

FORM 7

MONTHLY PROGRESS REPORT

Name of Listed Issuer: **SHARC International Systems Inc.** (the "Issuer").

Trading Symbol: **SHRC**

Number of Outstanding Listed Securities: **56,476,516**

Date: **July 7, 2020**

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

General Instructions

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

Report on Business

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

On June 01, 2020, the Issuer announced that on May 29th, 2020, further to its news release dated May 27, 2020, it has closed a non-brokered private placement of convertible debenture units ("Debenture Units 1") for gross proceeds of \$2,000,000 (the "Offering 1") and completed the settlement agreements (the "Settlement Agreements") as agreed to with all holders

(“Debentureholders”) of the Issuer’s \$1.32M and \$1.023M 12% unsecured, convertible debentures due May 30, 2020 and June 29, 2020 (the “Maturing Debentures”).

Each Debenture Unit 1 consists of: (i) \$1,000 principal amount of 2.0% unsecured convertible debentures (the “Debentures 1”); and (ii) 3,333 warrants (the “Warrants 1”). The Debentures 1 will bear interest from their issue date at 2.0% per annum calculated and payable semi-annually in arrears on June 30 and December 31 of each year commencing on June 30, 2020 and will mature three years following the closing of the Offering 1 (the “Maturity Date 1”). The Debentures 1 are unsecured and will rank *pari passu* in right of payment of principal and interest with all the existing and future unsecured indebtedness of the Issuer.

The Debentures 1, (including any accrued and unpaid interest) will be convertible at the option of the holder into common shares of the Issuer (the “Common Shares”) at any time after May 29, 2021 and prior to the close of business on the last business day prior to the Maturity Date 1 at a conversion price of \$0.15 per Common Share. Each Warrant 1 will be exercisable to acquire one Common Share (a “Warrant Share 1”) at an exercise price of \$0.25 per Warrant Share 1 for a period of three years following the Closing Date 1.

In connection with the Offering 1, the Issuer paid eligible finders an aggregate cash fee of \$100,000 and issued 200 compensation warrants to eligible finders (the “Compensation Warrants 1”). Each Compensation Warrant 1 entitles the holder thereof to purchase one Unit 1 of the Issuer at an exercise price of \$1,000 for a period of three years following the date of issuance. The Debenture Units 1 issuable upon exercise of the Compensation Warrants 1 are on the same terms as the Debenture Units 1 sold under the Offering 1.

In connection with the Settlement Agreements, the Issuer paid 75% of the outstanding principal amount of the Maturing Debentures, any and all accrued and unpaid interest up to the date of maturity and amended 1,673,571 common share purchase warrants (the “Amended Warrants”) in consideration for the cancellation of the Maturing Debentures and a release of the Issuer’s obligations under the Maturing Debentures. The expiry date of the Warrants will be extended by two years from May 30, 2020 and June 29, 2020 to May 30, 2022 and June 29, 2022, respectively, and the exercise price of the Warrants will be repriced to \$0.25 from \$1.05 (collectively, the “Warrant Amendments”). The Warrant Amendments were approved by the Canadian Securities Exchange (the “CSE”) on May 27, 2020.

On June 02, 2020 the issuer provided update on filing of its Annual and Q1 Filings Due to COVID-19 related delays, previously announced on April 24 and May 15, 2020, and that it planned to complete filing of its Audited Annual Financial Statements, accompanying Management Discussion and Analysis and certifications of annual filings for the year ended December 31, 2019 (the “Annual Statements”) by June 5, 2020, and the Issuer planned to complete

filing of its Interim Financial statements, accompanying Management Discussion and Analysis and certifications of interim filings for the three months ended March 31, 2020 by June 12, 2020 (the “Interim Statements”). The Issuer relies on relief granted by the British Columbia Securities Commission (“BCSC”) under BC Instrument 51-525 (“BCI 51-525”) for temporary exemption from certain continuous disclosure requirements due to the challenges created by COVID-19.

On June 5, 2020, the Issuer announced filing of its Annual Statements and provided 2019 Financial Highlights:

- Loss from continuing operations for the year ended December 31, 2019 was \$3.3M, a decrease of \$1.1M year over year.
- Through the restructuring of its operations, the Issuer has reduced its working capital deficit by approximately \$1.6M, from \$5.12M to \$3.5M, between the interim period ended September 30, 2019 and the year ended December 31, 2019.
- Gross margin of \$0.08M at 54% margin in 2019 compared to \$0.25M at 46% margin in 2018.
- Disposed of the UK operations reducing a continued drain on cash balances and our financial commitments.

On June 12, 2020, the Issuer announced that due to high demand of the financing closed May 29th, 2020, the Issuer has allotted a 35% greenshoe option and it has closed a non-brokered private placement of convertible debenture units (“Debenture Units 2”) for gross proceeds of \$700,000 (the “Offering 2”). The proceeds will be used for sales and marketing and general working capital purposes.

Each Debenture Unit 2 consists of: (i) \$1,000 principal amount of 2.0% unsecured convertible debentures (the “Debentures 2”); and (ii) 3,333 warrants (the “Warrants 2”). The Debentures 2 will bear interest from their issue date at 2.0% per annum calculated and payable semi-annually in arrears on June 30 and December 31 of each year commencing on June 30, 2020 and will mature three years following the closing of the Offering 2 (the “Maturity Date 2”). The Debentures 2 are unsecured and will rank *pari passu* in right of payment of principal and interest with all the existing and future unsecured indebtedness of the Issuer.

The Debentures 2, (including any accrued and unpaid interest) will be convertible at the option of the holder into common shares of the Issuer (the “Common Shares”) at any time after June 12, 2021 and prior to the close of business on the last business day prior to the Maturity Date 2 at a conversion price of \$0.15 per Common Share.

Each Warrant 2 will be exercisable to acquire one Common Share (a “Warrant Share 2”) at an exercise price of \$0.25 per Warrant Share 2 for a period of three years following the Closing Date 2.

In connection with the Offering 2, the Issuer paid eligible finders an aggregate cash fee of \$34,475 and issued 69 compensation warrants to eligible finders (the “Compensation Warrants 2”). Each Compensation Warrant 2 entitles the holder thereof to purchase one Unit 2 of the Issuer at an exercise price of \$1,000 for a period of three years following the date of issuance. The Debenture Units 2 issuable upon exercise of the Compensation Warrants 2 are on the same terms as the Debenture Units 2 sold under the Offering 2.

Further, on June 12, 2020, the Issuer announced filing of its Interim Statements and provided Q1 2020 Financial Highlights:

- Quarter over quarter revenue growth of 182% or an increase of \$0.04M and comparative quarter over quarter revenue growth of 93% or an increase of \$0.03M.
- Adjusted EBITDA Loss of \$0.47M compared to \$0.58M in Q1 2019.
- The Issuer has reduced its working capital deficit by approximately \$2.0M, from \$3.5M at December 31, 2019 to \$1.5M at March 31, 2020. Furthermore, this represents a total \$3.6M reduction in working capital deficit from \$5.1M at September 30, 2019.
- Gross margin of \$0.05M at 86% margin in Q1 2020 compared to \$0.02M at 76% margin in Q1 2019.
- On February 11, 2020, the Issuer issued 10,000,000 units at a price of \$0.065 for cash proceeds of \$156,000 and the settlement of debt of \$494,000 owed to officers, directors and consultants. Debt settlement of officers and directors of the Issuer account for \$326,794 of the total settlements.
- On February 13 and February 24, 2020, the Issuer issued unsecured convertible debenture units with total principal amounts of \$1,764,000 and \$276,000 respectively. The debentures mature on February 13 and February 24, 2023, respectively, and bear interest at an annual rate of 2% due semi-annually
- Secured a Key Account in Washington state and received deposits of \$0.2M and purchase orders for the future order of 4 PIRANHA™ units and a SHARC system with revenue potential of approximately \$1.0M anticipated to be fulfilled by summer 2021.

On June 18, 2020, the Issuer announced that it has entered into an Incubatenergy© Labs 2020 Startup Services Agreement (“SSA”) with the Electric Power Research Institute (“EPRI”) for the purposes of demonstrating the PIRANHA™ HC’s ability to improve the sustainable energy profile of buildings while providing hot water and air conditioning from the energy recycled from waste water that would normally be lost down the drain.

Under the terms and conditions of the SSA, SHARC Energy will commence a three-month demonstration project in North Vancouver, B.C. at a 65-unit apartment complex.

The aforementioned news releases can be viewed under the Issuer's profile on SEDAR (www.sedar.com) and on the Issuer's Disclosure Page on the Canadian Securities Exchange's website (www.thecse.ca).

2. Provide a general overview and discussion of the activities of management.

During the month of June 2020, the management of the Issuer continues to pursue its strategic plan to improve all facets of the business. Included in this strategic plan is working towards a capital raise to support its OEM sales model. The Issuer has secured funding and is poised to build on its sales and marketing infrastructure.

Further, during the month of June 2020, the management of the Issuer continued working to complete its Annual and Interim Statements (as defined in Item 1). In this regard, on June 5, 2020, the Issuer completed filing of its Annual Statements and on June 12, 2020 the Issuer completed filing of its Interim Statements.

The Issuer continues to focus on the North American operations, which entails the manufacturing and sale of its wastewater heat recovery products, focusing investment in sales and marketing activities for the SHARC™ wastewater filtration unit, Piranha™ and Piranha™ HC units.

On June 26, 2020, the management of the Issuer completed filing of the Statement of Executive Compensation (Form 51-102F6V).

The aforementioned Annual and Interim Statements, Form 51-102F6V can be viewed under the Issuer's profile on SEDAR (www.sedar.com) and on the Issuer's Disclosure Page on the Canadian Securities Exchange's website (www.thecse.ca).

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

None to report during the month of June 2020.

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

None to report during the month of June 2020.

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

During the month of June 2020, the Issuer has entered into an Incubatenergy© Labs 2020 Startup Services Agreement with the Electric Power Research Institute, a Non-Related Person. The total cost of the Services is \$50,000 USD. For more information see Item 1.

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

None to report during the month of June 2020.

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

None to report during the month of June 2020.

8. Describe the acquisition of new customers or loss of customers.

None to report during the month of June 2020.

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

None to report during the month of June 2020.

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

None to report during the month of June 2020.

11. Report on any labour disputes and resolutions of those disputes if applicable.

None to report during the month of June 2020.

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

None to report during the month of June 2020.

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

As described in Item 1, on June 01, 2020, the Issuer closed a non-brokered private placement of the Debenture Units 1 for gross proceeds of \$2,000,000 and completed the Settlement Agreements as agreed to with Debentureholders of the Issuer's \$1.32M and \$1.023M 12% unsecured, convertible debentures due May 30, 2020 and June 29, 2020. On June 12,

2020, the Issuer has closed a non-brokered private placement of convertible Debenture Units 2 for gross proceeds of \$700,000.

For more details and definitions refer to Item 1.

14. Provide details of any securities issued and options or warrants granted.

Security	Number Issued	Details of Issuance	Use of Proceeds⁽¹⁾
Warrants (Compensation Warrants 1 as described in Item 1)	200	Compensation Warrants 1 were issued on May 29, 2020 in connection with closing of the Offering 1. Each Compensation Warrant 1 entitles the holder thereof to purchase one Unit 1 of the Issuer at an exercise price of \$1,000 for a period of three years following the date of issuance.	Not applicable
Warrants (Compensation Warrants 2 as described in Item 1)	69	Compensation Warrants 2 were issued on June 12, 2020 in connection with closing of the Offering 2. Each Compensation Warrant 2 entitles the holder thereof to purchase one Unit 2 of the Issuer at an exercise price of \$1,000 for a period of three years following the date of issuance.	Not applicable
Common Shares	604,627	60,000 Common Shares were issued on June 24, 2020 at \$0.075 per share (exercise of stock options) and 544,627 Common	Aggregate proceeds of \$4,500 from stock options exercise will be used for general working capital purposes; not applicable to the

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		Shares were issued at \$0.165 as a part of shares for debt transaction.	debt settlement transaction.
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(1) *State aggregate proceeds and intended allocation of proceeds.*

15. Provide details of any loans to or by Related Persons.

None to report during the month of June 2020.

16. Provide details of any changes in directors, officers or committee members.

None to report during the month of June 2020.

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

The trend impacting all facets of business globally is the COVID-19 pandemic. The Issuer is reviewing its options but business is continuing as usual outside of restrictions imposed by the pandemic. Through technology, the Issuer is actively engaging with sales leads and customers.

The Government of BC has implemented a program called EfficiencyBC. The program is setup to promote the access to information, incentives and support for homeowners and businesses in reducing energy use and greenhouse gas emissions in new and existing homes and buildings.

Governments around the world are implementing aggressive incentive programs to drive policy towards switching from carbon emitting technologies to clean energy alternatives.

The Issuer is poised to position itself within this program as a key driver in the fight against reducing greenhouse gas emissions.

Trends and risks which are likely to impact the Issuer are described in the Issuer's Management Discussion and Analysis for the three months ended March 31, 2020, dated June 12, 2020 and on pages 23 to 28 in section "Risk Factors" of the Issuer's Form 2A Listing Statement dated October 14, 2015, available under the Issuer's profile on SEDAR (www.sedar.com) and on the Issuer's Disclosure Page on the Canadian Securities Exchange's website (www.thecse.ca).

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Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated July 7, 2020.

Hanspaul Pannu

Name of Director or Senior Officer

"Hanspaul Pannu"

Signature

Chief Financial Officer and Corporate Secretary

Official Capacity

Issuer Details	For Month End	Date of Report YY/MM/D
Name of Issuer SHARC International Systems Inc.	June 2020	20/07/07
Issuer Address 1443 Spitfire Place		
City/Province/Postal Code Port Coquitlam, BC, V3C 6L4	Issuer Fax No. (778) 262-0120	Issuer Telephone No. (604) 475-7710
Contact Name Hanspaul Pannu	Contact Position CFO	Contact Telephone No. (604) 475-7710
Contact Email Address info@sharcenergy.com	Web Site Address http://www.sharcenergy.com	