 2022	**106,604,566**	**26,201,847**	**4,334,922**	**612**	**690,374**	**(32,118,422)**	**(890,667)**
Warrants exercise	245,000	49,000	-	-	-	-	**49,000**
Fair value of warrants exercised	-	5,972	(5,972)	-	-	-	**-**
Issuance of convertible debt	-	-	9	-	-	-	**9**
Conversion of convertible debt	650,000	67,203	-	-	(6,358)	-	**60,845**
Settlement of RSU Units	-	-	-	-	-	-	**-**
Share-based payments	-	-	112,446	-	-	-	**112,446**
Reversal of expired and forfeited options	-	-	(8)	-	-	8	**-**
Currency translation adjustment	-	-	-	1,115	-	-	**1,115**
Comprehensive loss for the period	-	-	-	-	-	(1,278,733)	**(1,278,733)**
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	16,598,428	3,767,357	-	-	-	-	**3,767,357**
Fair value of warrants exercised	-	513,262	(513,262)	-	-	-	**-**
Share issue cost	-	(203,960)	-	-	-	-	**(203,960)**
Issuance of convertible debt	-	-	36	-	124	-	**160**
Conversion of convertible debt	32,851,666	4,644,493	-	-	(505,426)	-	**4,139,067**
Share-based payments	-	-	1,344,268	-	-	-	**1,344,268**
Currency translation adjustment	-	-	-	(10,478)	-	-	**(10,478)**
Comprehensive loss for the period	-	-	-	-	-	(3,297,503)	**(3,297,503)**
Balance, September 30, 2023	**156,949,660**	**35,045,174**	**5,272,439**	**(8,751)**	**178,714**	**(36,694,650)**	**3,792,926**

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)

	Nine months ended September 30, 2023	2022
	$	$
OPERATING ACTIVITIES		
Loss for the period	(3,297,503)	(3,539,233)
Add: Items not affecting cash		
Depreciation	118,653	109,056
Unrealized foreign exchange	(10,478)	612
Share based payments	1,344,268	784,465
Accrued interest expense	240,068	666,998
Deferred tax recovery	(46)	(1,145)
Changes in non-cash working capital items:		
Receivables	(88,664)	938,202
Prepaid expenses and deposits	10,757	(20,159)
Inventory	(297,313)	(207,969)
Accounts payable and accrued liabilities	(717,830)	33,672
Deferred revenue	(6,023)	266,387
Warranty provisions	7,985	24,576
Cash used in operating activities	**(2,696,126)**	**(944,539)**
INVESTING ACTIVITY		
Purchase of property and equipment	(10,351)	(30,764)
Cash used in investing activity	**(10,351)**	**(30,764)**
FINANCING ACTIVITIES		
Proceeds on:		
exercise of stock options	-	147,917
exercise of warrants, net of costs	3,563,397	368,608
exercise of debenture warrants	208,000	43,000
Repayment of convertible debentures	(23,827)	(898,620)
Payment of lease liabilities	(106,050)	(104,478)
Cash provided by (used in) financing activities	**3,641,520**	**(443,574)**
Increase (decrease) in cash	935,043	(1,418,876)
Cash, beginning of the period	1,069,813	3,150,705
Cash, end of the period	**2,004,856**	**1,731,829**

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 September 30, 2023, the Company has an accumulated deficit of $36,694,650 and positive working capital of $3,527,433. 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 November 28, 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	September 30, 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 subsidiary 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, considering 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.

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.

(Unaudited - expressed in Canadian dollars)

4. RECEIVABLES

	As at September 30, 2023 $	As at December 31, 2022 $
GST recoverable	51,489	23,816
Other receivables	504,238	19,184
Interest receivable	-	4,255
Trade receivables	55,016	474,824
Total	**610,743**	**522,079**

5. INVENTORY

	As at September 30, 2023 $	As at December 31, 2022 $
Materials and supplies	86,300	86,300
Work-in-progress	1,159,465	735,037
Finished goods	149,497	149,497
Total	**1,395,262**	**970,834**

6. RESTRICTED CASH

As at September 30, 2023 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	3,137	-	3,395	3,819	-	10,351
Balance, September 30, 2023	**180,887**	**337,547**	**109,231**	**76,314**	**610,554**	**1,314,533**
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	16,820	-	13,884	8,117	79,832	118,653
Balance, September 30, 2023	**83,549**	**337,547**	**86,063**	**40,026**	**466,474**	**1,013,659**
NET BOOK VALUE:						
Balance, December 31, 2022	111,021	-	33,657	40,586	223,912	409,176
Balance, September 30, 2023	**97,338**	**-**	**23,168**	**36,288**	**144,080**	**300,874**

(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 September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Consulting Fees [i]	39,000	39,000	117,000	117,000
Wages and Benefits [ii]	143,635	52,465	262,644	307,370
Share-based payments [iii]	149,824	42,651	392,614	227,183
	332,459	**134,116**	**772,258**	**651,553**

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

[ii] The Company paid wages and benefits to the Chief Executive Officer, the President of SHARC US, 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 September 30, 2023 the balance was $12,511 (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 and nine months ended September 30, 2023 was $nil and $nil (September 30, 2022: $nil and $126,677), of which $nil (September 30, 2022: $43,400) 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 and nine months ended September 30, 2023 was $nil and $22,273 (September 30, 2022: $70,531 and $204,798), of which $nil (September 30, 2022: $23,076) 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 nine months ended September 30, 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 nine months ended September 30, 2023, 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 and nine months ended September 30, 2023 was $nil and $198,957 (September 30, 2022: $107,678 and $309,879) of which $nil (September 30, 2022: $37,118) 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 nine months ended September 30, 2023, $2,474,500 of principal amount was converted into 16,496,666 common shares. Upon conversion, the present value of the liability of $2,601,539 and the residual equity reserve value of $318,026 was transferred to share capital (Note 12).

(Unaudited - expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

During the nine months ended September 30, 2023, 129 debenture warrants issued under this financing were exercised for proceeds of $129,000. On initial recognition, the liability component was $129,000, the warrants were $nil ($nil net of transaction costs and tax effect) and the residual equity components were $nil ($nil net of transaction costs and tax effect). The $129,000 principal was immediately converted into 860,000 common shares (Note 12).

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	129,000	208,000
Equity component	-	-	(124)	-	(124)
Warrant component	-	-	(49)	-	(49)
Accretion expense	-	-	22,273	198,957	221,230
Interest payment	-	-	(3,191)	(20,640)	(23,831)
Conversion of debt	-	-	(1,537,558)	(2,601,539)	(4,139,097)
Balance, September 30, 2023	**-**	**-**	**-**	**-**	**-**

For the nine months ended September 30, 2023, of the total convertible debentures payable, the current amount is $nil (year ended December 31, 2022 - $3,733,871).

(Unaudited - expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

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	(208)	1,000
Expired	(1)	1,000
Balance, September 30, 2023	**-**	**1,000**

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 September 30, 2023 $	As at December 31, 2022 $
Balance, beginning of year	**259,211**	**304,651**
Additions	-	61,874
Derecognition	-	(1,101)
Interest	18,838	33,614
Lease payments	(106,050)	(139,827)
Balance, end of year	**171,999**	**259,211**
Less: non-current portion	(42,876)	(141,149)
Balance, current portion	**129,123**	**118,062**

Undiscounted lease payments	**$**
Not later than one year	141,400
Later than one year and not later than 5 years	52,682
September 30, 2023	**194,082**

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 nine months ended September 30, 2023, $36,000 of variable lease payments (nine months ended September 30, 2022 - $36,000) 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 nine months ended September 30, 2023:

[vi] issued 16,598,428 common shares pursuant to the exercise of warrants for aggregate gross proceeds of $3,767,357. The fair value adjustment of the warrants of $513,262 was transferred from reserves to share capital. Finder’s fees of $203,960 were incurred on the exercise of the warrants.

[vii] 208 debenture warrants were exercised for total proceeds of $208,000. Upon issuance, the debentures were immediately converted into 1,650,000 common shares. The fair value of the convertible debt liability at the time of conversion is $207,827 and the convertible debt equity portion is $91 for a total value of $207,736 transferred to share capital.

(Unaudited - expressed in Canadian dollars)

SHARE CAPITAL (CONTINUED)

[viii] issued 31,201,666 common shares pursuant to the conversion of $3,945,000 of convertible debt. The fair value of the convertible debt liability at the time of conversion is $3,931,422 and the convertible debt equity portion is $505,335 for a total value of $4,436,663 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	4,501,885	0.26
Exercised	(16,598,428)	(0.23)
Expired	(362,306)	0.33
Balance, September 30, 2023	**8,773,585**	**0.34**

Date of Expiry	Exercise price $	Warrants outstanding
August 16, 2024	0.400	5,000,000
March 1, 2028	0.265	3,773,585
Balance, September 30, 2023		**8,773,585**

During the three months and nine months ended September 30, 2023, the Company recorded share-based payment expense of $nil and $735,008 directly related to the fair value of warrants issued (three and nine months ended September 30, 2022 were $495,549 and $495,549)

[d] Stock options

During the three and nine months ended September 30, 2023, the Company recorded share-based payment expense of $243,240 and $609,260 (three and Nine months ended September 30, 2022 - $112,446 and $401,362) directly related to the employee options outstanding.

(Unaudited - expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

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	**5,853,974**	**0.19**
Issued	2,066,046	0.27
Exercised	—	—
Expired	(39,477)	0.34
Balance, September 30, 2023	**7,880,543**	**0.20**

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	909,622	368,174
April 27, 2028	0.270	1,930,000	—
June 29, 2028	0.280	136,046	—
Balance, September 30, 2023	**0.200**	**7,880,543**	**5,273,049**

As of September 30, 2023, the weighted average remaining life for outstanding options was 2.55 years (September 30, 2022 – 2.88 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.

(Unaudited - expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

During the three months and nine months ended September 30, 2023, the Company recorded share-based payments expense of $190,689 and $261,473, respectively, related to the RSUs (three and nine months ended September 30, 2022 - $140,745)

RSU transactions and the number of RSUs outstanding are summarized below:

	Number	Weighted Average Fair Value $
Balance, December 31, 2021	**-**	**-**
Issued	2,040,108	0.335
Exercised	(349,701)	(0.335)
Expired	-	-
Balance, December 31, 2022	**1,690,407**	**0.335**
Issued	3,119,402	0.270
Exercised	—	—
Expired	(55,075)	0.270
Balance, September 30, 2023	**4,754,734**	**0.290**

Date Issued	Expiry	Share Price on issuance $	Shares Outstanding	Shares Exercisable
May 30, 2022	December 31, 2024	0.335	1,635,332	114,627
April 27, 2023	December 31, 2025	0.270	2,734,000	-
June 29, 2023	December 31, 2025	0.280	385,402	181,365
Balance September 30, 2023		**0.290**	**4,754,734**	**181,365**

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 period. 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 creditworthiness. 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 September 30, 2023 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 September 30, 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 September 30, 2023 the Company is not exposed to any significant interest rate risk.

(Unaudited - expressed in Canadian dollars)

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Nine months ended September 30, 2023 $	2022 $
Conversion of convertible debt into common shares	4,139,101	901,751
Conversion of convertible debt into shares – equity portion	505,393	—
Fair value of stock options and warrants exercised	513,261	301,361
Warrant exercise proceeds receivable	—	—
Issuance of convertible debt – equity component	124	2,619
Issuance of convertible debt – warrant component	49	1,623
Reversal of share-based payments	—	5,189
Right of use asset recognized	—	61,873
Inventory in accounts payable and accrued liabilities	127,115	—

16. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of WET Equipment. As at September 30, 2023 and December 31, 2022, all of the Company's main operations, assets and employees are in Canada.

17. SUBSEQUENT EVENTS

Subsequent to September 30, 2023:

[a] The Company issued 100,000 stock options with an exercise price of $0.245 each, maturing 5 years from the date of issuance, subject to vesting terms.