

SHARC INTERNATIONAL SYSTEMS INC.
Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2024

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	June 30, 2024 (unaudited) \$	December 31, 2023 (audited) \$
ASSETS		
Current		
Cash	366,390	1,242,268
Receivables	4 1,014,337	157,956
Prepaid expenses	60,276	53,963
Inventory	5 1,207,171	1,717,488
Total current assets	2,648,174	3,171,675
Restricted cash	6 50,000	50,000
Deposits	1,200	1,200
Property and equipment	7 169,512	239,184
Total assets	2,868,886	3,462,059
Current liabilities		
Accounts payable and accrued liabilities	282,189	462,247
Deferred revenue	8 827,605	81,931
Lease liabilities	9 41,052	100,638
Total current liabilities	1,150,846	644,816
Warranty provisions	71,282	69,322
Lease liabilities	9 35,564	40,511
Total Liabilities	1,257,692	754,649
SHAREHOLDERS' EQUITY		
Share capital	10 35,529,387	35,045,174
Reserves	10 4,729,234	4,882,983
Obligation to issue shares	10 77,888	77,888
Currency translation reserve	(23,399)	2,002
Deficit	(38,701,916)	(37,300,637)
Total shareholders' equity	1,611,194	2,707,410
Total liabilities and shareholders' equity	2,868,886	3,462,059

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 August 29, 2024:

/s/ Lynn Mueller
Director

/s/ Eleanor Chiu
Director

SHARC International Systems Inc.

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss

(Unaudited - expressed in Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2024	2023	2024	2023
		\$	\$	\$	\$
Revenue	17	780,205	454,454	1,558,300	1,188,140
Cost of Sales	5	(457,175)	(230,003)	(937,349)	(658,909)
Gross Margin		323,030	224,451	620,951	529,231
Expenses					
Accounting and legal		57,982	58,316	108,509	96,059
Advertising and promotion	2	30,369	55,428	70,836	90,736
Consulting	2,12	123,434	93,745	237,689	171,602
Depreciation	7	35,513	36,873	71,026	81,780
Insurance		12,255	15,703	25,552	30,462
Interest and financing expense	9	2,602	88,498	6,167	234,661
Office and miscellaneous		24,485	25,585	46,424	51,252
Regulatory and filing fees		16,201	16,851	30,885	27,730
Rent		12,000	12,000	24,000	24,000
Repairs and maintenance		5,423	3,929	8,790	6,474
Research and development		1,715	11,892	7,305	14,664
Share-based payments	2,10,12	192,586	257,096	394,829	366,020
Telephone and utilities		22,044	21,317	45,826	45,319
Travel		34,675	40,960	93,508	63,178
Wages and benefits	12	475,474	392,100	955,596	871,177
		1,046,758	1,130,293	2,126,942	2,175,114
		(723,728)	(905,842)	(1,505,991)	(1,645,883)
Interest income		-	6,094	198	6,728
Foreign exchange		9,029	(3,052)	26,649	(18,264)
Loss before income taxes		(714,699)	(902,800)	(1,479,144)	(1,657,419)
Deferred tax recovery		-	-	-	46
Loss for the period		(714,699)	(902,800)	(1,479,144)	(1,657,373)
Other comprehensive income					
Foreign currency translation		(11,600)	(5,349)	(23,399)	(3,518)
Loss and comprehensive loss for the period		(726,299)	(908,149)	(1,502,543)	(1,660,891)
Basic and diluted loss per common share		0.00	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding – basic and diluted		157,107,301	143,187,866	157,028,045	132,489,411

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	Obligation to issue shares	Deficit	Total
	Number	\$	\$	\$	\$	\$	\$
Balance, December 31, 2022	107,499,566	26,324,022	5,125,413	1,727	-	(33,397,147)	(1,945,985)
Warrants exercise	16,598,428	3,767,357	-	-	-	-	3,767,357
Fair value increment of warrants exercised	-	513,262	(513,262)	-	-	-	-
Share issue cost	-	(176,460)	-	-	-	-	(176,460)
Issuance of convertible debt	-	-	160	-	-	-	160
Conversion of convertible debt	32,851,666	4,644,493	(505,426)	-	-	-	4,139,067
Share-based payments	-	-	1,101,028	-	-	-	1,101,028
Currency translation adjustment	-	-	-	(5,245)	-	-	(5,245)
Loss for the period	-	-	-	-	-	(2,392,381)	(2,392,381)
Balance, June 30, 2023	156,949,660	35,072,674	5,207,913	(3,518)	-	(35,789,528)	4,487,541
Share issue cost	-	(27,500)	-	-	-	-	(27,500)
Share-based payments	-	-	(247,042)	-	-	-	(247,042)
Fair Value of RSUs vested	-	-	(77,888)	-	77,888	-	-
Currency translation adjustment	-	-	-	5,520	-	-	5,520
Loss for the period	-	-	-	-	-	(1,511,109)	(1,511,109)
Balance, December 31, 2023	156,949,660	35,045,174	4,882,983	2,002	77,888	(37,300,637)	2,707,410
Stock option exercise	150,000	13,500	-	-	-	-	13,500
Fair value increment of stock options exercised	-	10,776	(10,776)	-	-	-	-
Settlement of RSU units	1,372,944	459,937	(459,937)	-	-	-	-
Share-based payments	-	-	394,829	-	-	-	394,829
Reversal of expired and forfeited options	-	-	(77,865)	-	-	77,865	-
Currency translation adjustment	-	-	-	(25,401)	-	-	(25,401)
Loss for the period	-	-	-	-	-	(1,479,144)	(1,479,144)
Balance, June 30, 2024	158,472,604	35,529,387	4,729,234	(23,399)	77,888	(38,701,916)	1,611,194

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)

	Six months ended June 30,	
	2024	2023
	\$	\$
OPERATING ACTIVITIES		
Loss for the period	(1,479,144)	(1,657,373)
Add: Items not affecting cash		
Depreciation	71,026	81,780
Unrealized foreign exchange	(25,401)	(5,245)
Share based payments	394,829	366,020
Accrued interest expense	6,167	234,661
Deferred tax recovery	-	(46)
Changes in non-cash working capital items:		
Receivables	(856,381)	(20,290)
Prepaid expenses and deposits	(6,313)	20,480
Inventory	524,452	(64,994)
Accounts payable and accrued liabilities	(194,193)	(619,210)
Deferred revenue	745,674	(4,446)
Warranty provisions	1,960	-
Cash used in operating activities	(817,324)	(1,668,663)
INVESTING ACTIVITY		
Purchase of property and equipment	(1,354)	(3,812)
Cash used in investing activity	(1,354)	(3,812)
FINANCING ACTIVITIES		
Proceeds on:		
exercise of stock options	13,500	-
exercise of warrants, net of costs	-	3,590,897
exercise of debenture warrants	-	208,000
Repayment of convertible debentures	-	(23,827)
Payment of lease liabilities	(70,700)	(70,700)
Cash provided by (used in) financing activities	(57,200)	3,704,370
Increase (decrease) in cash	(875,878)	2,031,895
Cash, beginning of the period	1,242,268	1,069,813
Cash, end of the period	366,390	3,101,708

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

SHARC International Systems Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2024

(Unaudited - expressed in Canadian dollars)

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 June 30, 2024, the Company has an accumulated deficit of \$38,701,916 and positive working capital of \$1,497,328. 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 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 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, 2023, which have been prepared with International Financial Reporting Standards (“**IFRS**”). These Financial Statements were approved by the Company’s Board of Directors on August 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.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[b] Basis of measurement and consolidation (continued)

These Financial Statements include the accounts of the Company's subsidiaries:

Company	Location	Ownership % as at	
		June 30, 2024	December 31, 2023
SHARC Energy Systems Inc. ("SES")	Canada	100	100
SHARC Energy (US) Systems Inc. ("SHARC US")	United States	100	100

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.

[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.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

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.

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 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.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

- 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.

[e] Reclassification and adjustment of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation and adjusted for consistency with the audited financial statements for the year ended December 31, 2023. The adjustments resulted in a \$735,008 decrease in share-based payments expense. An adjustment has been made to the Condensed Consolidated Interim Statement of Loss and Comprehensive loss for the three and six months ended June 30, 2023, to:

- a. reclassify Consulting expense previously recognized as Advertising and promotion. This didn't result in any change.
- b. reverse share-based payment recorded for a warrant issuance for \$735,008.

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, 2023.

4. RECEIVABLES

	As at June 30, 2024	As at December 31, 2023
	\$	\$
GST recoverable	32,446	4,697
Other receivables	854,734	86,868
Trade receivables, net of expected credit losses	127,157	66,391
Total	1,014,337	157,956

5. INVENTORY

	As at June 30, 2024	As at December 31, 2023
	\$	\$
Materials and supplies	787,348	944,199
Work-in-progress	74,885	428,350
Finished goods	344,939	344,939
Total	1,207,171	1,717,488

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

6. RESTRICTED CASH

As at June 30, 2024 the restricted cash balance of \$50,000 (year ended December 31, 2023 - \$50,000) is comprised of a bank lien on funds, in the form of a locked GIC, held as collateral for the Company's corporate credit card limits.

7. PROPERTY AND EQUIPMENT

Equipment, Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Right-of- use assets	Total
\$	\$	\$	\$	\$

COST:

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
Additions	1,354	-	-	-	1,354
Balance, June 30, 2024	145,506	109,231	76,314	610,554	941,605

ACCUMULATED DEPRECIATION:

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
Dispositions	(16,972)	-	-	-	(16,972)
Balance, December 31, 2023	72,496	91,625	43,861	493,085	701,067
Depreciation expense	7,234	4,842	5,729	53,221	71,026
Balance, June 30, 2024	79,730	96,467	49,590	549,306	772,093

NET BOOK VALUE:

Balance, December 31, 2023	71,656	17,606	32,453	117,469	239,184
Balance, June 30, 2024	65,776	12,764	26,724	61,248	169,512

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

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 June 30, 2024 the balance was \$827,605 (December 31, 2023 - \$81,831).

9. 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 June 30,	As at December 31,
	2024	2023
	\$	\$
Balance, beginning of year	141,149	259,211
Interest	6,167	23,338
Lease payments	(70,700)	(141,400)
Balance, end of year	76,616	141,149
Less: non-current portion	(35,564)	(40,511)
Balance, current portion	41,052	100,638
Undiscounted lease payments		\$
Not later than one year		46,126
Later than one year and not later than 5 years		41,906
June 30, 2024		88,032

The Company has elected not to apply the lease standard to short term leases with an initial term of 12 months or less but rather to recognise the lease expense on a straight-line basis. For the three and six months ended June 30, 2024, \$12,000 and \$24,000 of variable lease payments (three and six months ended June 30, 2023 - \$12,000 and \$24,000) were included in rent expense on the statements of loss and comprehensive loss, respectively.

10. SHARE CAPITAL

[a] Authorized Share Capital

The authorized share capital consisted of an 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, 2023:

- [i] 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.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

10. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

- [ii] 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.
- [iii] 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 [i] and [ii]).

The Company had the following share capital transactions during the six months ended June 30, 2024:

- [i] issued 150,000 common shares pursuant to the exercise of stock options for aggregate gross proceeds of \$13,500. The fair value increment adjustment of the options of \$10,776 was transferred from reserves to share capital.
- [ii] issued 1,372,944 common shares pursuant to the vesting of employee restricted share units. The closing share price on the date of issuance of the shares was \$0.13

[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, 2022	21,232,434	0.27
Issued	4,501,885	0.26
Exercised	(16,598,428)	(0.23)
Expired	(362,306)	0.33
Balance, December 31, 2023 & June 30, 2024	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, June 30, 2024		8,773,585	5,000,000

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

10. SHARE CAPITAL (CONTINUED)

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 March 31, 2024, management estimates the current probability of reaching the required capital commitment for vesting is assessed at nil%. As a result, the fair value of the warrants was assessed as \$nil.

[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 three and six months ended June 30, 2024, the Company recorded share-based payment expenses of \$53,843 and \$108,806 (June 30, 2023 - \$66,407 and \$104,547) directly related to the employee options outstanding.

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

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2022	5,853,974	0.19
Issued	2,166,046	0.27
Exercised	—	—
Expired	(39,477)	0.34
Balance, December 31, 2023	7,980,543	0.20
Expired	(631,402)	0.24
Exercised	(150,000)	0.09
Balance, June 30, 2024	7,199,141	0.20

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

10. SHARE CAPITAL (CONTINUED)

[d] Stock options (continued)

Date of Expiry	Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable
October 29, 2024	0.090	183,000	183,000
January 19, 2025	0.075	2,475,000	2,475,000
February 26, 2025	0.125	450,000	450,000
March 16, 2025	0.105	200,000	200,000
December 20, 2025	0.345	1,021,875	1,021,875
May 30, 2027	0.335	805,220	536,813
April 27, 2028	0.270	1,828,000	609,333
June 29, 2028	0.280	136,046	45,348
October 17, 2028	0.245	100,000	—
Balance, June 30, 2024	0.200	7,199,141	5,521,369

As of June 30, 2024, the weighted average remaining life for outstanding options was 1.90 years (June 30, 2023: 2.84 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 three and six months ended June 30, 2024, the Company recorded share-based payments expense of \$138,743 and \$286,023, respectively, directly related to the RSUs (June 30, 2023: \$190,689 and \$261,473)

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

	Number	Weighted Average Fair Value \$
Balance, December 31, 2022	1,690,407	0.34
Issued	3,119,402	0.27
Vested	(295,992)	0.30
Forfeited	(55,075)	0.27
Balance, December 31, 2023	4,458,772	0.29
Forfeited	(69,776)	0.31
Vested and shares issued	(1,372,944)	0.34
Balance, June 30, 2024	3,016,022	0.27

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

10. SHARE CAPITAL (CONTINUED)

[e] Restricted Share Units (“RSU”) (continued)

Date Issued	Expiry	Share Price on issuance \$	RSUs Outstanding
May 30, 2022	December 31, 2024	0.335	102,985
April 27, 2023	December 31, 2025	0.270	2,709,000
June 29, 2023	December 31, 2025	0.280	204,037
Balance June 30, 2024		0.290	3,016,022

11. CONVERTIBLE DEBENTURES

[i] 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.

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 six months ended June 30, 2024, was \$nil, of which \$nil relates to accrued interest (June 30, 2023: \$nil, \$22,273 and \$3,191).

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

11. CONVERTIBLE DEBENTURES (CONTINUED)

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, 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.

[ii] 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).

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

11. CONVERTIBLE DEBENTURES (CONTINUED)

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debenture for the six months ended June 30, 2024, was \$nil and \$nil, of which \$nil relates to accrued interest (June 30, 2023: \$82,210, \$198,957 and \$20,640).

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 \$2,601,539 and the residual equity reserve value of \$318,026 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, 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).

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

	Note 11 [i] \$	Note 11 [ii] \$	TOTAL \$
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 & June 30, 2024	-	-	-

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

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2022	209	1,000
Exercised	(208)	1,000
Expired	(1)	1,000
Balance, December 31, 2023 & June 30, 2024	-	-

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

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:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Consulting Fees ^[i]	39,000	39,000	78,000	78,000
Wages and Benefits ^[ii]	158,721	63,629	293,285	119,009
Share-based payments ^[iii]	117,005	171,810	259,141	242,790
	314,726	274,439	630,426	439,799

[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 Chair of the Board of Directors/Chief Executive Officer and the President of SHARC US.

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

13. FINANCIAL INSTRUMENTS AND RISK 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.

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.

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.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high 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 June 30, 2024 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 June 30, 2024, 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 June 30, 2024 the Company is not exposed to any significant interest rate risk.

[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.

[d] Foreign exchange rate risk (continued)

At June 30, 2024, the Company had US denominated current assets of US\$462,414 and US denominated current liabilities of US\$578,216. Accordingly, a 10% change in the foreign exchange rate would result in a \$11,580 debit or charge to operations.

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Six months ended June 30,	
	2024	2023
	\$	\$
Conversion of convertible debt into common shares	-	4,139,274
Conversion of convertible debt into shares – equity portion	-	505,393
Issuance of stock from employee restricted share units	459,937	-
Fair value of stock options and warrants exercised	10,776	513,261
Issuance of convertible debt – equity component	-	124
Issuance of convertible debt – warrant component	-	49
Inventory in accounts payable and accrued liabilities	14,135	101,947

15. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of WET Equipment. As at June 30, 2024 and December 31, 2023, all of the Company's main operations, assets and employees are in Canada.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Equipment rentals	3,600	30,600	7,200	61,200
Service and maintenance agreements	16,137	17,515	130,066	26,761
Product sales	760,468	406,339	1,421,034	1,100,179
	780,205	454,454	1,558,300	1,188,140

SHARC International Systems Inc.
Notes to Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2024
(Unaudited - expressed in Canadian dollars)

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2024:

- [a] 120,000 stock options were exercised for gross proceeds of \$10,800.
- [b] The Company closed a non-brokered private placement of debenture units of the Company (“Debenture units”) at a price of \$1,000 per Debenture Unit, for gross proceeds of \$2,000,000. Each Debenture Unit will be comprised of: (i) a \$1,000 principal amount of 8.0% unsecured debenture of the Company (the “Debenture”); and (ii) 5,000 common share purchase warrants of the Company (the “Warrants”). Each Warrant will entitle the holder thereof to acquire one common share in the capital of the Company (each, a “Share”) at an exercise price of \$0.20 per Share for a period of 36 months from the date of issuance.

The Debentures will bear interest from their issue date at 8.0% per annum calculated and payable annually in arrears on December 31 of each year and will mature three (3) years following the closing of the Offering (the “Maturity Date”). The Debentures are unsecured and will rank pari passu in right of payment of principal and interest with all future unsecured indebtedness of the Company. The Debenture, including any accrued and unpaid interest, will be repayable in part or in full on any one or more occasions without penalty at any time prior to the maturity date at the option of the Company.

The Warrants are subject to a ten percent (10.0%) blocker provision, which restricts the exercise of any underlying Warrants in the event such exercise would result in the securityholder holding ten percent (10.0%) or more of the issued and outstanding Shares at such time.

- [c] 5,000,000 warrants expired unexercised.