



**MANAGEMENT DISCUSSION AND
ANALYSIS**

For the year ended December 31, 2024

April 29, 2025

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of the operations of SHARC International Systems Inc. (the "**Company**" or "**SHARC Energy**") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2024. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. The discussion should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2024, and 2023, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The result for the year ended December 31, 2024, are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as of April 29, 2025 unless otherwise indicated.

The consolidated financial statements for the year ended December 31, 2024, have been prepared using accounting policies consistent with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**").

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of SHARC Energy's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations is available on SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Statements

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause SHARC Energy's actual results, performance, or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether because of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-

looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Corporate Information

The Company was incorporated under the Business Corporations Act (British Columbia) on February 4th, 2011. SHARC Energy is publicly traded in Canada ([CSE:SHRC](#)), the United States ([OTCQB:INTWF](#)) and Germany ([Frankfurt:IWIA](#)). The head office of the Company is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, V3C 6L4 and the registered and records office of the Company is located at 1443 Spitfire Place, Port Coquitlam, British Columbia, Canada, V3C 6L4.

The Company's wholly owned subsidiary, SHARC Energy Systems Inc. ("**SES**") was incorporated under the Business Corporations Act (British Columbia) on May 30, 2011. On October 27, 2015, the Company completed the acquisition (the "**Acquisition**") of SES pursuant to a share exchange agreement dated September 4, 2015. The Acquisition constituted a reverse takeover ("**RTO**").

During 2022, the Company created a wholly owned U.S. subsidiary, SHARC Energy (US) Systems Inc. ("**SHARC US**"). This subsidiary was incorporated in the State of Delaware on January 5, 2022

The Company wholly owns the following subsidiaries located in Canada and the United States:

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

Highlights

- i. **Sales Order Backlog and Sales Pipeline.** As at April 30, 2025, the Company is reporting a Sales Order Backlog of \$3.0M and a Sales Pipeline of \$16.8M. This represents a 20% increase and 2% decrease, respectively, from the previous disclosure on November 27, 2024. Please refer to Alternative Performance Measurements below for more information on Sales Order Backlog and Sales Order Pipeline.
- ii. **Revenue growth.** Revenue for the year ending December 31, 2024 is \$2.17M which represents a 36% increase over the total revenue reported during the year ended December 31, 2023 of \$1.59M. Sales Order Backlog increased by 20% from the previous disclosure to \$2.5M indicating future revenue to be recognized is stable entering 2025.
- iii. **Michael Albertson appointed CEO, President and Director.** On December 12, 2024, the Company announced the appointment of Michael Albertson as the new Chief Executive Officer, President and Director. Lynn Mueller has led SHARC Energy as CEO, President and Chairman of the Board since 2014 and will stay on as Executive Chairman of SHARC Energy's Board of Directors.
- iv. **Fred Andriano appointed to the Board of Directors.** On November 7, 2024, the Company announced the appointment of Fred Andriano to its Board of Directors. Mr. Andriano worked as Chief Financial Officer at WaterFurnace International, where his leadership was critical in strategic acquisitions, international joint ventures and impressive growth, with revenues doubling from \$65M to \$130M culminating in an acquisition by NIBE Group in 2014.
- v. **Funding of \$2 million received in non-brokered private placement.** On July 7, 2024, the Company closed a non-brokered private placement of debenture units of the Company at a price of \$1,000 per Debenture Unit, for gross proceeds of \$2,000,000.
- vi. **False Creek Neighbourhood Energy Utility ("NEU") Expansion.** The Company continued work on the supply and maintenance agreement with the City of Vancouver for the provision and maintenance of five SHARC systems for the False Creek NEU Expansion. During the period, the Company completed and billed milestone 3.5 of 6 of the agreement, where all components have been delivered to site and some of the units have been commissioned & started up. The project is anticipated to be completed by the end of Q1 2025.
- vii. **Quarter over Quarter Results.** During the three months ended December 31, 2024, the Company reported revenues of (\$0.18)M, a loss of \$1.41M and an adjusted EBITDA loss of \$0.9M. Revenue decreased 25% from revenue comparative in 2023 of \$(0.14)M, the loss increased 5% over comparative in 2023 of \$1.34M. Adjusted EBITDA loss increased by 5% over the 2023 comparative of an Adjusted EBITDA loss of \$0.85M.
- viii. **Year over Year Results.** During the year ended December 31, 2024, the Company reported revenues of \$2.17M, a loss of \$3.72M and an Adjusted EBITDA loss of \$2.57M. Revenue increased 36% over revenue comparative in 2023 of \$1.59M, the loss decreased 5% over comparative in 2023 of \$3.9M and Adjusted EBITDA loss increased 5% over 2023 comparative of \$2.45M.

Core Business

SHARC Energy is changing the way we think about wastewater. One of the biggest challenges facing climate action is how the world will reduce carbon pollution associated with heating and hot water production in an economic and efficient way. SHARC Energy's systems can help with that. The Company provides users of its solutions the opportunity to use wastewater for the purposes of creating low carbon and energy efficient heating and cooling. In using wastewater for thermal energy transfer, SHARC Energy's systems provides the following opportunities:

- Significantly reducing the carbon emissions from current hot water production or space heating process.
- Operational and upfront capital cost savings through decreased utility bills, carbon tax, maintenance costs paid, and upfront capital costs associated with alternative solutions.
- Freshwater savings in cooling towers and improved efficiency of cooling processes

SHARC Energy is considered a pioneer in wastewater energy transfer, an industry very much in its infancy. To the Company's knowledge, SHARC Energy is the only wastewater energy transfer company with solutions that can address the thermal energy transfer needs of commercial, industrial, and multi-family residential buildings, as well as district energy systems. The solutions are scalable in size depending on access to wastewater flow and output requirements. The Company's business has been built through advocating and promoting the industry for over 10 years, patented and proprietary technology and the delivery and installation of over 30 installations in 4 countries including the current largest wastewater district energy system in North America.

Overview of the Wastewater Energy Transfer Business

SHARC Energy supplies and services WET systems that provide the opportunity for recovering thermal energy from wastewater or rejecting thermal energy into wastewater for the purpose of creating low carbon and electrically efficient heating and cooling systems. These systems can be used by industrial, commercial, or multi-family residential buildings to offset and significantly reduce the energy requirements and carbon emissions associated with heating and cooling.

SHARC WET systems, which are patented in Canada and worldwide patent pending for 30 months, can filter high volumes of wastewater flow for the purposes of extracting or rejecting thermal energy from or into wastewater. These systems are customer specific and typically paired with a heating or cooling process enabler such as a heat pump, air handler, chiller, etc. that are sold separately. A single SHARC system sale can vary depending on the size and scope of the project, with larger systems for larger capacities of wastewater and output achieved by supplying additional systems which in parallel drive multiples in sales value accordingly. The mix of models, scope and geography of each project impacts the overall sales revenue and margin.

Examples of SHARC WET system projects are, but not limited too, WET district energy or TENs, micro-grids, large commercial and mix-use building developments and industrial applications like commercial laundry, food processing, pulp and paper and textiles manufacturing. These projects typically require detailed design support from third-party engineering firms and are developed and installed by mechanical contractors. SHARC systems can be involved in a request for proposal ("RFP") process or bid process and can be the specified system in the RFP process. SHARC Energy's ability to supply equipment is subject to the progress of the bid, specification, design and build phases and therefore, these projects tend to have a longer sales cycle of 24 months or longer.

A PIRANHA WET system, which is a self-contained WET heat pump, can offset electric or natural gas boilers used in hot water production up to 100% while providing some air conditioning as a by-product of hot water production. These systems come in three sizes and two models and are sized accordingly based on the hot water demand for the implementation. A PIRANHA system requires a wastewater storage tank and solids pump that flows wastewater systematically through the PIRANHA to produce hot water. These systems are applicable for new build or retrofit implementations. A single PIRANHA system ranges in price depending on the size and model, with larger hot water demand achieved by supplying additional PIRANHA systems which in parallel drive multiples in sales value accordingly. The implementation and related costs of the PIRANHA system is site specific and subject to considerations such as available access to exiting wastewater pipes, space for installation and access or proximity to the mechanical or boiler room.

Examples of PIRANHA WET system projects are, but not limited too, an apartment building, hospitals, hotel, commercial laundry, breweries, distilleries, recreation facilities such as ice rinks, gyms and pools, senior care facilities and some industrial applications.

The Company currently sells its systems through a mix of direct and indirect sales channels. Direct sales team members are employed or contracted by SHARC Energy and help generate leads and manage the indirect sales network. The indirect sales network consists of representatives and independent sales representatives (“**ISR**”) that operate on a resale or commission only basis. This provides SHARC Energy with a lower upfront cost model and provides extended market coverage across North America and some foreign regions while SHARC Energy continues to build awareness of the opportunity of wastewater.

SHARC Energy maintains a pipeline of prospective projects that it updates regularly to ensure that it is reflective of the sales opportunities that can convert into orders within approximately a rolling 24-month time horizon (“**Sales Pipeline**”). Not all these potential projects will proceed or proceed within the expected timeframe and not all the projects that do proceed will be awarded to SHARC Energy. Additions and reductions are discussed in greater detail below in Alternative Performance Measures.

The market for SHARC Energy’s products is expected to grow as an increasing number of organizations and individuals seek out solutions to meet their sustainability goals and governments around the world enact and strengthen environmental policies designed to combat climate change by promoting the adoption of low carbon and electrically efficient heating and cooling solutions.

Overview For the year ended December 31, 2024, and Subsequent Events

Operational Developments

i. Sales Order Backlog and Sales Pipeline Disclosure

As of April 30, 2025, the Company reported a Sales Order Backlog of \$3.0M and a Sales Pipeline of \$16.8M. The Sales Order Backlog figure is a 20% increase from the previous report on November 27, 2024, indicating the start of a strong 2025 financial year. Please refer to Alternative Performance Measurements below for more information on Sales Order Backlog and Sales Order Pipeline.

ii. Michael Albertson appointed CEO, President and Director

On December 12, 2024, the Company announced the appointment of Michael Albertson as the new Chief Executive Officer, President and Director. Lynn Mueller has led SHARC Energy as CEO, President and Chairman of the Board since 2014 and will stay on as Executive Chairman of SHARC Energy’s Board of Directors.

With a proven track record evidenced by his involvement in the \$364 million acquisition of WaterFurnace International by NIBE group in 2014, Mr. Albertson has a long history as a renewable thermal energy expert and fostering growth. Michael is poised to lead SHARC Energy into its next chapter as his vision for SHARC Energy aligns perfectly with the Company's commitment to offering sustainable energy solutions that decarbonize our customers and communities.

Mr. Mueller's tenure as CEO and President has been marked by significant accomplishments, shaping the product portfolio and driving growth for SHARC Energy. Under his leadership, the Company has expanded its footprint, enhanced its technological capabilities, and solidified its position as the leader in the WET energy sector. Lynn's vision and dedication have been instrumental in not only advancing SHARC Energy but also building a viable industry—Wastewater Energy Transfer.

iii. **Fred Andriano appointed to the Board of Directors**

On November 7, 2024, the Company announced the appointment of Fred Andriano to its Board of Directors. Mr. Andriano brings over 40 years of experience in finance, renewable energy, and corporate governance.

His career highlights include significant roles at Uniroyal Plastics, Dreyer's Grand Ice Cream, and WaterFurnace International, where his leadership was critical in strategic acquisitions, international joint ventures and impressive growth, with revenues doubling from \$65M to \$130M culminating in an acquisition by NIBE Group in 2014.

He continued as CFO and eventually rose to Vice President of Financial and Administrative Services for NIBE North America. During this time, Mr. Andriano played a pivotal role in securing major acquisitions, such as Enertech and The Climate Control Group, expanding NIBE's footprint in the renewable energy space.

iv. **PIRANHA receives unanimous approval from Massachusetts Plumbing Board for state expansion.**

The Company has received unanimous approval from the Massachusetts Board of State Examiners of Plumbers and Gas Fitters for ten PIRANHA pilot sites in the state. This pilot project aims to demonstrate the efficacy of WET across multiple sectors and building types.

The Company's application to the Massachusetts Plumber and Gas Fitter Board garnered strong backing from the United Association of Journeymen and Apprentices ("UA") of Massachusetts, an influential union representing approximately 375,000 skilled plumbers, pipe fitters, and other industry professionals across the state. The UA acknowledges the immense promise of WET heat pump systems such as the PIRANHA and Thermal Energy Networks ("TENS") facilitated by SHARC WET systems in creating transitional job opportunities for these 375,000 tradespeople. As North America advances towards decarbonization and diminishes its reliance on fossil fuels, these innovative technologies are poised to play a pivotal role in reshaping the landscape of sustainable energy solutions.

SHARC Energy is already collaborating with a real estate investment trust on a PIRANHA retrofit project, leveraging a 50% cost share from Eversource Energy for a PIRANHA feasibility study under the Massachusetts Save Technical Assistance Program. Eversource Energy, a publicly traded Fortune 500 energy company based in Hartford, Connecticut and Boston, Massachusetts, is New England's largest energy delivery company, serving over 4.4 million electric, gas, and water customers.

v. **False Creek NEU Expansion.**

As of December 31, 2024, the Company has delivered and billed on 4.5 of 6 milestones under the agreement for this project. The remaining milestones were achieved in Q1 and Q2 2025.

The Company entered into a Supply and Maintenance Agreement with the City of Vancouver (the “City”) in 2022, for the provision and maintenance of five SHARC Systems for the False Creek NEU Expansion. The expansion is expected to increase the capacity of the current 3.2MW of WET system to 9.8MW—making it the largest WET project in North America, with an additional carbon emission reduction of an estimated 4,400 tonnes a year, upon completion.

Under the agreement, SHARC Energy is supplying and commissioning five SHARC systems to perform sewage screening for the False Creek NEU and, subsequently, maintain these systems for five years with a City option for an additional five years. These systems will be paired with the current 3.2MW sewage-to-water heat pump in operation plus two new 3.3MW heat pumps. On December 1, 2024, the Company commenced the maintenance agreement on SHARC systems.

SHARC Energy began working with the City in 2017 when it retrofitted two SHARC systems for sewage screening into the False Creek NEU as a pilot. Upon successful demonstration, the Company entered a lease on these units with the City of Vancouver which is now being replaced with the expansion of the system—demonstrating the important role that wastewater energy transfer plays in renewable energy and reducing carbon emissions.

vi. **SHARC and PIRANHA at forefront of Phase 1 of transformative \$1.2B development to create 2,400 affordable homes, medical clinic, and retail in Brooklyn, New York**

The Company shipped SHARC and PIRANHA WET systems to the first phase of a transformative \$1.2 billion redevelopment in Brooklyn’s East New York neighborhood led by Apex Building Company, L+M Development Partners, RiseBoro Community Partnership, and Services for the Underserved.

In December 2022, New York State Governor Kathy Hochul announced that construction had begun for the redevelopment of the former 27-acre Brooklyn Developmental Center property in Brooklyn’s East New York neighborhood. The initial \$373 million phase will create 576 affordable homes, a new 15,000-square-foot outpatient medical clinic, and 7,000 square feet of ground floor retail space.

As stated in the announcement by Governor Hochul, “Both buildings in the initial phase are designed to meet Passive House design standards and will utilize a closed loop geothermal heat pump system for energy efficient heating and cooling. There will also be a roof-mounted solar array that will convert solar energy into electricity and a SHARC wastewater heat recovery system that uses energy from wastewater for heating, cooling, and hot water.”

Once completed, the entire development, known as Alafia, will ultimately create more than 2,400 affordable homes in a walkable neighborhood with recreational spaces and access to community resources that promote health and wellness. Alafia is part of the State’s Vital Brooklyn Initiative that is addressing chronic social, economic, and health disparities in Brooklyn’s high-need communities.

The SHARC system shipped in Q1 2024 and the PIRANHAs in Q3 2024. Future phases of the development are incorporating SHARC and PIRANHA WET systems in their preliminary designs.

vii. **SHARC system key in renovation of Whitney Young Manor in New York**

In Q1 2024, the Company shipped a SHARC WET system for the Whitney Young Manor recapitalization project in Yonkers, New York. This project, spearheaded by Nuveen, is a successful project moving forward under the New York State Energy Research & Development Authority's ("NYSERDA") Empire Building Challenge.

As part of a major property recapitalization, the Whitney Young Manor will undergo a \$22 million renovation, with nearly \$12 million allocated to the project's decarbonization effort, inclusive of all energy efficiency measures. The retrofit project will showcase how to leverage a recapitalization opportunity to comprehensively retrofit energy systems and modernize an affordable housing complex. SHARC Energy and its New York representative HIGHMARK are proud to be supporting this project, as it serves as an example of Energy and Climate Equity investment into historically underserved and marginalized communities.

In addition to major building envelope and ventilation upgrades, Nuveen will install a SHARC 660 WET system at Whitney Young Manor that will support a centralized heat pump system providing all heating, cooling and domestic hot water needs for the two twelve-story, affordable, 195-unit multi-family buildings.

Whitney Young Manor is a significant project in New York's sustainable urban development landscape and is supported by NYSERDA's Empire Building Challenge. The Empire Building Challenge is built on successful public-private partnerships between NYSERDA and leading real estate owners, their engineering experts and solution providers, which are crucial to advancing New York's goals of a carbon-neutral building stock as the State grows its green economy. Under this program, NYSERDA has partnered with 16 real estate portfolio owners that collectively control over 220 million square feet of commercial and multifamily real estate in New York, including 70,000 housing units. Decarbonization actions taken by Empire Building Challenge partners, such as this project by Nuveen, will help to set a precedent for replicable low-carbon solutions that will inform the next decade of real estate investment in energy efficiency, sustainability, and healthy indoor environments.

SHARC Energy's inclusion in this project underscores its growing prominence in the greater New York market. As New York State intensifies its focus on electrification, reducing carbon emissions, conserving fresh water, and improving climate resiliency, SHARC Energy is strategically positioned to cater to these concerns. For stakeholders, the message is clear: New York is leading the nation's green energy boom, and SHARC Energy is at the heart of it.

Financial Developments

- i. During the year ended December 31, 2024, 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-brokered private placement.

- ii. During the year ended December 31, 2024, the Company issued 2,508,000 common shares pursuant to the exercise of stock options for gross proceeds of \$209,095 from the exercise of stock options. Subsequent to December 31, 2024, the Company issued 950,000 common shares pursuant to the exercise of stock options for aggregate gross proceeds of \$83,750.

Industry Developments

i. Massachusetts State, early adopter of decarbonization strategies and policy

The State of Massachusetts is an early adopter of decarbonization strategies and policy, making it an ideal state to expand SHARC Energy’s growing footprint. Massachusetts has been at the forefront of promoting TENs, being the first state to include provisions for TEN pilots in its 2021 Climate Roadmap. This legislation allows utility owned TEN pilots and enables utilities to bill customers for thermal energy. Eversource Energy and National Grid are the first utilities in Massachusetts to initiate pilot projects under this framework. While Massachusetts has been a pioneer in early adoption, it isn’t the only state to adopt similar policies as Minnesota, New York, Colorado, Washington and Maryland have legislation for TENs in place. Management has observed indications that numerous other states are poised to follow suit and enact similar policies.

The state has continued to enact legislation to further refine and promote TENs. The 2022 Clean Energy and Offshore Wind bill added provisions allowing TEN pilots to be funded through the Gas System Enhancement Plan, a pipe replacement program. This enables the cost recovery mechanism to be used for non-emitting renewable energy infrastructure instead of installing new gas infrastructure with long-term emissions impact.

The 2023 legislative session's Future of Clean Heat bill proposes several provisions to authorize, incentivize, and finance the transition from gas to non-combusting renewable thermal energy. The bill would allow gas companies to sell thermal energy, install associated infrastructure, meet the "obligation to serve" with thermal energy, establish a thermal transition fund, disallow post-2050 depreciation of new gas infrastructure, and mandate gas utilities to create transition plans to non-combusting thermal energy.

ii. New York Governor Hochul Signs Utility Thermal Network and Jobs Act

On July 5, 2022, Governor Kathy Hochul signed three bills including legislation A.10493/S.9422, which allows utilities to own, operate, and manage thermal energy networks, as well as supply distributed thermal energy, with Public Service Commission (PSC) oversight. Heating and cooling networks – also referred to as community thermal or district energy systems – are a resilient, energy efficient, and clean solution that can also help New York State meet its ambitious climate goals. By leveraging multiple sources of existing waste heat (such as water, **wastewater**, and geothermal, among others) and connecting a diverse set of building types on a shared loop, thermal energy networks can provide significant operating and energy cost savings when compared to more traditional heating and cooling methods, while also reducing demand on the electric grid.

The Company anticipates this bill will spur SHARC WET district energy projects in New York State.

iii. United States Thermal Energy Network (“TENs”) Legislation

On May 9, 2024, the WARMTH act was approved by the Governor of Maryland. The act is presented as “Requiring gas companies serving at least 75,000 customers in their distribution territories and authorizing gas companies serving fewer than 75,000 customers to develop a plan for a pilot thermal energy network system or systems on or before October 1, 2024; requiring certain gas companies to submit a certain proposal or proposals to the Public Service Commission for approval on or before July 1, 2025; authorizing certain entities or community organization to submit neighbourhoods for consideration as part of a pilot system”.

In September 2024, the Priority Neighborhood Decarbonization Act was passed allowing the state’s gas utilities to pilot cost-effective neighborhood-scale decarbonization projects—up to 30 statewide—in lieu of replacing gas pipelines. The act specifies that these zero-emission pilots may take the form of neighborhood electrification or thermal energy networks.

The growing trend for policy supporting Thermal Energy Networks is favourable for SHARC systems. Currently, eight states (Massachusetts, Minnesota, New York, Colorado, Washington, Maryland, Vermont and California) have legislation that either allows or mandates utilities to develop thermal energy network demonstration projects or pilots.

Selected Annual Financial Information

	Year ended December 31,		
	2024	2023	2022
Revenue	2,166,327	1,592,062	1,941,737
Adjusted EBITDA loss (non-GAAP Measure)	(2,569,798)	(2,445,496)	(2,620,125)
Loss from for the year	(3,718,858)	(3,903,490)	(4,817,966)
Basic and diluted loss per share	(0.02)	(0.03)	(0.05)
	As at December 31,		
	2024	2023	2022
Total Assets	3,911,958	3,462,059	3,153,969
Long-Term Liabilities	1,931,327	109,833	226,869
Working Capital	1,202,978	2,526,859	(2,229,492)

During 2024, the Company's Sales Pipeline and Sales Order Backlog reached \$17.2M and \$2.5M, respectively, as of November 27, 2024. This represents an aggregate growth of 6%, driven by Sales Order Backlog growth of 207%, from \$0.8M, since November 28, 2023. The Company raised a \$2.0M 8.0% debenture. The Company earned \$0.2M more margin than 2023 which was offset by increases in accounting and legal, advertising and promotion, consulting, salaries and wages and travel.

For 2023, SHARC continued to build its Sales Pipeline and Sales Order Backlog. The aggregate pipeline grew to \$18.5M as of November 28, 2023, in comparison to \$11.1M as reported November 29, 2022, representing a 67% increase. The Company added a new President for SHARC US, resulting in increased wages and benefits expense during the year. Furthermore, the Company was able to extinguish \$3.95M face value of convertible debt and raised \$3.98M through the proceeds from the exercise of warrants.

For 2022, the Company increased spending into Sales Pipeline & Sales Order Backlog growth through increased headcount which resulted in higher wages & benefits and share-based payments paid. Although Revenue decreased by 28% in 2022 in comparison to 2021, Sales Pipeline & Sales Order Backlog increased by nearly 70% in 2022 from an aggregate of \$6.58M as reported November 15, 2021, in comparison to 11.1M reported November 29, 2022. Also, the Company was able to extinguish \$1.67M face value of convertible debt while \$3.95M face value of convertible debt became current liability during 2022.

Summary of Quarterly Results

A summary of selected information for each of the eight most recent quarters is as follows:

Three months ended,	Total Revenue	Loss for the period		Adjusted EBITDA \$ (<i>non-GAAP Measure</i>)	Total Assets at each Report date \$
		Total \$	\$ Per Share		
31-Dec-2024	(177,003)	(1,407,749)	(0.01)	(897,623)	3,911,958
30-Sep-2024	785,030	(831,965)	(0.01)	(645,511)	3,912,951
30-Jun-2024	780,205	(714,699)	(0.01)	(491,312)	2,868,886
31-Mar-2024	778,095	(764,445)	(0.01)	(535,352)	2,818,060
31-Dec-2023	(141,428)	(1,340,995)	(0.00)	(852,224)	3,462,059
30-Sep-2023	545,350	(905,122)	(0.01)	(632,130)	4,483,045
30-Jun-2023	454,454	(902,800)	(0.01)	(523,469)	5,274,647
31-Mar-2023	733,686	(754,573)	(0.01)	(437,627)	3,651,547

For the first half of 2023, the Company shipped multiple PIRANHA T15 units to jobs in Ontario and Colorado. Furthermore, the Company continued to fulfil the False Creek NEU expansion project.

For the second half of 2023 through to December 31, 2023, the major components of the 5 SHARC WET systems have been delivered to the False Creek NEU. Also, the Company received purchase orders and began production for SHARC WET Systems for two New York based projects, Vital Brooklyn, and Whitney Young.

For the year ended December 31, 2024, the Company shipped multiple SHARC and PIRANHA units to projects in New York, North Carolina and Ontario, continued to fulfil milestones on the False Creek project, and began several submittals for future equipment shipments.

Overall Financial Performance

The consolidated statements of financial position as of December 31, 2024, show a cash position of \$818,259 (December 31, 2023- \$1,242,268) and total current assets of \$3,160,202 (December 31, 2023 - \$3,171,675). Current liabilities at December 31, 2024 total \$1,957,224 (December 31, 2023 - \$644,816).

As at December 31, 2024, the Company had working capital of \$1,202,978 (December 31, 2023 – \$2,526,859).

During the three months ended December 31, 2024, the Company reported a loss of \$1,407,749 (\$0.01 basic and diluted loss per share) on negative revenue of \$177,003 and a gross margin of \$44,357. This compared to a loss of \$1,340,995 (\$0.01 basic and diluted loss per share) on negative revenue of \$141,428 and a gross margin loss of \$66,911 for the same period in the prior year.

During the year ended December 31, 2024, the Company reported a loss of \$3,718,858 (\$0.02 basic and diluted loss per share) on revenue of \$2,166,327 and a gross margin of \$914,223 (42% margin). This compared to a loss of \$3,903,490 (\$0.03 basic and diluted loss per share) on revenue of \$1,592,062 and a gross margin of \$677,837 (43% margin) for the same period in the prior year.

Discussion of Operations

Three months ended December 31, 2024 compared with three months ended December 31, 2023

SHARC Energy's loss for the current three-month period totaled \$1,407,749, or a basic and diluted loss per share of \$0.01. This compares with a loss of \$1,340,995 with basic and diluted loss per share of \$0.01 for the same period in the prior year. For the three months ended December 31, 2024, revenue decreased by \$35,575, cost of sales decreased \$146,843 and the gross margin increased by \$111,268.

- For the three months ended December 31, 2024, revenue consisted of \$3,600 from equipment leases, \$111,488 from service and service agreement revenue from Vancouver, B.C. and Greater Vancouver Region installations, and \$(292,091) from the sale and continued progress of SHARC and PIRANHA systems sales less audit adjustments. This compared to the three months ended December 31, 2023, where revenue consisted of \$3,600 from equipment leases, \$18,340 from service and service agreement revenue from Vancouver regional installations and negative revenue of \$163,367 from product sales less audit adjustments.
- Cost of goods sold in the three months ended December 31, 2024, and 2023 consisted of costs associated with SHARC and PIRANHA system sales, service, and rental expense.
- Gross margin increased \$111,268 during the three months ended December 31, 2023 to a \$44,357 gross margin during the three months ended December 31, 2024. In addition to the year end audit adjustment, the progress billings and shipment of SHARC and PIRANHA systems decreased in the quarter.
- For expenses during the three months ended December 31, 2024, when compared to the comparative three months ended December 31, 2023:
 - Accounting and legal expense increase \$67,727. This is due to increase in audit and taxation fees as well as true-up of legal expenses accrued during 2024 for general corporate and securities related matters, annual general meeting and patent related costs.
 - Advertising and promotion increase \$54,933. There was a one-time write off of \$65,926 of

expenses related to supporting customers.

- During the three months ended December 31, 2023, bad debt expense totaled \$38,624 compared to \$37,327 recorded during the three months ended December 31, 2024.
- Interest and financing expense increased by \$72,625 due to the issuance of \$2,000,000 debentures on July 8, 2024.
- Share-based payments decreased by \$111,517. The decrease is due to no new share-based compensation grants during the year.
- Consulting expenses increased \$61,688 largely driven by a one-time \$42,412 write-off of mechanical equipment consultants for work done supporting a flagship project in the United States. The remaining increase was largely attributed to a lobbying consultant.
- Wages and benefits increased \$55,186. Of this increase, \$21,611 related to the one-time write-off of wages allocated to work done supporting a flagship project in the United States. The Company averaged an employee headcount of 15.33 during both the three months ended December 31, 2023 and 2024. The Company hired a full-time ticketed refrigeration service and production staff member which largely attributes to the remaining increase.
- Travel increased \$78,158. \$68,587 related to one-time write-off of travel expenses incurred supporting a flagship project in the United States. Travel expenses are mainly attributable to trade show and sales.

Year ended December 31, 2024 compared with year ended December 31, 2023

SHARC Energy's loss for the current period totaled \$3,718,858 or a basic and diluted loss per share of \$0.02. This compares with a loss of \$3,903,490 with basic and diluted loss per share of \$0.03 for the same period in the prior year. The improvement of \$184,632 in loss for the current period was principally because:

- For the year ended December 31, 2024, revenue increased by \$574,265, cost of sales increased \$337,879 and the gross margin increased by \$236,386.
 - For the year ended December 31, 2024, revenue consisted of \$14,400 from equipment leases, \$256,212 from service and service agreement revenue from Vancouver, B.C. and Greater Vancouver Region installations and \$1,895,715 from the sale and continued progress of SHARC and PIRANHA systems sales and projects. This compared to the year ended December 31, 2023, where revenue consisted of \$68,400 from equipment leases, \$57,788 from service and service agreement revenue from Vancouver regional installations and \$1,465,874 from sales and installation of PIRANHA systems and a SHARC system, respectively.
 - Cost of goods sold in the years ended December 31, 2024 and 2023 consisted of costs associated with SHARC and PIRANHA system sales, service, rental expense and inventory adjustments.
 - Gross margin percentage (%) decreased from 43% during the prior year ended December 31, 2023 to 42% during the current year ended December 31, 2023. Gross margin increased by \$236,386 year over year.

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- Expenses during the year ended December 31, 2024 totaled \$4,752,052, compared to the prior year ended December 31, 2023 of \$4,607,526:
 - Accounting and legal expenses increased by \$74,197 due to increase in audit and taxation fees and legal fees for general corporate and securities related matters, annual general meeting and patent filings and management.
 - Consulting expenses increased \$180,322. This increase was attributed to sales consultants and one-time write off related to work performed on a flagship US project. Consulting expenses consists of fees paid to a Company controlled by the Chief Financial Officer, sales, IT, marketing, and investor relations consultants.
 - Interest and financing expense decreased by \$99,171. During the first half of 2023, the Company extinguished \$3,945,000 of 2% convertible debt resulting in decreased accretion expense. As of December 31, 2023, all convertible debt held was fully converted. In July 2024, \$2,000,000 of Debentures bearing interest at 8% per annum were issued by the Company.
 - Share-based payments decreased by \$191,928. The decrease is due to no new grants of stock options or RSUs during the year.
 - Travel increased \$105,455 as the Company's sales related travel has increased due to sales meetings and tradeshow attendance.
 - Wages and benefits increased by \$133,723. The Company averaged an employee headcount of 15 during the year ended December 31, 2024, compared to 16 during the previous year. The increase of 7% mostly attributable to higher employer taxes, annual wage increases, exchange rate fluctuation and the addition of qualified sales and service professionals.

Alternative Performance Measures

Management evaluates the Company's performance using a variety of measures, including "Adjusted EBITDA", "Sales Pipeline" and "Sales Order Backlog". The non-IFRS measures should not be considered as an alternative to or more meaningful than revenue or net loss. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company. Management uses these and other non-IFRS financial measures to exclude the impact of certain expenses and income that must be recognized under IFRS when analyzing consolidated underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

Adjusted EBITDA	Three months ended December 31,		Year ended December 31,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Loss before Income Taxes	(1,407,742)	(1,340,949)	(3,776,408)	(3,903,490)
<i>Adjustments:</i>				
Interest and financing expense	77,112	4,500	145,384	244,568
Interest income	(4,680)	(220)	(4,878)	(15,934)
Obsolete Inventory	18,633	37,811	18,633	37,811
Depreciation	57,113	41,927	164,215	160,580
Bad debt expense (recovery)	37,327	38,624	37,327	38,624
Litigation settlement	-	156,083	-	156,083
Normalized (One-time) expenses	201,509	-	201,509	-
Share-based payments	133,209	244,726	662,058	853,986
Research & development	35,629	13,395	44,649	28,059
Foreign exchange	(65,898)	(8,015)	(82,453)	6,707
Government Funding & other subsidies	-	-	-	(12,338)
Warranty expense	20,165	(23,134)	20,165	(23,134)
Gain on sale of fixed asset	-	(16,972)	-	(16,972)
Adjusted EBITDA Loss	(897,623)	(852,224)	(2,569,798)	(2,445,450)

Adjusted EBITDA is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. See “Non-IFRS Measure” below for additional information.

For the three months ended December 31, 2024, the adjusted EBITDA loss increased by \$45,399 from the same period in the previous year. The increase in adjusted EBITDA loss is due to an increase in gross margin offset by increase in cash expenses related to accounting and legal, advertising and promotion, consulting, travel and wages and benefits.

For the year ended December 31, 2024, adjusted EBITDA loss increased by \$124,347 compared with the same period in the previous year. The increase in Adjusted EBITDA loss is largely due to an increase in gross margin offset by an increase in accounting and legal, advertising and promotion, consulting, travel and wages and benefits.

Sales Pipeline

Sales Pipeline is defined as qualified prospective projects and installations that could convert into orders within approximately 24 months. Not all these potential projects and installations will proceed or proceed within the expected timeframe and not all the projects that do proceed will be awarded to SHARC Energy. Nevertheless, over time, this number gives a reasonable metric of changes in market activity and anticipated growth of the industry.

Additions to the amount in the Sales Pipeline come from situations where the Company's equipment has been specified on a request for proposal (“RFP”), has been specified on a winning bid in an RFP process, or the project has been included in a stage of design for a project.

Reductions to the amount in the Sales Pipeline arise when the Company's equipment quoted or bid loses, the project owner decides not to proceed with the project, the final design changes the equipment selection originally quoted, the equipment is value engineered out of the design or, where a quote in the pipeline is converted to the order book and therefore, converted into Sales Order Backlog.

As of April 30, 2025, the Company has \$16.8M (November 27, 2024 - \$17.2M) in Sales Pipeline.

Sales Order Backlog

Sales Order Backlog refers to the balance of unrecognized revenue from sales orders received with a deposit and/or shipment date and contracted projects, where such revenue is recognized over the period of the contract by reference to the stage of completion of each contract.

Additions to Sales Order Backlog will be when a purchase order, deposit and/or shipment date is received from a customer or manufacturer representative, or a contract is signed for the supply or service of a system. Reductions to the amount in sales order backlog arise when units are shipped, and revenue is recognized or when a contract has been recognized by the stage of completion or completed and fulfilled.

As of April 30, 2025, the Company has \$3.0M (November 27, 2024 - \$2.5M) in Sales Order Backlog.

Non-IFRS Measure

Adjusted EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined by the Company as earnings before interest, income taxes, depreciation, and amortization. Adjusted EBITDA, as presented, additionally excludes impairment charges, all other non-cash items, and one-time transaction fees. Management evaluates the Company's performance using a variety of measures, including providing Adjusted EBITDA, sales pipeline and sales order backlog which is useful to investors' understanding and assessment of the Company's ongoing continuing operations and prospects for the future and it is used by the financial community to evaluate the market value of companies considered to be in similar businesses. Since Adjusted EBITDA is not a measure of performance calculated in accordance with IFRS, it should not be considered in isolation of, or as a substitute for, measures of performance prepared in accordance with IFRS. Adjusted EBITDA, as calculated and reconciled in the table above, may not be comparable to similarly titled measures employed by other companies. In addition, Adjusted EBITDA is not necessarily a measure of our ability to fund our cash needs.

Liquidity and Financial Position

As of December 31, 2024:

- the Company has an accumulated deficit of \$41,019,495 and has working capital of \$1,202,978. 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 has sufficient working capital to maintain its activities for the next 12 months.
- the Company's cash balance was \$818,259 (December 31, 2023 - \$1,242,268) and the Company had working capital of \$1,202,977 (December 31, 2023 - \$2,526,859).
- the Company had 161,262,422 common shares issued and outstanding, 14,573,585 warrants outstanding, and 4,841,141 options outstanding. If all warrants and options were exercised, \$4,422,198 in cash would be raised.
- Cash used in continuing operating activities was \$2,124,411 for the year ended December 31, 2024 (December 31, 2023 - \$3,460,065). Operating activities were affected by the loss for the period of \$3,718,858 partially offset by non-cash expenses of \$877,896 and a change in non-cash working capital balances of \$716,551 due to an increase in receivables, prepaid expenses, accounts payable and accrued liabilities and deferred revenue and a decrease in inventory.

The Company has the following undiscounted lease payments:

Not later than one year	210,209
Later than one year and not later than 5 years	393,764
December 31, 2023	603,973

Related Party Transactions

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

The Company incurred the following charges with key management personnel:

	Year ended December 31,	
	2024	2023
	\$	\$
Consulting Fees ⁽ⁱ⁾	156,000	156,000
Wages and Benefits ⁽ⁱⁱ⁾	596,377	405,189
Share-based payments ⁽ⁱⁱⁱ⁾	356,510	543,924
	1,108,887	1,105,113

- (i) The Company paid consulting fees to a company controlled by the Chief Financial Officer & Chief Operating Officer.
- (ii) The Company paid wages and benefits to the Chief Executive Officer, President and Director, and the Executive Chairman.
- (iii) Share-based payments was recognized in connection with the vesting of options granted to directors and officers of the Company.

The following table summarizes the cash compensation paid to each related party.

	Year ended December 31,	
	2024	2023
	\$	\$
Lynn Mueller	230,432	210,399
Hanspaul Pannu ¹	156,000	156,000
Michael Albertson	365,945	194,790
	752,377	561,189

1. Payments are made to a company controlled by Mr. Pannu

Included in receivables is \$42,925 (December 31, 2023 - \$nil) due from related parties.

Included in accounts payable and accrued liabilities is \$107,918 (December 31, 2023 - \$19,839) due to related parties.

Share Capital

As of the date of this MD&A, the Company had 163,162,422 (December 31, 2024 – 161,262,422) issued and outstanding common shares.

Warrants outstanding for the Company at the date of this MD&A were as follows:

Number of Warrants	Expiry Date	Exercise Price
10,800,000	July 8, 2027	\$0.200
3,773,585	March 1, 2028	\$0.265
14,573,585	Total Outstanding	

Stock options outstanding for the Company at the date of this MD&A were as follows:

Options	Expiry Date	Exercise Price
1,021,875	December 20, 2025	\$0.345
805,220	May 30, 2027	\$0.335
1,828,000	April 27, 2028	\$0.270
136,046	June 29, 2028	\$0.280
100,000	October 17, 2028	\$0.245
3,891,141	Total Outstanding	

Restricted Share units (“RSUs”) outstanding for the Company at the date of this MD&A were as follows:

Options	Expiry Date	Share price on date of grant
2,709,000	December 31, 2025	\$0.270
204,037	December 31, 2025	\$0.280
2,913,037	Total Outstanding	

Estimates, Judgments and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

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 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.

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- iv. The Company has service agreements with regards to some of its product sales which requires management to make judgments regarding the timing and allocation of revenue. Specifically, installation is generally not assumed to have stand-alone value and is often recognized on the same basis as the remainder of the services fees. However, the Company defers the recognition of revenue associated with fees for services agreements or warranty costs that are built into the original sales price and recognizes the associated revenue evenly over the term of the service.
 - v. The equity component of the convertible debenture is calculated using a discounted cash flow method which requires management to make an estimate on an appropriate discount rate.
 - 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 effected 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.

Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern 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' deficiency.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to raise new funds.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

Financial Instruments

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

[a] Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, restricted cash and receivables are exposed to

credit risk. The Company reduces its credit risk on cash and restricted cash by placing these instruments with institutions of high credit worthiness. Receivables are primarily from sales. The Company believes these parties to be of sound creditworthiness. As of December 31, 2024, the Company is exposed to credit risk arising from receivables and recorded a loss allowance of \$77,248 (December 31, 2023 - \$38,624).

[b] Liquidity risk

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

[c] Market risk

[i] Interest rate 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 of December 31, 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 December 31, 2024, the Company had US denominated current assets of US\$405,603 and US denominated current liabilities of US\$878,907 (December 31, 2023 - US\$339,026 and US\$77,312, respectively). Accordingly, a 10% change in the foreign exchange rate would result in \$97,259 credit or charge to operations (December 31, 2023 - \$45,781).

Risks and Uncertainties

Manufacturing Risks

For the successful development of the Company's manufacturing operations, the Company will require maintenance of production equipment, hiring and retaining managerial personnel and skilled labour and maintaining of desirable levels of production. There can be no assurance that the Company will be able to achieve and sustain these goals. The Company's future success also depends on its ability to successfully achieve the expected manufacturing capacity in a cost-effective and efficient manner. If the Company cannot do so, it may be unable to achieve and sustain profitability. The Company's ability to achieve expected production capacity is subject to significant risks and uncertainties, including the following: (a) delays and unexpected costs as a result of a number of factors, many of which may be beyond the Company's control, such as its ability to secure successful contracts with equipment vendors, (b) failure to effectively break in new equipment, (c) delays or denial of required approvals by relevant

government authorities, (d) unavailability of manufacturing inputs; and (e) failure to execute its expansion plans effectively.

Regulatory Risks

The activities of the Company will be subject to intense regulation by governmental authorities. Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining or failure to obtain regulatory approval would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Change in Laws, Regulations and Guidelines

The Company's operations will be subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, and disposal of untreated wastewater but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations, and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Lack of Operating History

The Company has only recently started to carry on its business. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of revenues. The failure by the Company to meet any of these conditions could have a materially adverse effect on the Company and may force it to reduce, curtail, or discontinue operations. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered considering the early stage of operations. The Company may not successfully address all the risks and uncertainties or successfully implement its existing and new products and services. If the Company fails to do so, it could materially harm its business and impair the value of its common stock, resulting in a loss to shareholders. Even if the Company accomplishes these objectives, the Company may not generate the anticipated positive cash flows or profits. No assurance can be given that the Company can or will ever be successful in its operations and operate profitably.

Reliance on Management and Key Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion, and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as information technology, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition.

Additional Financing

The Company's future capital requirements depend on many factors, including its ability to market products successfully, cash flows from operations, locating and retaining talent, and competing market developments. The Company's business model requires spending money to generate revenue. Based on the Company's current financial situation, the Company may have difficulty continuing operations at the current level, or at all, if it does not raise additional financing soon.

To execute the Company's business plan, the Company will require some additional equity and/or debt financing to undertake capital expenditures. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures could limit the Company's operations and may have a material adverse effect upon future profitability.

The Company may require additional financing to fund its operations to the point where it is generating positive cash flow.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to those of holders of Company Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital or to pursue business opportunities, including potential acquisitions. If adequate funds are not obtained, the Company may be required to reduce, curtail, or discontinue operations. There is no assurance that the Company's existing cash flow will be adequate to satisfy its existing operating expenses and capital requirements.

Competition

There is potential that the Company will face intense competition from numerous other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial conditions, and results of operations of the Company.

Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations of the Company.

Intellectual Property Risks

The Company's ability to compete largely depends on the superiority, uniqueness, and value of its intellectual property and technology, including both internally developed technology and the ability to acquire patent protection and/or trademark protection. To protect its proprietary rights, the Company will rely on a combination of trademark, copyright, and trade secret laws, trademark and patent applications, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, certain risks may reduce the value of the Company's intellectual property. The Company's applications for trademarks and copyrights relating to its business may not be granted, and if granted, may be challenged or invalidated. There is no guarantee that issued trademarks and

registered copyrights will provide the Company with any competitive advantages. The Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of its technology and may not prevent the development and design by others of products or technology like, competitive with, or superior to those the Company develops. There is a risk that another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent to continue to offer the contested feature or service in its products.

New Market Risks

Extracting heat from raw sewage flows is a relatively new market and its long-term growth prospects are uncertain. Should the raw sewage heat market fail to expand, it would have a materially adverse effect on our business and financial position.

Product Development Risks

The development of additional products is subject to the risks of failure inherent in the development of new, state-of-the-art products, laboratory devices and products based on new technologies. These risks include: (i) delays in product development or manufacturing; (ii) unplanned expenditures for product development or manufacturing; (iii) failure of new products to have the desired effect or an acceptable accuracy profile; (iv) emergence of superior or equivalent products; (v) failure by any potential collaborative partners to successfully develop products; and (vi) the dependence on third parties for the manufacture, development, and sale of the Company's products. Because of these risks, our research and development efforts or those of potential collaborative partners may not result in any commercially viable products. If a significant portion of these development efforts is not successfully completed, or any products are not commercially successful, we are less likely to generate significant revenues, or become profitable. The failure to perform such activities could have a material adverse effect on the Company's business, financial condition, and results of its operations.

The areas in which we plan to commercialize, distribute, and/or sell products involve rapidly developing technology. There can be no assurance that we will be able to establish ourselves in such fields, or, if established, that we will be able to maintain our market position, if any. There can be no assurance that the development by others of new or improved products will not make our present and future products, if any, superfluous or obsolete.

Product Liability

The devices and products that we intend to develop may expose us to potential liability from personal injury claims by end-users of the product. We intend to carry product liability insurance to protect us against the risk that in the future a product liability claim, or product recall could materially and adversely affect our business. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our intended products. We cannot assure you that if and when we commence distribution of our product that we will be able to obtain or maintain adequate coverage on acceptable terms, or that such insurance will provide adequate coverage against all potential claims. Moreover, even if we maintain adequate insurance, any successful claim could materially and adversely affect our reputation and prospects and divert management's time and attention. If we are sued for any injury allegedly caused by our future products our liability could exceed our total assets and our ability to pay the liability.

Product Defects

The Company's products are complex and, accordingly, they may contain defects or errors, particularly when first introduced or as new versions are released. We may not discover such defects or errors until

after a product has been released and used by end-customers. Defects and errors could materially and adversely affect our reputation, result in significant costs to us or the termination of an agreement, delay planned release dates and impair our ability to sell our products in the future. The costs incurred in correcting any product defects or errors may be substantial and could adversely affect our operating margins. Furthermore, there can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to claims that our products are defective or that some function or malfunction of our products caused or contributed to damages. While we attempt to minimize this risk by incorporating provisions into our standard agreements that are designed to limit our exposure to potential claims of liability, we are not always able to negotiate such protections. In addition, no assurance can be given that all claims will be barred by the contractual provisions limiting liability or that the provisions will be enforceable. We may be liable for failure regarding the use of our products or services. A significant liability claim against us could have a material adverse effect on our operating results and financial position.

Reliance on Key Inputs

The Company's business will be dependent on several key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water, and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such a source in a timely manner or at all. If sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, and operating results of the Company.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts, and components.

Management of Growth

The Company has, and may in the future, experience rapid growth and development in a relatively short period of time by aggressively marketing its products and services. The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Litigation

The Company may be forced to litigate, enforce, or defend its intellectual property rights, protect its trade secrets, or determine the validity and scope of other parties' proprietary rights. Such litigation would be a drain on the financial and management resources of the Company which may affect the operations and business of the Company.

The Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for Company Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

The Market Price of Company Shares May Be Subject to Wide Price Fluctuations

The market price of Company Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time-to-time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Company Shares.

Environmental and Employee Health and Safety Regulations

The Company's operations will be subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disclosure of Internal Controls

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized, and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP (IFRS).

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.