

SHARC INTERNATIONAL SYSTEMS INC.
Condensed Consolidated Interim Financial Statements

For the nine months ended September 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 | September 30, 2024 (unaudited) \$ | December 31, 2023 (audited) \$ |
|---|------|---|--------------------------------------|
| ASSETS | | | |
| Current | | | |
| Cash | | 1,829,670 | 1,242,268 |
| Receivables | 4 | 562,879 | 157,956 |
| Prepaid expenses | | 65,340 | 53,963 |
| Inventory | 5 | 1,266,332 | 1,717,488 |
| Total current assets | | 3,724,221 | 3,171,675 |
| Restricted cash | 6 | 50,000 | 50,000 |
| Deposits | | 1,200 | 1,200 |
| Property and equipment | 7 | 137,530 | 239,184 |
| Total assets | | 3,912,951 | 3,462,059 |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 678,597 | 462,247 |
| Deferred revenue | 8 | 346,857 | 81,931 |
| Lease liabilities | 10 | 9,899 | 100,638 |
| Total current liabilities | | 1,035,353 | 644,816 |
| Warranty provisions | | 70,482 | 69,322 |
| Debenture | 9 | 1,652,642 | - |
| Lease liabilities | 10 | 32,977 | 40,511 |
| Total Liabilities | | 2,791,454 | 754,649 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11 | 35,552,045 | 35,045,174 |
| Reserves | 11 | 5,042,953 | 4,882,983 |
| Obligation to issue shares | 11 | 77,888 | 77,888 |
| Currency translation reserve | | (17,508) | 2,002 |
| Deficit | | (39,533,881) | (37,300,637) |
| Total shareholders' equity | | 1,121,497 | 2,707,410 |
| Total liabilities and shareholders' equity | | 3,912,951 | 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 November 27, 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 September 30, | | Nine months ended September 30, | |
|---|---------|----------------------------------|--------------------|---------------------------------|--------------------|
| | | 2024 | 2023 | 2024 | 2023 |
| | | \$ | \$ | \$ | \$ |
| Revenue | 16 | 785,030 | 545,350 | 2,343,330 | 1,733,490 |
| Cost of Sales | | (536,115) | (329,833) | (1,473,464) | (988,742) |
| Gross Margin | | 248,915 | 215,517 | 869,866 | 744,748 |
| Expenses | | | | | |
| Accounting and legal | | 46,159 | 52,139 | 154,668 | 148,198 |
| Advertising and promotion | 2 | 32,371 | 34,719 | 103,207 | 125,455 |
| Consulting | 2,13 | 135,908 | 83,361 | 373,597 | 254,963 |
| Depreciation | 7 | 36,076 | 36,873 | 107,102 | 118,653 |
| Insurance | | 12,255 | 15,702 | 37,807 | 46,164 |
| Interest and financing expense | 9,10 | 62,105 | 5,407 | 68,272 | 240,068 |
| Office and miscellaneous | | 38,192 | 26,738 | 84,615 | 77,990 |
| Regulatory and filing fees | | 27,629 | 22,050 | 58,514 | 49,780 |
| Rent | | 12,000 | 12,000 | 36,000 | 36,000 |
| Repairs and maintenance | | 4,104 | 5,718 | 12,894 | 12,192 |
| Research and development | | 1,715 | - | 9,020 | 14,644 |
| Share-based payments | 2,11,13 | 134,020 | 243,240 | 528,849 | 609,260 |
| Telephone and utilities | | 21,312 | 21,808 | 67,138 | 67,127 |
| Travel | | 52,382 | 55,415 | 145,890 | 118,593 |
| Wages and benefits | 13 | 512,115 | 517,997 | 1,467,711 | 1,389,174 |
| | | 1,128,343 | 1,133,167 | 3,255,284 | 3,308,281 |
| | | (879,428) | (917,650) | (2,385,418) | (2,563,533) |
| Interest income | | - | 8,986 | 198 | 15,714 |
| Foreign exchange | | (10,094) | 3,542 | 16,555 | (14,722) |
| Loss before income taxes | | (889,522) | (905,122) | (2,368,665) | (2,562,541) |
| Deferred tax recovery | | 57,556 | - | 57,556 | 46 |
| Loss for the period | | (831,966) | (905,122) | (2,311,109) | (2,562,495) |
| Other comprehensive income | | | | | |
| Foreign currency translation | | 5,891 | (5,233) | (17,508) | (8,751) |
| Loss and comprehensive loss for the period | | (826,075) | (910,355) | (2,328,617) | (2,571,246) |
| Basic and diluted loss per common share | | (0.01) | (0.01) | (0.01) | (0.02) |
| Weighted average number of common shares outstanding – basic and diluted | | 158,568,758 | 156,949,660 | 158,504,655 | 140,762,730 |

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 | - | (203,960) | - | - | - | - | (203,960) |
| Issuance of convertible debt | - | - | 160 | - | - | - | 160 |
| Conversion of convertible debt | 32,851,666 | 4,644,493 | (505,426) | - | - | - | 4,139,067 |
| Share-based payments | - | - | 1,344,268 | - | - | - | 1,344,268 |
| Currency translation adjustment | - | - | - | (10,478) | - | - | (10,578) |
| Loss for the period | - | - | - | - | - | (3,297,503) | (3,297,503) |
| Balance, September 30, 2023 | 156,949,660 | 35,045,174 | 5,451,153 | (8,751) | - | (36,694,650) | 3,792,926 |
| Share-based payments | - | - | (490,282) | - | - | - | (490,282) |
| Fair Value of RSUs vested | - | - | (77,888) | - | 77,888 | - | - |
| Currency translation adjustment | - | - | - | 10,753 | - | - | 10,753 |
| Loss for the period | - | - | - | - | - | (605,987) | (605,987) |
| 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 | 290,000 | 26,100 | - | - | - | - | 26,100 |
| Fair value increment of stock options exercised | - | 20,834 | (20,834) | - | - | - | - |
| Issuance of debenture | - | - | 132,389 | - | - | - | 132,389 |
| Fair value of brokers warrants issued | - | - | 57,368 | - | - | - | 57,368 |
| Settlement of RSU units | 1,372,944 | 459,937 | (459,937) | - | - | - | 459,937 |
| Share-based payments | - | - | 528,849 | - | - | - | 528,849 |
| Reversal of expired and forfeited options | - | - | (77,865) | - | - | 77,865 | - |
| Currency translation adjustment | - | - | - | (19,510) | - | - | (19,510) |
| Loss for the period | - | - | - | - | - | (2,311,109) | (2,311,109) |
| Balance, September 30, 2024 | 158,612,604 | 35,552,045 | 5,042,953 | (17,508) | 77,888 | (39,533,881) | 1,121,497 |

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

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

| | Nine months ended September 30, | |
|--|--|--------------------|
| | 2024 | 2023 |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Loss for the period | (2,311,109) | (2,562,495) |
| Add: Items not affecting cash | | |
| Depreciation | 107,102 | 118,653 |
| Unrealized foreign exchange | (19,510) | (10,478) |
| Share based payments | 528,849 | 609,260 |
| Accrued interest expense | 68,272 | 240,068 |
| Deferred tax recovery | (57,556) | (46) |
| Changes in non-cash working capital items: | | |
| Receivables | (404,923) | (88,664) |
| Prepaid expenses and deposits | (11,377) | 10,757 |
| Inventory | 751,697 | (297,313) |
| Accounts payable and accrued liabilities | (84,191) | (717,830) |
| Deferred revenue | 264,926 | (6,023) |
| Warranty provisions | 1,160 | 7,985 |
| Cash used in operating activities | (1,166,660) | (2,696,126) |
| INVESTING ACTIVITY | | |
| Purchase of property and equipment | (5,448) | (10,351) |
| Cash used in investing activity | (5,448) | (10,351) |
| FINANCING ACTIVITIES | | |
| Proceeds on: | | |
| debenture funds received, net of costs | 1,839,460 | - |
| exercise of stock options | 26,100 | - |
| exercise of warrants, net of costs | - | 3,563,397 |
| exercise of debenture warrants | - | 208,000 |
| Repayment of convertible debentures | - | (23,827) |
| Payment of lease liabilities | (106,050) | (106,050) |
| Cash provided by (used in) financing activities | 1,759,510 | 3,641,520 |
| Increase (decrease) in cash | 587,402 | 935,043 |
| Cash, beginning of the period | 1,242,268 | 1,069,813 |
| Cash, end of the period | 1,829,670 | 2,004,856 |

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 nine months ended September 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 September 30, 2024, the Company has an accumulated deficit of \$39,533,881 and positive working capital of \$2,688,868. 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 November 27, 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 nine months ended September 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 | |
|---|-----------------|---------------------------|--------------------------|
| | | September 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 nine months ended September 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 nine months ended September 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 nine months ended September 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 September 30, 2024 | As at December 31, 2023 |
|--|-------------------------------------|------------------------------------|
| | \$ | \$ |
| GST recoverable | 21,927 | 4,697 |
| Other receivables | 46,305 | 86,868 |
| Trade receivables, net of expected credit losses | 494,647 | 66,391 |
| Total | 562,879 | 157,956 |

5. INVENTORY

| | As at September 30, 2024 | As at December 31, 2023 |
|------------------------|-------------------------------------|------------------------------------|
| | \$ | \$ |
| Materials and supplies | 791,677 | 944,199 |
| Work-in-progress | 129,716 | 428,350 |
| Finished goods | 344,939 | 344,939 |
| Total | 1,266,332 | 1,717,488 |

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

6. RESTRICTED CASH

As at September 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 | 4,094 | - | - | 5,448 |
| Balance, September 30, 2024 | 145,506 | 113,325 | 76,314 | 610,554 | 945,699 |

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 | 10,850 | 7,826 | 8,594 | 79,832 | 107,102 |
| Balance, September 30, 2024 | 83,346 | 99,451 | 52,455 | 572,917 | 808,169 |

NET BOOK VALUE:

| | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Balance, December 31, 2023 | 71,656 | 17,606 | 32,453 | 117,469 | 239,184 |
| Balance, September 30, 2024 | 62,160 | 13,874 | 23,859 | 37,637 | 137,530 |

SHARC International Systems Inc.
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(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 of milestones and sale of projects and over the length of term for the service agreements. As at September 30, 2024 the balance was \$346,857 (December 31, 2023 - \$81,831).

9. DEBENTURE

The Company issued unsecured debenture units with a total principal amount of \$2,000,000. The debenture matures on July 8, 2027, and bears interest at an annual rate of 8% due annually. 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.

Each debenture unit consists of a \$1,000 principal amount of 8.0% unsecured debenture of the Company; and 5,000 common share purchase warrants of the Company. Each Warrant will entitle the holder thereof to acquire one common share in the capital of the Company at an exercise price of \$0.20 per Share for a period of 36 months from the date of issuance.

Total finders' fee of \$160,000 in cash, 800,000 finder's warrants valued at \$57,368, and regulatory fees of \$540 were incurred on issuance. Each finder's warrant is exercisable into one common share of the Company at \$0.20 per share for a period of three years following the date of issuance. The fair value of \$57,368 was assigned to the 800,000 finders' warrants using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 63.66% which is based on historical volatility, risk-free rate of return of 3.47% and an expected maturity of three years.

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 12%, being management's best estimate of the rate that a debenture without warrants with similar terms would bear. The equity component consists of the warrants. The value attributed to the warrants was based on the relative fair value approach.

On initial recognition, the liability components were \$1,786,829 (\$1,592,147 net of transaction costs and the warrants were \$189,945 (\$132,389 net of tax effect).

Accretion charges, included in interest and financing expense on the statements of loss and comprehensive loss, attributable to the debentures for the three and nine months ended September 30, 2024 were \$60,495, of which \$36,844 relates to accrued interest (nine months ended September 30, 2023 \$nil and \$nil).

SHARC International Systems Inc.
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(Unaudited - 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 September 30, 2024 \$ | As at December 31, 2023 \$ |
|--|-----------------------------------|----------------------------------|
| Balance, beginning of year | 141,149 | 259,211 |
| Interest | 7,777 | 23,338 |
| Lease payments | (106,050) | (141,400) |
| Balance, end of year | 42,876 | 141,149 |
| Less: non-current portion | (32,977) | (40,511) |
| Balance, current portion | 9,899 | 100,638 |
| Undiscounted lease payments | | \$ |
| Not later than one year | | 14,368 |
| Later than one year and not later than 5 years | | 38,315 |
| September 30, 2024 | | 52,682 |

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 nine months ended September 30, 2024, \$12,000 and \$36,000 of variable lease payments (three and nine months ended September 30, 2023 - \$12,000 and \$36,000) were included in rent expense on the statements of loss and comprehensive loss, respectively.

11. 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.
- [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.

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

11. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[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 nine months ended September 30, 2024:

[i] issued 290,000 common shares pursuant to the exercise of stock options for aggregate gross proceeds of \$26,100. The fair value increment adjustment of the options of \$20,834 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 | 8,773,585 | 0.34 |
| Issued [Note 9] | 10,800,000 | 0.20 |
| Expired | (5,000,000) | 0.27 |
| Balance, September 30, 2024 | 14,573,585 | 0.22 |

| Date of Expiry | Exercise price \$ | Warrants outstanding | Warrants exercisable |
|------------------------------------|----------------------|-------------------------|-------------------------|
| March 1, 2028 | 0.265 | 3,773,585 | — |
| July 8, 2027 | 0.200 | 10,800,000 | 10,800,000 |
| Balance, September 30, 2024 | | 14,573,585 | 10,800,000 |

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11. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants (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 September 30, 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 nine months ended September 30, 2024, the Company recorded share-based payment expenses of \$35,450 and \$144,256 (September 30, 2023 - \$80,147 and \$163,093) 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 | (290,000) | 0.09 |
| Balance, September 30, 2024 | 7,059,141 | 0.20 |

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11. 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 | 43,000 | 43,000 |
| 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, September 30, 2024 | 0.200 | 7,059,141 | 5,381,369 |

As of September 30, 2024, the weighted average remaining life for outstanding options was 1.65 years (September 30, 2023: 2.55 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 nine months ended September 30, 2024, the Company recorded share-based payments expense of \$98,570 and \$384,593, respectively, directly related to the RSUs (September 30, 2023: \$163,093 and \$609,260)

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 issued | (1,372,944) | 0.34 |
| Balance, September 30, 2024 | 3,016,022 | 0.28 |

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11. 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 September 30, 2024 | | 0.290 | 3,016,022 |

12. 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).

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12. 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).

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12. 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 & September 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 & September 30, 2024 | — | — |

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13. 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 September 30, | | Nine months ended September 30, | |
|---------------------------------------|----------------------------------|----------------|---------------------------------|----------------|
| | 2024 | 2023 | 2024 | 2023 |
| | \$ | \$ | \$ | \$ |
| Consulting Fees ^[i] | 39,000 | 39,000 | 117,000 | 117,000 |
| Wages and Benefits ^[ii] | 163,163 | 143,635 | 456,447 | 262,644 |
| Share-based payments ^[iii] | 83,427 | 149,824 | 342,568 | 392,614 |
| | 285,590 | 332,459 | 916,015 | 772,258 |

[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.

14. 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.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high creditworthiness. Receivables are primarily from sales. The Company believes these parties to be of sound creditworthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions. As at September 30, 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 September 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 September 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.

At September 30, 2024, the Company had US denominated current assets of US\$328,910 and US denominated current liabilities of US\$352,319. Accordingly, a 10% change in the foreign exchange rate would result in a \$2,341 debit or charge to operations.

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15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

| | Nine months ended September 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 | 20,834 | 513,261 |
| Fair value of broker warrants related to debenture issue | 57,368 | — |
| Issuance of debenture – warrant portion | 182,925 | — |
| Issuance of convertible debt – equity component | — | 124 |
| Issuance of convertible debt – warrant component | — | 49 |
| Inventory in accounts payable and accrued liabilities | 300,541 | 127,115 |

16. SEGMENTED INFORMATION

The Company has a single operating segment, the sales and marketing of WET Equipment. As at September 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 | | Nine months ended | |
|------------------------------------|---------------------------|----------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| | \$ | \$ | \$ | \$ |
| Equipment rentals | 3,600 | 3,600 | 10,800 | 64,800 |
| Service and maintenance agreements | 14,656 | 13,889 | 144,723 | 40,649 |
| Product sales | 766,774 | 527,860 | 2,187,807 | 1,628,041 |
| | 785,030 | 545,350 | 2,343,330 | 1,733,490 |

17. SUBSEQUENT EVENTS

Subsequent to September 30, 2024:

- [a] The Company entered into a debt settlement agreement with a certain creditor of the Company. The creditor agreed to settle an aggregate of \$47,500 in debt owed by the Company through the issuance of 431,818 common shares in the capital of the Company at a deemed price of \$0.11 per Common share.

- [b] 718,000 stock options were exercised for gross proceeds of \$54,495.