



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30, 2025

August 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 six months ended June 30, 2025. 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 six months ended June 30, 2025, are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as of August 29, 2025 unless otherwise indicated.

The unaudited condensed consolidated interim financial statements for the six months ended June 30, 2025, 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**"). The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting.

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 30th, 2011. On October 27th, 2015, the Company completed the acquisition (the "**Acquisition**") of SES pursuant to a share exchange agreement dated September 4th, 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	June 30, 2025 Ownership %	December 31, 2024 Ownership %
SES	Canada	100	100
SHARC US	United States	100	100

Highlights

- i. **Sales Order Backlog and Sales Pipeline.** As at August 29, 2025, the Company is reporting a Sales Order Backlog of \$3.7 million (M) and a Sales Pipeline of \$16.6M. This represents a 3% increase and negligible increase, respectively, from the previous disclosure on May 30, 2025. Please refer to Alternative Performance Measurements below for more information on Sales Order Backlog and Sales Order Pipeline.
- ii. **SHARC System Powers Groundbreaking Señákw District Energy System.** The SHARC WET system will be the core component of the Señákw Energy System, the largest real estate development in Canadian First Nations history. The SHARC WET system was shipped to the project in Q2 2025.
- iii. **SHARC Energy Ships SHARC WET Systems to US Government-Affiliated Project.** The Company announced the shipment of two SHARC 880 WET Systems to a U.S. government-affiliated project. The systems were substantially completed in Q2 2025 and shipped in Q3 2025. Further information about the project will be released at a later stage.
- iv. **SHARC System Featured in Ottawa's Lebreton Flats District Energy Project.** The Company announced that two SHARC 880 Wastewater Energy Transfer ("WET") systems will be used to power a district energy system in Canada's capital city. SHARC Energy anticipates commencing submittals for the SHARC WET Systems in 2025 with equipment build and delivery expected during 2026.
- v. **False Creek Neighbourhood Energy Utility ("NEU") Expansion.** The Company completed the supply agreement with the City of Vancouver for the provision and maintenance of five SHARC systems for the False Creek NEU Expansion. During the three months ended March 31, 2025, the Company successfully finished the milestones of the agreement.
- vi. **Closing of \$1.57 Million Unsecured Convertible Debenture.** SHARC Energy has closed a non-brokered private placement of unsecured convertible debentures of the Company for a principal amount of \$1,570,000.
- vii. **Quarter over Quarter Results.** During the three months ended June 30, 2025, the Company reported revenues of \$0.85M, a loss of \$0.82M and an Adjusted EBITDA loss of \$0.46M. Revenue increased 9% from revenue comparative in 2024 of \$0.78M, the loss increased 15% over comparative in 2024 of \$0.71M. Adjusted EBITDA loss decreased by 7% over the 2024 comparative of an Adjusted EBITDA loss of \$0.49M.
- viii. **Year to date ("YTD") over YTD Results.** During the six months ended June 30, 2025, the Company reported revenues of \$1.86M, a loss of \$1.70M and an Adjusted EBITDA loss of \$1.07M. Revenue increased 19% over revenue comparative in 2024 of \$1.56M, the loss and comprehensive loss increased 17% over comparative in 2024 of \$1.48M and Adjusted EBITDA loss increased 4% over 2024 comparative of \$1.03M.

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 nearly 50 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 six months ended June 30, 2025, and Subsequent Events

Operational Developments

i. Sales Order Backlog and Sales Pipeline Disclosure

As of August 29, 2025, the Company reported a Sales Order Backlog of \$3.7M and a Sales Pipeline of \$16.6M. The Sales Order Backlog figure is a 3% increase from the previous report on May 30, 2025, indicating the continuation of a strong 2025 financial year and beyond. Please refer to Alternative Performance Measurements below for more information on Sales Order Backlog and Sales Order Pipeline.

ii. SHARC System Powers Groundbreaking Señákw District Energy System.

The SHARC WET system will be the core component of the Señákw Energy System, the largest real estate development in Canadian First Nations history. The SHARC WET system was shipped to the project in Q2 2025.

District Energy Systems (“**DES**”), or Thermal Energy Networks (“**TEN**”), provide thermal energy to multiple buildings from a central energy plant. Steam or hot water produced at the plant is transmitted 24/7 through highly insulated underground thermal piping networks. Thermal energy is transferred into and from the building’s system through energy transfer stations placed in the building, reducing mechanical room space required for housing equipment and simplifying heating and cooling systems. SHARC Energy enables DES or TENs to leverage wastewater, a forgotten resource, as a low-carbon source of thermal energy to help save energy and reduce carbon emissions on a multiple-building scale.

Señákw, is being developed by the Squamish Nation's economic development arm, Nch'káy Development Corporation. Once fully completed, it will comprise 11 buildings featuring over 6,000 rental units across more than 3 million square feet of residential floor space. It is set to become Canada’s largest net zero operational carbon purpose-built community.

Over the next 30 years, the Señákw Energy System is projected to reduce carbon emissions by 120,000 tonnes compared to a conventional natural-gas based system. This reduction is equivalent to planting 5.5 Stanley Parks or 165,000 acres of trees. The system will initially provide heating and cooling to each building within the development with the potential for future expansion to accommodate upcoming projects.

Significantly, this project not only represents the first private development in British Columbia to leverage Metro Vancouver’s Sewage and Waste: Heat Recovery policy, but also marks the first private residential development in Canada to harness an external sewer force main as its primary energy source.

iii. **SHARC Systems Shipped to US Government-Affiliated Project**

SHARC Energy announce the shipment of two SHARC 880 WET Systems to a U.S. government-affiliated project. Further information about the project will be released at a later stage.

SHARC Energy’s Wastewater Energy Transfer technology continues to gain momentum in the United States and beyond. Most recently, SHARC Energy’s innovative systems were featured in a **Wall Street Journal** article spotlighting the emerging role of WET in sustainable infrastructure.

This milestone shipment underscores the Company’s expanding influence and highlights the increasing adoption of WET solutions as cities and governments seek scalable, low-carbon alternatives for heating, cooling and potable hot water.

The system substantially completed in Q2 2025 and shipped in Q3 2025.

iv. **SHARC System Featured in Ottawa’s Lebreton Flats District Energy Project**

The Company announced that two SHARC 880 WET systems will be used to power a district energy system in Canada’s capital city. SHARC Energy anticipates commencing submittals for the SHARC WET Systems in 2025 with equipment build and delivery expected during 2026

A new era of sustainable energy is dawning in Ottawa with the formation of the Lebreton Community Utility Partnership, a joint venture between Envari Holding Inc. (a subsidiary of Hydro Ottawa Holding Inc.) and Theia Partners. Together with the City of Ottawa, the partners have formalized a landmark agreement to implement an advanced WET system.

"The formation of the LeBreton Community Utility partnership marks a significant step in realizing a truly sustainable energy model for urban development. Our WET technology, powered by SHARC Energy's Canadian innovation, will provide reliable, efficient, and environmentally responsible thermal energy to the LeBreton community, starting with DREAM's Odenak development." stated Scott Demark, Partner at Theia Partners.

"This is more than just a project; it's a testament to Ottawa's dedication to leading the way in sustainable energy solutions. Hydro Ottawa is proud to be at the forefront of this innovation, demonstrating the power of collaboration and forward-thinking technology, including the highly efficient and Canadian-made SHARC Energy WET System, in building a sustainable future for the community we serve. We are especially pleased that this project supports vital affordable housing and aligns with our commitment to ensuring all customers can participate in a smart and equitable energy future." says Bryce Conrad, President and CEO of Hydro Ottawa Holding Inc.

This groundbreaking energy project will harness the untapped thermal potential of wastewater to provide 9 Megawatts (MW) of sustainable and efficient building heating and cooling to [the LeBreton Flats redevelopment including DREAM's Odenak development](#) at 665 Albert Street, the inaugural customer for LeBreton Community Utility's WET system. Odenak is a 600-unit, two-tower project adjacent to the Pimisi light rail transit (LRT) station. It features a mix of market-rate and affordable residential units as well as retail spaces. The WET system utilizes highly efficient heat pumps and operates entirely without fossil fuel, marking a significant step towards a cleaner energy future for the city.

By utilizing SHARC Energy's WET system, the LeBreton Community Utility estimates a reduction of approximately 5,066 tonnes of greenhouse gas (GHG) emissions annually compared to traditional buildings relying on boilers and chillers. To visualize 5,066 tonnes, it is the equivalent of the electricity used by 3,387 homes for a full year (as calculated by the Natural Resources Canada's [Greenhouse Gas Equivalencies Calculator](#)).

The LeBreton Community Utility Partnership is also engaged in discussions with the National Capital Commission (NCC) to explore the potential for the WET network to serve additional land parcels at the LeBreton Flats redevelopment, to take advantage of economies of scale. This forward-thinking approach positions the site as a model for sustainable community energy infrastructure in Canada. Moreover, this presents additional opportunities for the implementation of SHARC WET equipment.

v. **False Creek NEU Expansion**

As of March 31, 2025, the Company has delivered and billed on 6 of 6 milestones under the agreement for this project.

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 supplied and commissioned 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. **Fred Andriano appointed as Chairman of the Board and Executive Officer**

On May 5, 2025, the Company announced significant changes to its Board of Directors, appointing Fred Andriano as Chairman of the Board and Executive Officer, replacing Lynn Mueller, who will now serve as Vice Chairman and Executive Officer. Furthermore, the Company accepted the retirement and resignation of Eleanor Chiu as Director.

Financial Developments

- i. Subsequent to the six months ended June 30, 2025, the Company has closed a non-brokered private placement of unsecured convertible debentures of the Company (each, a **“Debenture”**) for a principal amount of \$1,570,000 (the **“Offering”**). While the terms of the closed Offering vary from those announced on August 1st, the revisions provide improved outcomes for the Company and its shareholders.

The Debentures will bear interest from their issue date at 8.0% per annum calculated annually & paid on maturity and will mature three (3) years following the date of issuance (the **“Maturity Date”**). The Debentures are unsecured and will rank *pari passu* in right of payment of principal and interest with all current and future unsecured indebtedness of the Company. The Debentures, including any accrued and unpaid interest, will be convertible into common shares in the capital of the Company (**“Common Shares”**) at a price of \$0.125 per Common Share (the **“Conversion Price”**) at the option of the holder.

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

In connection with the Offering, the Company paid to a certain eligible non-arm’s length finder: (i) a cash fee of \$125,600 and (ii) issued to such finder, 1,004,800 compensation warrants of the Company (the **“Compensation Warrants”**). Each Compensation Warrant entitles the holder thereof to purchase one (1) Common Share of the Company at an exercise price of \$0.125 for a period of three (3) years following the date of issuance.

- ii. During the six months ended June 30, 2025, the Company issued 950,000 common shares pursuant to the exercise of stock options for gross proceeds of \$83,750 from the exercise of stock options.

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- iii. The Company entered into a short-term working capital loan agreement for up to \$400,000 (the “**Loan**”). The Loan matures on July 31, 2025, subject to mutual agreement for extension, and bears interest at an annual rate of 8%. The Loan is secured against all present and after acquired assets of the Company. In consideration of the Loan, the Company issued 800,000 stock options at \$0.10 per common share for three years from the date of issuance. Subsequent to the six months ended June 30, 2025, the Loan was repaid.
 - iv. The Company issued 649,000 common shares pursuant to the exercise of employee restricted share units.

Industry Developments

- i. **United States Thermal Energy Network (“TENs”)/District Energy Legislation**

The growing trend for policy supporting Thermal Energy Networks is favourable for SHARC systems. Currently, eleven states (Massachusetts, Minnesota, New York, Colorado, Washington, Maryland, Vermont, New Jersey, Texas, Maine, Connecticut 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		
30-Jun-2025	848,183	(819,850)	(0.01)	(456,546)	3,022,500
31-Mar-2025	1,012,936	(915,508)	0.00	(607,645)	3,051,226
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)	0.00	(535,352)	2,818,060
31-Dec-2023	(141,428)	(605,987)	(0.01)	(852,224)	3,462,059
30-Sep-2023	545,350	(905,122)	(0.01)	(632,130)	4,483,045

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.

For the six months ended June 30, 2025, the Company delivered the final milestones of the False Creek project, shipped the Señákw District Energy System and has continued its build on several projects that will be completed in the third quarter of 2025.

Overall Financial Performance

The consolidated statements of financial position as of June 30, 2025, show a cash position of \$92,675 (December 31, 2024- \$818,259) and total current assets of \$2,427,060 (December 31, 2024 - \$3,160,202). Current liabilities at June 30, 2025 total \$2,307,478 (December 31, 2024 - \$1,957,224).

As at June 30, 2025, the Company had working capital of \$119,582 (December 31, 2024 -\$1,202,978).

During the three months ended June 30, 2025, the Company reported a loss of \$819,850 (\$0.01 basic and diluted loss per share) on revenue of \$848,183 and a gross margin of \$373,270. This compared to a loss of \$714,699 (\$0.00 basic and diluted loss per share) on revenue of \$780,205 and a gross margin of \$323,030 for the same period in the prior year.

During the six months ended June 30, 2025, the Company reported a loss of \$1,735,358 (\$0.01 basic and diluted loss per share) on revenue of \$1,861,119 and a gross margin of \$688,961 (37% margin). This compared to a loss of \$1,479,144 (\$0.01 basic and diluted loss per share) on revenue of \$1,558,300 and a gross margin of \$620,951 (39.8%) for the same period in the prior year.

Discussion of Operations

Three months ended June 30, 2025 compared with three months ended June 30, 2024

SHARC Energy's loss for the current period totaled \$819,850, or a basic and diluted loss per share of \$0.01. This compares with a loss of \$714,699 with basic and diluted loss per share of \$0.00 for the same period in the prior year. For the three months ended June 30, 2025, revenue increased by \$67,978, cost of sales increased \$17,738 and the gross margin increased by \$50,240.

- For the three months ended June 30, 2025, revenue consisted of \$3,600 from equipment leases, \$178,696 from service and service agreement revenue, and \$665,887 from continued progress of SHARC and PIRANHA systems sales and delivery. This compared to the three months ended June 30, 2024, where revenue consisted of \$3,600 from equipment leases, \$16,137 from service and service agreement revenue from Vancouver regional installations and revenue of \$760,468 from product sales.
- Cost of goods sold in the three months ended June 30, 2025, and 2024 consisted of costs associated with SHARC and PIRANHA system sales, service, and rental expense.
- Gross margin increased from 41% during the three months ended June 30, 2024 to 44% during the three months ended June 30, 2025.
- For expenses during the three months ended June 30, 2025, when compared to the comparative three months ended June 30, 2024:
 - Interest and financing expense increased by \$124,147 due to the issuance of \$2,000,000 debentures on July 8, 2024 as well as the short-term loan facility. Options issued with the short-term loan facility are recorded to this expense.
 - Share-based payments decreased by \$132,843. The decrease is due to no new share-based compensation grants being issued during the previous year.
 - Consulting expenses decreased \$8,543 due to the cancellation of a investor awareness consultant contract.

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- Wages and benefits increased \$37,698. The Company averaged an employee headcount of 14 during three months ended June 30, 2025 and 14.3 during the three months ended June 30, 2024. The increase is attributed to increased cost of employees and the addition of a skilled labourer for servicing and production.

Six months ended June 30, 2025 compared with six months ended June 30, 2024

SHARC Energy's loss for the current period totaled \$1,735,358 or a basic and diluted loss per share of \$0.01. This compares with a loss of \$1,479,144 with basic and diluted loss per share of \$0.01 for the same period in the prior year resulting in an increase in loss of \$216,179 for the current period compared to the same period in the previous year. For the six months ended June 30, 2025, revenue increased by \$302,819, cost of sales increased by \$234,809

- For the six months ended June 30, 2025, revenue consisted of \$7,200 from equipment leases, \$282,779 from service and service agreement revenue from Vancouver, B.C. and Greater Vancouver Region installations and \$1,571,140 from the sale and continued progress of SHARC and PIRANHA systems. This compared to the six months ended June 30, 2024, where revenue consisted of \$7,200 from equipment leases, \$130,066 from service and service agreement revenue from Vancouver regional installations and \$1,421,034 from the sale and continued progress of SHARC and PIRANHA systems.
- Cost of goods sold in the six months ended June 30, 2025, consisted of costs associated with SHARC and PIRANHA system sales, service and rental expense. For the six months ended June 30, 2023, cost of goods sold consisted of costs associated with SHARC and PIRANHA system sales, service and rental expense.
- Gross margin percentage (%) decreased from 40% during the six months ended June 30, 2024, to 37% during the six months ended June 30, 2025. The Company continues to maintain strong margins.
- For expenses during the six months ended June 30, 2025, when compared to the prior six months ended June 30, 2024:
 - consulting expenses increased by \$11,915 and consists of fees paid to a Company controlled by the Chief Financial Officer & Chief Operating Officer, Chairman of the Board, sales, IT, marketing, lobbying and investor relations consultants.
 - interest and financing expense increased by \$204,009 due to debentures being issued in the second half of 2024. In addition, the Company accrued interest on a short-term working capital loan as well as issued 800,000 options that are recorded to this expense.
 - wages and benefits increased by \$83,871. The Company averaged an employee headcount of 14 during the six months ended June 30, 2025, compared to 14.3 during the comparative prior year. The current period increase is due to higher costs associated with key employees and the addition of a skilled labourer for servicing and production.
 - share-based payments decreased by \$202,282. The decrease is primarily due to new Stock options and RSUs being granted last year.
 - research and development expenses increased due to development costs associated with the SHARC 1212.

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Loss before Income Taxes	(819,850)	(714,699)	(1,735,358)	(1,479,144)
Adjustments:				
Interest and financing expense	126,749	2,602	210,176	6,167
Interest income	(11)	—	(591)	(198)
Depreciation	51,800	35,513	103,599	71,026
Share-based payments	59,743	192,586	192,547	394,829
Research & development	1,805	1,715	42,305	7,305
Foreign exchange	89,628	(9,029)	89,541	(26,649)
Warranty expense	33,590	—	33,590	—
Adjusted EBITDA Loss	(456,546)	(491,312)	(1,064,191)	(1,026,664)

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 and six months ended June 30, 2025, the adjusted EBITDA loss decreased by \$34,766 and increased \$37,527 from the same period in the previous year. The Company continues to review cash expenses for opportunities to create value.

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 August 29, 2025, the Company has \$16.6M (May 30, 2025 - \$16.5M) 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 August 29, 2025, the Company has \$3.7M (May 30, 2025 - \$3.5M) 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 June 30, 2025, the Company has an accumulated deficit of \$42,714,818 and has working capital of \$119,582. 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.

As of June 30, 2025, the Company's cash balance was \$92,675 (December 31, 2024 - \$818,259) and the Company had working capital of \$119,582 (December 31, 2024 - \$1,202,977).

As of June 30, 2025, the Company had:

- 162,861,422 common shares issued and outstanding.
- 14,573,585 warrants outstanding that would raise \$3,160,000 if exercised in full
- 4,691,141 options outstanding that would raise \$1,258,448 if exercised in full.

Cash used in continuing operating activities was \$1,184,230 for the six months ended June 30, 2025 (June 30, 2024 - \$817,324). Operating activities were affected by the loss for the period of \$1,694,027 partially offset by non-cash expenses of \$563,664 and an increase non-cash working capital balances of \$52,571 .

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	288,660
June 30, 2025	498,869

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:

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
	\$	\$	\$	\$
Consulting Fees ⁽ⁱ⁾	55,609	39,000	111,829	78,000
Wages and Benefits ⁽ⁱⁱ⁾	141,703	158,721	288,825	293,285
Share-based payments ⁽ⁱⁱⁱ⁾	44,567	117,015	117,063	259,141
	241,879	314,726	517,717	630,426

- (i) The Company paid consulting fees to a company controlled by the Chief Financial Officer & Chief Operating Officer and Chairman of the Board
- (ii) The Company paid wages and benefits to the Chief Executive Officer, President and Director, and the Vice-Chairman of the Board.
- (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.

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
	\$	\$	\$	\$
Lynn Mueller	51,866	52,853	104,502	108,363
Hanspaul Pannu ¹	39,000	39,000	78,000	78,000
Michael Albertson	89,835	105,868	184,303	184,922
Felix Fred Andriano	16,609	-	33,829	-
	197,310	197,721	400,634	371,285

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

Included in receivables is \$42,925 (December 31, 2024 - \$42,925) due from related parties.

Included in accounts payable and accrued liabilities is \$179,933 (December 31, 2024 - \$107,982) due to related parties.

Share Capital

As of the date of this MD&A, the Company had 162,861,422 (March 31, 2025 – 158,572,604) 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
1,004,800	August 15, 2028	\$0.125
15,578,385	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
800,000	May 16, 2028	\$0.10
4,691,141	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
2,060,000	December 31, 2025	\$0.270
204,037	December 31, 2025	\$0.280
2,264,037	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 may enter into contracts for product sales with custom specifications whereby the product has no alternative use. Revenue associated with these products are recognized over the time of production of the unit. Judgement is made when utilizing the cost-based input method and determining the revenue and associated cumulative cost-plus estimated margin to recognized at the end of each reporting period.
 - 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 June 30, 2025, the Company is exposed to credit risk arising from receivables and recorded a loss allowance of \$50,000 (December 31, 2024 - \$77,248).

[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 June 30, 2025, 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 June 30, 2025, the Company had US denominated current assets of US\$394,007 and US denominated current liabilities of US\$644,721 (December 31, 2024 - US\$405,603 and US\$878,907, respectively). Accordingly, a 10% change in the foreign exchange rate would result in a \$25,071 credit or charge to operations (December 31, 2024 - \$97,259).

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 of 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 governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals 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.