SHARC INTERNATIONAL SYSTEMS INC.
Consolidated Financial Statements

For the year ended December 31, 2023

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sharc International Systems Inc.

Opinion

We have audited the accompanying consolidated financial statements of Sharc International Systems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that as at December 31, 2023, the Company has an accumulated deficit of $37,300,637 and working capital of $2,526,859. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year ended. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

<u>Valuation of Inventory</u>

As described in Note 5 to the consolidated financial statements, the value of the Company's inventory was $1,717,488 as of December 31, 2023. As more fully described in Notes 2 and 3 to the consolidated financial statements, estimates in the carrying values of inventories arise due to the nature of the valuation of materials and supplies, work-in-progress and finished goods based on an appropriate allocation of costs directly related to the units of production. Changes in these estimates can result in change in cost of sales and carrying amounts of inventories.

The principal considerations for our determination that the valuation of inventory is a key audit matter are that there were judgments made by management when estimating the cost inputs in determining the value of materials and supplies, work-in-progress and finished goods. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their estimate of cost inputs that could impact the carrying value of inventory recorded.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Assessing the reasonableness of the costs used in the determination of materials and supplies, work-in-process and finished goods through sample testing purchases.
- Performing inventory count observations and considering historical movement to identify slow-moving or obsolete inventory.
- Performing procedures to assess if inventory has been valued at the lower of cost or net realizable value.

Revenue Recognition

As described in Note 17 to the consolidated financial statements, the Company recognized revenue from operations of $1,592,062 as of December 31, 2023. As more fully described in Notes 2 and 3 to the consolidated financial statements, certain product sales involve estimation uncertainties as the sales contracts include multiple performance obligations which are satisfied over time.

The principal considerations for our determination that revenue recognition is a key audit matter are that there were judgements made by management when estimating whether the performance obligation has been satisfied. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Testing sales transactions against sales contracts and purchase orders to assess that revenues have been recognized appropriately.
- Conducting cut-off testing to ensure revenues have been recognized in the correct period.
- Obtaining confirmations for significant customers and customer with significant receivables balance at year end to confirm sales details including status of work at year end.

Other Information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 29, 2024

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

	Note	December 31, 2023 $	December 31, 2022 $
ASSETS			
Current			
Cash		1,242,268	1,069,813
Receivables, net of bad debt allowance	4	157,956	522,079
Prepaid expenses		53,963	80,867
Inventory	5	1,717,488	970,834
Total current assets		**3,171,675**	**2,643,593**
Restricted cash	6	50,000	50,000
Deposits		1,200	51,200
Property and equipment	7	239,184	409,176
Total assets		**3,462,059**	**3,153,969**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	12	462,247	1,002,618
Deferred revenue	8	81,931	18,534
Convertible debentures	9	-	3,733,871
Lease liabilities	10	100,638	118,062
Total current liabilities		**644,816**	**4,873,085**
Warranty provisions		69,322	85,720
Lease liabilities	10	40,511	141,149
Total Liabilities		**754,649**	**5,099,954**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	35,045,174	26,324,022
Reserves	11	4,882,983	5,125,413
Obligation to issue shares	11	77,888	-
Currency translation reserve		2,002	1,727
Deficit		(37,300,637)	(33,397,147)
Total shareholders' equity (deficiency)		**2,707,410**	**(1,945,985)**
Total liabilities and shareholders' equity (deficiency)		**3,462,059**	**3,153,969**

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

Nature of Operations and Going Concern [Note 1]
Contingencies [Note 18]

Approved on behalf of the Board of Directors on April 29, 2024:
/s/ Lynn Mueller — Director
/s/ Eleanor Chiu — Director

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

	Note	Year Ended December 31, 2023 $	2022 $
Revenue	17	1,592,062	1,941,737
Cost of Sales	5	(914,225)	(1,381,274)
Gross Margin		**677,837**	**560,463**
Expenses			
Accounting and legal		189,790	247,778
Advertising and promotion		270,395	305,342
Bad debt expense	4	-	141,099
Provision for expected credit loss	4	38,624	-
Consulting	12	256,131	312,123
Depreciation	7	160,580	161,997
Insurance		61,866	50,911
Interest and financing expense	9,10	244,555	859,598
Litigation settlement	18	156,083	-
Office and miscellaneous		111,865	128,755
Regulatory and filing fees		68,089	76,620
Rent	10	48,000	48,000
Repairs and maintenance		21,563	25,691
Research and development		28,059	135,845
Share-based payments	11,12	853,986	896,911
Telephone and utilities		91,124	108,507
Travel		160,774	192,371
Wages and benefits	12	1,869,176	1,708,648
Warranty expense		(23,134)	20,778
		(4,607,526)	**(5,420,974)**
		(3,929,689)	**(4,860,511)**
Interest income		15,934	15,646
Foreign exchange		(6,707)	25,752
Gain on sale of fixed assets		16,972	-
Loss before income taxes		**(3,903,490)**	**(4,819,113)**
Deferred tax recovery		-	1,147
Loss for the year		**(3,903,490)**	**(4,817,966)**
Other comprehensive income			
Foreign currency translation		2,002	1,727
Loss and comprehensive loss for the year		**(3,901,488)**	**(4,816,239)**
Basic and diluted loss per common share		**(0.03)**	**(0.05)**
Weighted average number of common shares outstanding – basic and diluted		**144,853,932**	**104,622,238**

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

SHARC International Systems Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Common Shares		Reserves	Currency translation reserve	Obligation to issue shares	Deficit	Total
	Number	$	$	$	$	$	$
Balance, December 31, 2021	**100,705,192**	**24,428,640**	**4,612,756**	**-**	**-**	**(28,584,373)**	**457,023**
Stock options exercised	716,667	147,917	-	-	-	-	**147,917**
Fair value of stock options exercised	-	118,347	(118,347)	-	-	-	**-**
Warrants exercised	1,940,714	471,178	-	-	-	-	**471,178**
Fair value of warrants exercised	-	71,836	(71,836)	-	-	-	**-**
Issuance of convertible debt	-	-	3,108	-	-	-	**3,108**
Conversion of convertible debt	3,787,292	968,954	(74,837)	-	-	-	**894,117**
Settlement of RSU units	349,701	117,150	(117,150)	-	-	-	**-**
Share-based payments	-	-	896,911	-	-	-	**896,911**
Forfeited stock options	-	-	(5,192)	-	-	5,192	**-**
Currency translation adjustment	-	-	-	1,727	-	-	**1,727**
Loss for the year	-	-	-	-	-	(4,817,966)	**(4,817,966)**
Balance, December 31, 2022	**107,499,566**	**26,324,022**	**5,125,413**	**1,727**	**-**	**(33,397,147)**	**(1,945,985)**
Warrants exercised	16,598,428	3,767,327	-	-	-	-	**3,767,327**
Fair value of warrants exercised	-	513,262	(513,262)	-	-	-	**-**
Share issue costs	-	(203,960)	-	-	-	-	**(203,960)**
Issuance of convertible debt	-	-	160	-	-	-	**160**
Conversion of convertible debt	32,851,666	4,644,523	(505,426)	-	-	-	**4,139,097**
Share-based payments	-	-	853,986	-	-	-	**853,986**
Fair value of RSUs vested	-	-	(77,888)	-	77,888	-	**-**
Currency translation adjustment	-	-	-	275	-	-	**275**
Loss for the year	-	-	-	-	-	(3,903,490)	**(3,903,490)**
Balance, December 31, 2023	**156,949,660**	**35,045,174**	**4,882,983**	**2,002**	**77,888**	**(37,300,637)**	**2,707,410**

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

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

	Year Ended December 31, 2023	2022
	$	$
OPERATING ACTIVITIES		
Loss for the year	(3,903,490)	(4,817,966)
Add: Items not affecting cash		
Depreciation	160,580	161,997
Provision for expected credit loss	38,624	-
Bad debt expense	-	141,099
Write-off of obsolete inventory	37,311	-
Unrealized foreign exchange	275	1,727
Share-based payments	853,986	896,911
Accrued interest expense	244,555	859,598
Gain on sale of fixed assets	(16,972)	-
Deferred tax recovery	-	(1,142)
Changes in non-cash working capital items:		
Receivables	325,499	692,018
Prepaid expenses	76,904	(69,492)
Inventory	(783,965)	(8,472)
Accounts payable and accrued liabilities	(540,371)	541,705
Deferred revenue	63,397	18,534
Warranty provisions	(16,398)	24,576
Cash used in operating activities	**(3,460,065)**	**(1,558,907)**
INVESTING ACTIVITIES		
Purchase of property and equipment	(13,647)	(120,851)
Cash used in investing activities	**(13,647)**	**(120,851)**
FINANCING ACTIVITIES		
Proceeds on:		
exercise of stock options	-	147,917
exercise of warrants, net of costs	3,563,367	471,178
exercise of debenture warrants	208,000	58,000
Repayment of convertible debentures	(23,831)	(938,402)
Proceeds from sale of fixed assets	40,031	-
Payment of lease liabilities	(141,400)	(139,827)
Cash provided by (used in) financing activities	**3,646,167**	**(401,134)**
Increase (decrease) in cash	172,455	(2,080,892)
Cash, beginning of the year	1,069,813	3,150,705
Cash, end of the year	**1,242,268**	**1,069,813**

Supplemental disclosure with respect to cash flow (Note 15)
The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

These consolidated financial statements (the "**Financial Statements**") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for them and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2023, the Company has an accumulated deficit of $37,300,637 and working capital of $2,526,859. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to arrange additional financing and future revenues. The Company will continue to pursue opportunities to raise additional capital through equity markets and/or debt to fund its operating activities. 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 such as global health conditions and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of the adverse results of these factors and their effects 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 IFRS Accounting Standards as issued by the International Accounting Standards Board ("**IASB**"). These Financial Statements were approved by the Company's Board of Directors on April 29, 2024.

[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:

		Ownership as of December 31,	
Company	**Location**	**2023 %**	**2022 %**
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 consolidated 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 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 may enter into contracts for product sales with multiple performance obligations which are typically satisfied over time. Judgement is applied regarding the timing and allocation of revenue based on management's estimate of the extent of progress towards completion of the performance obligation.

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.

vi. The fair value of share purchase warrants with non-market vesting conditions requires the Company to estimate probability of vesting conditions occurring which may be affected by several factors that may be highly speculative. Changes in these assumptions can materially affect the fair value estimate. Management is required to reassess the probability assigned at each period end.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

Where applicable, the functional currency of an entity is translated into the presentation currency using the period-end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

Property and equipment

Property and equipment is recorded at cost and amortized at the following rates.

Equipment	20% declining balance per annum
Furniture and fixtures	20% declining balance per annum
Computer hardware	55% declining balance per annum
Leasehold improvements	Straight line over term of lease
Right-of-use assets	Straight line over term of lease

Equipment that is withdrawn from use or has no reasonable prospect of being recovered through use or sale, is regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of property and equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Impairment of long lived assets

At the end of each reporting period, the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventory

Materials and supplies, work-in-progress and finished goods are measured at the lower of cost and net realizable value, using the specific identification method.

The cost of materials and supplies is comprised of the purchase price, applicable taxes and other costs incurred in bringing inventory to their present location and condition. The cost of finished goods includes the cost of materials and cost of conversion. The cost of conversion includes costs directly related to the units of production, such as direct labour, and fixed and variable production overheads, based on normal operating capacity.

The net realizable value of inventory is generally considered to be the selling price in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale.

The amount of any impairment of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any impairment of inventories, arising from an increase in net realizable value, is recognized as a reduction of the related impairment expense in the period in which the reversal occurs.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Revenue recognition

Revenue from all product sales of the Company is recognized when products are shipped to customers and control is transferred to customers, performance obligations are complete, the price is fixed or determinable and when the ultimate collection is reasonably assured. Customer prepayments are recorded as deferred revenue and revenue is not recognized until the shipment of goods occurs. Shipping and handling costs related to product sales are included in cost of sales.

Revenue from the rendering of services performed by the Company is recognized when the following conditions are met: amount of the revenue can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Company may sell its heating and ventilation unit and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where the Company enters into an agreement involving a bundled transaction, the Company records each of the separate components at their relative stand-alone selling price and recognizes the revenue on completion of performance obligations for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. The Company determines the value of each of the components sold based on the selling price when they are sold separately. When the stand-alone value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Warranty provision

The Company provides product warranties on certain products pursuant to the manufacturing contract and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

Financial instruments

<u>Classification</u>

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Measurement

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

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

Impairment of financial assets at amortized cost

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

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

Derecognition

Financial assets

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Financial instruments (continued)

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed by assuming that outstanding options, warrants and similar instruments were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and warrants. Depending on the terms and conditions, the warrants are exercisable into additional common shares at a price prior to the expiry as stipulated by the transaction. Warrants that are part of units are valued using the residual method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

Share-based payments

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

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

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

The Company may grant restricted share units (“RSUs”) to directors, officers and employes. Each RSU represents an entitlement to one common share of the Company, upon vesting. RSUs are redeemable for the issuance of shares only on the date of exercise or cash at the Company’s discretion. The Company measures the share-based compensation expense based on the quoted market price of the Company’s common shares on the grant date and recognizes the expense over the vesting period, with a corresponding increase in reserves. When RSUs are exercised, the initial recorded value is reversed from reserves and credited to share capital.

Compound financial instruments

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Leases

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

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

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

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

(Expressed in Canadian dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Accounting standards issued or amended but not yet effective

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. RECEIVABLES

	As at December 31,	
	2023	**2022**
	$	**$**
GST recoverable	4,697	23,816
Other receivables	86,868	19,184
Interest receivable	-	4,255
Trade receivables, net of expected credit losses	66,391	474,824
Total	**157,956**	**522,079**

During the year ended December 31, 2023, the Company wrote off $nil (2022 - $141,099) of trade receivables to bad debt expense and recorded a provision for expected credit losses against trade receivables of $38,624 (2022 - $nil)

5. INVENTORY

	As at December 31,	
	2023	**2022**
	$	**$**
Materials and supplies	944,199	86,300
Work-in-progress	428,350	735,037
Finished goods	344,939	149,497
Total	**1,717,488**	**970,834**

During the year ended December 31, 2023, the Company recognized $37,311 (2022 - $nil) in relation to write down of obsolete inventory which was included in cost of sales. For the year ended December 31, 2023, inventories recognized as an expense in cost of sales amounted to $892,614 (2022 - $nil).

6. RESTRICTED CASH

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

(Expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

	Equipment, Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Right-of-use assets	Total
	$	$	$	$	$
COST:					
Balance, December 31, 2021	**122,902**	**79,606**	**32,722**	**548,680**	**783,910**
Additions	54,848	26,230	39,773	61,874	182,725
Balance, December 31, 2022	**177,750**	**105,836**	**72,495**	**610,554**	**966,635**
Additions	6,433	3,395	3,819	-	13,647
Disposals / Sales	(40,031)	-	-	-	(40,031)
Balance, December 31, 2023	**144,152**	**109,231**	**76,314**	**610,554**	**940,251**
ACCUMULATED DEPRECIATION:					
Balance, December 31, 2021	**45,829**	**47,071**	**21,764**	**279,699**	**394,363**
Depreciation expense	20,900	25,108	10,145	105,844	161,997
Dispositions	-	-	-	1,099	1,099
Balance, December 31, 2022	**66,729**	**72,179**	**31,909**	**386,642**	**557,459**
Depreciation expense	22,739	19,446	11,952	106,443	160,580
Disposals / Sales	(16,972)	-	-	-	(16,972)
Balance, December 31, 2023	**72,496**	**91,625**	**43,862**	**493,085**	**701,067**
NET BOOK VALUE:					
Balance, December 31, 2022	111,021	33,657	40,586	223,912	409,176
Balance, December 31, 2023	**71,656**	**17,606**	**32,453**	**117,469**	**239,184**

8. 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 December 31, 2023 the balance was $81,931 (December 31, 2022 - $18,534).

9. 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 boar 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.

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.

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debentures for the year ended December 31, 2023 was $nil (December 31, 2022 - $126,677), of which $nil (December 31, 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 11). 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 was repaid in full including interest.

Finders' fees included 162 debenture warrants. 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. During the year ended December 31, 2022, the remaining 133 debenture warrants outstanding expired unexercised.

[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 boar 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.

9. CONVERTIBLE DEBENTURES (CONTINUED)

During the year ended December 31, 2020, $1,030,000 of principal amount was converted into 10,300,000 common shares.

Finders' fee included 30 debenture warrants. 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. During the year ended December 31, 2022, the remaining 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 11). 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 mature on February 13 and February 24, 2023, respectively, and bear interest at an annual rate of 2% due semi-annually. The debentures are convertible, in whole or in part, at the option of the holder at any time after the first anniversary of the date of issuance and prior to the maturity date into common shares of the Company at a conversion price of $0.10 per common share.

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

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the year ended December 31, 2023 was $22,260, of which $3,191 relates to accrued interest (December 31, 2022 - $276,224 and $30,511).

During the year ended December 31, 2023, $1,470,500 (December 31, 2022 - $85,000) of principal amount was converted into 14,705,000 (December 31, 2022 – 850,000) common shares. Upon conversion, the present value of the liability of $1,458,731(December 31, 2022 - $106,166) and the residual equity reserve value of $187,274 (December 31, 2022 - $10,813) was transferred to share capital (Note 11).

Finders' fees included 203 debenture warrants. 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.

During the year ended December 31, 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 11). Upon conversion, the liability and equity components were transferred to share capital.

9. CONVERTIBLE DEBENTURES (CONTINUED)

During the year ended December 31, 2023, the remaining 79 debenture warrants issued under this financing were exercised for proceeds of $79,000. On initial recognition, the liability component was $79,000, the warrants were $36 ($36 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 11). Upon conversion, the liability and equity components were transferred to share capital.

[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 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 $0.15 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.

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the year ended December 31, 2023 was $198,957, of which $20,640 relates to accrued interest (December 31, 2022 - $423,082, $49,491).

During the year ended December 31, 2023, $2,474,500 of principal amount was converted into 16,496,666 common shares. Upon conversion, the present value of the liability of $2,472,490 and the residual equity reserve value of $318,028 was transferred to share capital (Note 11).

Finders’ fees included 269 debenture warrants. 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.

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 11). Upon conversion, the liability and equity components were transferred to share capital.

During the year ended December 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 11).

(Expressed in Canadian dollars)

9. CONVERTIBLE DEBENTURES (CONTINUED)

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

	Note 9 [i]	Note 9 [ii]	Note 9 [iii]	Note 9 [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	-	-	(36)	-	(36)
Accretion expense	-	-	22,260	198,957	221,217
Interest payment	-	-	(3,191)	(20,640)	(23,831)
Conversion of debt	-	-	(1,537,558)	(2,601,539)	(4,139,097)
Balance, December 31, 2023	**-**	**-**	**-**	**-**	**-**

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, December 31, 2023	**-**	**1,000**

(Expressed in Canadian dollars)

10. 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 December 31,	
	2023	2022
	$	$
Balance, beginning of year	**259,211**	**304,651**
Additions	-	61,874
Derecognition	-	(1,101)
Interest	23,338	33,614
Lease payments	(141,400)	(139,827)
Balance, end of year	**141,149**	**259,211**
Less: non-current portion	(40,511)	(141,149)
Balance, current portion	**100,638**	**118,062**

Undiscounted lease payments	**$**
Not later than one year	109,642
Later than one year and not later than 5 years	49,091
December 31, 2023	**158,743**

The Company has elected not to apply the lease standard to short term leases with an initial term of 12 months or less but rather to recognise the lease expense on a straight-line basis. For the year ended December 31, 2023, $48,000 of variable lease payments (December 31, 2022 - $48,000) were included in rent expense on the statements of loss and comprehensive loss.

11. 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 9 [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 9 [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 year ended December 31, 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 $208,000 and the convertible debt equity portion is $124 for a total value of $207,876 transferred to share capital.

[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 $3,931,221 and the convertible debt equity portion is $505,302 for a total value of $4,436,523 transferred to share capital (Note 9 [iii] and [iv]).

(Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

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

	Number	Weighted Average $
Balance, December 31, 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	4,598,542	0.26
Exercised	(16,598,428)	(0.23)
Expired	(458,963)	0.32
Balance, December 31, 2023	**8,773,585**	**0.34**

Date of Expiry	Exercise price $	Warrants outstanding	Warrants exercisable
August 16, 2024	0.400	5,000,000	5,000,000
March 1, 2028	0.265	3,773,585	-
Balance, December 31, 2023		**8,773,585**	**5,000,000**

During the year ended December 31, 2022, 5,000,000 warrants were issued as part of a sales and marketing agreement. Each warrant allows the holder to purchase one common share at an exercise price of $0.40 per share for a period of 24 months provided that and conditional upon the joint sales and marketing agreement remains in effect at the time of exercise. The fair value of the warrants, recorded in share-based payments during the year ended December 31, 2022 was $495,549.

During the year ended December 31, 2023, 3,773,585 warrants were issued as part of a geothermal systems partnership agreement (the “Partnership Agreement”) with Subterra Capital Partners Inc. (“Subterra”) whereby Subterra may contribute up to $100,000,000 of funding for qualifying projects. Each warrant allows the holder to purchase one common share at an exercise price of $0.265 per share. The warrants are subject to vesting conditions: 20% of warrants issued vest on each date $20,000,000 of the capital commitment is incurred, over a period of 5 years. As at December 31, 2023, the probability of reaching the required capital commitment for vesting is assessed at nil%. As a result, the fair value of the warrants were assessed as $nil.

During the year ended December 31, 2023, the Company recorded share-based payment expense of $nil (December 31, 2022 - 495,549) directly related to the fair value of warrants issued.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants (continued)

The fair values of the common share purchase warrants granted for the joint sales & marketing agreement are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2023	2022
Risk-free interest rate	3.09%	3.33%
Estimated annualized volatility	96.91%	77.22%
Expected life	5.0 years	2.0 years
Expected dividend yield	0%	0%
Exercise price	$0.265	$0.400
Fair value per option	$0.195	$0.099
Share price	$0.265	$0.290

[d] Stock options

On November 1, 2011, the Company adopted a stock option plan for directors, officers, employees, and consultants of the Company. Under the terms of the plan, each vested option awarded entitles the option holder to receive one common share in the. The maximum number of options granted should not exceed 10% of the issued shares of the Company aggregated with all other security-based compensation arrangements.

During the year ended December 31, 2023, the Company recorded share-based payment expense of $258,637 (December 31, 2022 - $119,045) related to stock options.

The fair values of stock options granted during the year ended December 31, 2023 and 2022 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2023	2022
Risk-free interest rate	3.19%	2.66%
Estimated annualized volatility	96.47%	107.40%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	$0.258	$0.335
Fair value per option	$0.191	$0.263
Share price	$0.258	$0.335

(Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

[d] Stock options (continued)

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 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	2,166,046	0.27
Expired	39,477	0.34
Balance, December 31, 2023	**7,980,543**	**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	1,171,875	1,171,875
May 30, 2027	0.335	924,622	308,207
April 27, 2028	0.270	1,930,000	—
June 29, 2028	0.280	136,046	—
October 17, 2028	0.245	100,000	—
Balance, December 31, 2023	**0.203**	**7,980,543**	**5,198,082**

As of December 31, 2023, the weighted average remaining life for outstanding options was 2.33 years (December 31, 2022 – 2.63 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.

During the year ended December 31, 2023, the Company recorded share-based payment expense of $595,349 related to the RSUs (December 31, 2022 - $282,317)

(Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

[e] Restricted Share Units ("RSU") (continued)

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

	Number	Weighted Average Fair Value $
Balance, December 31, 2021	**-**	**-**
Issued	2,040,108	0.34
Vested	(349,701)	(0.34)
Balance, December 31, 2022	**1,690,407**	**0.34**
Issued	3,119,402	0.27
Vested	(295,992)	0.30
Forfeited	(55,075)	0.34
Balance, December 31, 2023	**4,458,742**	**0.29**

Date Issued	Expiry	Share Price on issuance $	RSUs Outstanding
May 30, 2022	December 31, 2024	0.335	1,520,705
April 27, 2023	December 31, 2025	0.270	2,734,000
June 29, 2023	December 31, 2025	0.280	204,037
Balance December 31, 2023		**0.290**	**4,458,742**

12. RELATED PARTY DISCLOSURE

Transactions with related parties

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

The Company incurred the following charges with key management personnel:

	Year ended December 31, 2023 $	2022 $
Consulting fees [i]	156,000	156,000
Wages and benefits [ii]	405,189	377,309
Share-based payments [iii]	542,438	300,432
	1,103,627	**833,741**

12. RELATED PARTY DISCLOSURE (CONTINUED)

[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 was recognized in connection with the vesting of options granted to directors and officers of the Company.

Included in accounts payable is $19,839 (December 31, 2022 - $Nil) due to related parties.

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 and convertible debentures approximate their carrying values due to the short-term to maturity. The fair value of lease liabilities are initially recorded at fair value and subsequently carried at amortized cost using rates comparable to market interest rates.

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, restricted cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash and restricted 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. As at December 31, 2023 the Company is exposed to credit risk arising from receivables and recorded a loss allowance of $38,624 (December 31, 2022 - $nil).

[b] Liquidity risk

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

[c] Market risk

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

14. FINANCIAL INSTRUMETNS AND RISK MANAEMENT (CONTINUED)

[d] Foreign exchange rate risk

The Company operates in Canada and the United States of America and is, therefore, exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

At December 31, 2023, the Company had US denominated current assets of US$339,026 and US denominated current liabilities of US$77,312. Accordingly, a 10% change in the foreign exchange rate would result in a $45,781 credit or charge to operations.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Year ended December 31,	
	2023	2022
	$	$
Conversion of convertible debt into common shares	4,139,097	968,954
Conversion of convertible debt into shares – equity portion	505,426	74,837
Fair value of stock options and warrants exercised	513,262	307,333
Obligation to issue shares for RSUs vested	77,888	—
Reversal of share-based payments	—	5,192
Issuance of convertible debt – equity component	124	2,627
Issuance of convertible debt – warrant component	36	1,623
Recognition of right-of-use asset and lease liability	—	61,874

(Expressed in Canadian dollars)

16. INCOME TAXES

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

	Year ended December 31, 2023 $	2022 $
Loss before tax	(3,903,489)	(4,819,113)
Expected income tax (recovery)	(1,066,000)	(1,301,000)
Changes in statutory rates, foreign tax, foreign exchange rates and other	56,000	8,853
Permanent differences	236,000	248,000
Share issue costs	(55,000)	-
Adjustment to prior year provision versus statutory returns	(7,000)	14,000
Change in unrecognized deductible temporary difference	836,000	1,029,000
Total income tax recovery	-	(1,147)

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

	Year ended December 31, 2023 $	2022 $
Current income tax	-	-
Deferred tax recovery	-	(1,147)
Income tax recovery per statements of loss and comprehensive loss	-	(1,147)

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

	Year ended December 31, 2023 $	2022 $
Balance, beginning of year	-	-
Amount charged to equity	-	1,147
Deferred tax recovery	-	(1,147)
Balance, end of year	**-**	**-**

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

	2023 $	Expiry dates	2022 $	Expiry dates
Evaluation assets	534,000	No expiry	534,000	No expiry
Share issue costs	253,000	2044-2047	261,000	2043-2045
Equipment	534,000	No expiry	559,000	No expiry
Non-capital losses:	24,824,000	2031-2043	21,649,000	2031-2042

Tax attributes are subject to review, and potential adjustment, by tax authorities

(Expressed in Canadian dollars)

17. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of Wastewater Energy Transfer ("**WET**") Equipment. As at December 31, 2023 and 2022, all of the Company's main operations, assets and employees are in Canada.
Disaggregation of revenues

Revenues for the sales and marketing of WET equipment are detailed as follows:

	As at December 31,	
	2023	**2022**
	$	**$**
Equipment rentals	68,400	122,400
Service and maintenance agreements	57,788	63,654
Product sales	1,465,874	1,755,683
Total	**1,592,062**	**1,941,737**

18. CONTINGENCIES

During the year ended December 31, 2023, a former customer raised a dispute with the Company for certain losses and damages related to a previous project. Subsequent to year end, the Company entered into a settlement agreement with this customer for the amount of £90,000 ($156,083) (paid).