Clear Blue Technologies International Inc.
Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Clear Blue Technologies International Inc.

Opinion

We have audited the accompanying consolidated financial statements of Clear Blue Technologies International Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company incurred a net loss of $5,101,918, generated negative cash flows from operations of $4,607,979 and had a working capital of $1,149,355 during the year ended December 31, 2019. As stated in Note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The consolidated financial statements of Clear Blue Technologies International Inc. for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on May 31, 2019.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Dylan Connelly.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 29, 2020

Clear Blue Technologies International Inc.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Express in Canadian Dollars)

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ 61,720	$ 767,116
Accounts receivable and other receivables	7	2,809,879	1,788,138
Research and development tax credits receivable	8	796,890	–
Inventory	9	1,157,718	1,638,951
Prepaid expenses		61,518	73,166
Current portion of deferred costs	9	33,666	–
Total current assets		4,921,391	4,267,371
Non-current assets			
Long-term account receivable	7	–	115,976
Deferred costs	9	63,691	–
Property and equipment	10	323,414	105,260
Total assets		$ 5,308,496	$ 4,488,607
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14,18	$ 2,263,877	$ 1,283,610
Customer deposits	11	124,080	–
Short-term loan	12	889,339	–
Current portion of deferred revenue	11	242,400	128,550
Current portion of lease liability - computer equipment		–	4,873
Current portion of lease liability - office lease	10	88,947	–
Current portion of convertible debenture	14	81,100	–
Current portion of long-term debt	13	82,293	72,395
Total current liabilities		3,772,036	1,489,428
Non-current liabilities			
Deferred revenue	11	272,208	162,146
Lease liability	10	160,265	–
Royalty funding	15	375,000	375,000
Convertible debenture	14	519,938	–
Long-term debt	13	440,207	516,988
Total liabilities		5,539,654	2,543,562
Shareholders' Equity (Deficiency)			
Share capital	16	15,919,928	14,506,319
Reserves	16	4,476,158	3,077,011
Equity portion of convertible debenture	14	112,959	–
Accumulated deficit		(20,740,203)	(15,638,285)
Total shareholders' equity (deficiency)		(231,158)	1,945,045
Total liabilities and shareholders' equity (deficiency)		$ 5,308,496	$ 4,488,607

Nature of operations and going concern (note 1 & 2)
Subsequent events (note 25)

On behalf of the Board:

"Miriam Tuerk"
President

"Steve Parry"
Director

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

Clear Blue Technologies International Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 & 2018
(Express in Canadian Dollars)

	Note	2019	2018
Revenue		$ 3,971,301	$ 3,780,176
Cost of sales		3,080,138	2,840,934
Gross profit		891,163	939,242
Operating expenses			
Salaries, wages and benefits	18	1,757,614	1,629,296
Research and development	8	1,351,874	1,625,570
General and administrative		563,038	701,324
Bad debt expense (recovery)	7	216,971	(75,030)
Stock-based compensation	17,18	320,748	183,019
Travel		270,057	321,501
Business development and marketing		625,093	949,165
Rent		209,759	220,287
Professional fees		229,866	191,010
Depreciation of property and equipment	10	135,641	29,696
Total operating expenses		5,680,661	5,775,838
Loss before other items		(4,789,498)	(4,836,596)
Other items			
Loss on extinguishment of derivative liability - warrants	17	–	(422,591)
Write down of inventory	9	(126,584)	–
Interest income		2,540	16,344
Interest/accretion on convertible debenture	14	(21,705)	–
Interest on short-term loan	12	(9,756)	–
Interest on lease liability - office premise	10	(29,203)	–
Interest on long-term debt	13	(54,132)	(99,793)
Interest on royalty funding	15	(29,397)	(39,889)
Foreign exchange gain (loss)		(82,316)	58,368
Amortization of deferred financing fees	13	(2,593)	(2,593)
Listing expense	6	–	(2,771,817)
Net loss before taxes		(5,142,644)	(8,098,567)
Deferred tax recovery	20	40,726	–
Net loss and comprehensive loss		(5,101,918)	(8,098,567)
Loss per share		(0.12)	(0.29)
Weighted average number of shares outstanding Basic and Diluted		43,671,290	27,522,049

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

Clear Blue Technologies International Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Express in Canadian Dollars)

		2019		2018
Cash provided by (used in):				
Operating activities				
Net loss for the year	$	(5,101,918)	$	(8,098,567)
Depreciation of property and equipment		135,641		29,696
Amortization of deferred financing fees		2,593		2,593
Stock-based compensation		320,748		183,019
Loss on extinguishment of derivative liability - warrants		–		422,591
Bad debt expense (recovery)		216,971		(75,030)
Listing expense		–		2,771,817
Interest income		(2,540)		(16,344)
Interest on long-term debt		27,212		58,512
Interest on royalty funding		29,397		39,889
Interest on convertible debenture		13,516		–
Accretion of long-term debt		26,919		41,281
Accretion of lease liability		20,048		–
Accretion of convertible debenture		8,189		–
Write down of inventory		126,584		–
Deferred income tax recovery		(40,726)		–
		(4,217,366)		(4,640,543)
Changes in non-cash working capital:				
Accounts receivables and other receivable		(1,122,736)		(452,063)
R&D tax credits receivable		(796,890)		634,478
Inventory		257,292		(831,698)
Prepaid expenses		20,803		(34,173)
Accounts payable and accrued liabilities		941,894		(780,037)
Customer deposits		124,080		–
Deferred revenue		223,912		(86,433)
		(4,569,011)		(6,190,469)
Interest received		2,540		16,344
Interest paid		(41,508)		(140,482)
Cash used in operating activities		(4,607,979)		(6,314,607)
Financing activities				
Exercise of options		–		19,596
Proceeds from short-term loan		899,095		–
Proceeds from convertible debentures		811,000		–
Convertible debentures - transaction costs		(50,993)		–
Receipt of share subscriptions		2,669,875		6,855,200
Share issue costs		(191,340)		(484,764)
Receipt of subscription receivable		–		451,972
Repayment of long-term debt		(96,395)		(54,942)
Repayment of lease liability - computer equipment		(4,873)		(2,585)
Repayment of lease liability - office lease		(113,910)		–
Cash from financing activities		3,922,459		6,784,477
Investing activities				
Cash received on acquisition of Clear Blue Technologies Inc.		-		1,061
Acquisition of property and equipment		(19,876)		(100,416)
Cash used in investing activities		(19,876)		(99,355)
Net decrease in cash during the year		(705,396)		370,515
Cash, beginning of year		767,116		396,601
Cash, end of year	$	61,720	$	767,116

Non-cash transactions:

Reclassification of inventory to deferred costs	$	97,357	$	-

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

Clear Blue Technologies International Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Express in Canadian Dollars)

	Note	Number of common shares*	Share capital	Contributed surplus	Equity portion of convertible debenture	Accumulated deficit	Total shareholders' equity (deficiency)
Balance December 31, 2017		**20,739,998**	**$ 6,484,855**	**$ 1,081,813**	**$ -**	**$ (7,539,718)**	**$ 26,950**
Share issuance - agent fees	16	38,743	25,000	–	–	–	25,000
Share issuance - private placement	16	8,569,000	5,552,361	1,302,839	–	–	6,855,200
Share issuance - consultant fees	16	750,000	486,006	–	–	–	486,006
Options issued - agent fees		–	–	229,958	–	–	229,958
Issuance costs - settled in options/shares	16	–	(740,964)	–	–	–	(740,964)
Issuance costs - settled in cash	16	–	(484,764)	–	–	–	(484,764)
Stock-based compensation	16	–	–	183,019	–	–	183,019
Clear Blue Technologies International Inc. shares					–		
outstanding prior to reverse takeover	6	4,560,549	–	–	–	–	–
Warrants issued to extinguish derivative liability	17	–	–	488,336	–	–	488,336
Shares issued on completion of the reverse takeover	6	30,289,804	2,955,275	–	–	–	2,955,275
Elimination of Clear Blue Technologies Inc. shares					–		
outstanding prior to reverse takeover	6	(30,289,804)	–	–	–	–	–
Exercise of options	17	405,014	228,550	(208,954)	–	–	19,596
Net loss and comprehensive loss		–	–	–	–	(8,098,567)	(8,098,567)
Balance at December 31, 2018		**35,063,304**	**14,506,319**	**3,077,011**	**-**	**(15,638,285)**	**1,945,045**
Share issuance - private placement	16	10,679,500	1,672,197	997,678	–	–	2,669,875
Issuance costs - private placements	16	–	(258,588)	67,248	–	–	(191,340)
Convertible debenture - equity portion, net of tax	14	–	–	–	112,959	–	112,959
Issuance costs - convertible debenture	16	–	–	13,473	–	–	13,473
Stock-based compensation	17	–	–	320,748	–	–	320,748
Net loss and comprehensive loss		–	–	–	–	(5,101,918)	(5,101,918)
Balance at December 31, 2019		**45,742,804**	**$ 15,919,928**	**$ 4,476,158**	**$ 112,959**	**$ (20,740,203)**	**$ (231,158)**

**On June 14, 2018, the common shares were subdivided on a 2.63452:1 basis. All references to share numbers reflect this subdivision.*

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

1. Nature of Operations

Clear Blue Technologies International Inc. (formerly Dagobah Ventures Ltd.) (the "Company" or "CBLU") was incorporated on November 11, 2014 under the laws of British Columbia, Canada.

On July 13, 2018, the Company acquired all of the issued and outstanding shares of Clear Blue Technologies Inc. ("CBTI") by issuing 30,289,804 common shares to the shareholders of CBTI on the basis of one common share of the Company for every one CBTI common share (the "transaction"). Upon completion of the Transaction, the shareholders of CBTI held a majority of the common shares of the Company and the Company would continue CBTI's existing business. CBTI is considered to have acquired the Company on an accounting basis, and the Transaction was accounted for as a reverse takeover ("RTO") (see Note 6).

Accordingly, the Company is now in the business of developing and selling "Smart Off-Grid" power solutions and management services to power, control, monitor, manage, and proactively service solar and hybrid-powered systems such as street lights, security systems, telecommunications systems, emergency power, and Internet of Things ("IoT") devices.

The Company's head office is located at 30 Lesmill Road, Unit #7, Toronto, Ontario, Canada, M3B 2T6.

2. Going Concern Uncertainty

The Company's consolidated financial statements (the "Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2019, the Company incurred a net loss in the amount of $5,101,918 (2018 – $8,098,567) and generated negative cash flows from operations of $4,607,979 (2018 – $6,314,607). At December 31, 2019, the Company had working capital of $1,149,355 (2018 - $2,777,943) and cash of $61,720 (2018 - $767,116), which is insufficient to fund operations for more than 12 months.

Historically, the Company has been able to raise sufficient funds to finance its operations through private placements and government grants. The Company's ability to continue as a going concern is dependent upon its ability to achieve and maintain profitable operations and its ability to obtain future funds either in the form of additional equity, debt, research and development grants, and or large sales orders. The outcome of these matters cannot be predicted at this time. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

These Financial Statements do not include any adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not found to be appropriate for these Financial Statements, adjustments might be necessary to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications; such adjustments could be material.

3. Basis of Presentation

Statement of compliance

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements were approved for issuance by the Company's Audit Committee and Board of Directors on April 29, 2020.

Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as described in the significant accounting policies. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the Company's, and it's subsidiaries, functional and presentation currency.

Basis of consolidation

The Financial Statements consolidate the parent company, Clear Blue Technologies International Inc., and its subsidiaries, Clear Blue Technologies Inc. and Clear Blue Technologies US Corp., as of the date that control was obtained over those subsidiaries. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Amounts reported in the financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Net loss and comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements:

a. Newly adopted accounting standards

i) IFRS 16, Leases
On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16") which will replace IAS 17, Leases. The Company adopted IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, Leases, while requiring enhanced disclosures to be provided by lessors.

The Company selected the modified retrospective transition approach. The Company also elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease under IAS 17, Leases or IFRIC 4, Determining Whether an Arrangement Contains a Lease.

Upon adoption of the new standard, the Company recognized a lease liability at the present value of the remaining lease payments discounted using an incremental annual borrowing rate of 10%. The Company will measure each right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid payments recognized in the December 31, 2018 consolidated financial statements. As a result, the Company recognized additional right-of-use assets and lease liabilities of approximately $334,000 (Note 10), as at January 1, 2019.

ii) IFRIC 23, Uncertainty Over Income Tax Treatments
IFRIC 23, Uncertainty Over Income Tax Treatments ("IFRIC 23") sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings;
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Company's Financial Statements were not affected by the adoption of IFRIC 23. The Company applied the requirements of the standard with full retrospective application with no restatement of comparative periods.

b. Revenue recognition

Revenue is measured based on the consideration specified in the related contract with the customer. The Company recognizes revenue when it transfers control of the product to the customer and persuasive evidence of an arrangement exists and collection is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue.

4. Significant Accounting Policies (cont'd...)

b. Revenue recognition (cont'd...)

The Company enters into contracts with multiple performance obligations, such as the sale of solar or hybrid streetlight systems, the sale of power pack solutions for other IoT devices such as telecommunication systems, and the provision of ongoing energy management services.

For bundled contracts with multiple performance obligations, the Company accounts for the sale of individual products or services separately if they are distinct, meaning when the product or service is separately identifiable and has stand-alone value to the customer. The total arrangement consideration is allocated to each separate performance obligation plus the Company's targeted profit margin ("Target Margin") other than for ongoing energy management services revenue. Discounts from the Target Margin are allocated proportionately to all the performance obligations in the sales contract based on the expected cost of each performance obligation other than for ongoing energy management services revenue. For performance obligations related to ongoing energy management services, revenue is recognized ratably over the contract term.

In 2019, the Company launched a new type of contract to offer energy as a service ("EAAS"). Under EAAS, the Company promises to deliver a certain amount of power consistently over the term of the contract. This includes all equipment components for energy generation and service components for remote power management and monitoring. The two components are highly integrated in order to offer one single energy solution and are therefore bundled together as a single performance obligation. The revenue for EAAS is recognized ratably over the contract term and the costs associated to EAAS is deferred and recognized ratably in the same manner.

In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met:
(i) There is substantive reason for the arrangement
(ii) The equipment is separately identified as belonging to a customer
(iii) The company is no longer able to use the equipment or direct it to another customer; and
(iv) The equipment is currently ready for physical transfer to the customer.

c. Inventory

Inventory is comprised of raw materials and finished goods. Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. Costs are those amounts incurred in bringing each product to its present location and condition. The cost of raw materials and finished goods are based on the supplier's cost plus freight and duties.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to complete and sell the inventory. Inventory is recorded net of any obsolescence provisions estimated by management.

d. Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Repair and maintenance expenditures that do not improve or extend the life are expensed in the period incurred.

Depreciation is recognized to write off the cost of property and equipment less its residual value over its useful life, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate

4. Significant Accounting Policies (cont'd...)

d. Property and equipment (cont'd)

accounted for on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Estimated useful lives for the principal asset categories are as follows:

- Computer and equipment: 3 years
- Furniture and fixtures: 5 years
- Leasehold improvements: lease term
- ROU assets: lease term

e. Impairment of long-lived assets

Long-lived assets are comprised of property and equipment. The Company assesses, at each reporting date, whether there is an indication that a long-lived asset may be impaired. If any indication exists, the Company estimates the recoverable amount. For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use.

Fair value less costs of disposal is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statements of loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

f. Income taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss. Current income tax expense represents the amount of income taxes payable based on tax law that is enacted or substantively enacted at the reporting date and is adjusted for changes in estimates of tax expense recognized in prior periods. A current tax liability is recognized for income tax payable and a current tax asset is recognized for income tax paid but recoverable in respect of all periods to date.

4. Significant Accounting Policies (cont'd...)

f. Income taxes (cont'd...)

The Company uses the deferred tax method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statements carrying amounts of assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the consolidated statements of loss and comprehensive loss in the period in which the enactment or substantive enactment occurs. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

g. Stock-based compensation

The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option pricing model. Stock-based compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. The Company estimates the number of units expected to vest at the grant date and revises the estimate if subsequent information indicates that the actual number of units to vest differs significantly from the original estimate. The stock-based compensation cost is recognized directly in the consolidated statements of loss and comprehensive loss over the vesting period, with the corresponding credit recorded to reserves. When stock options are exercised, the consideration and related reserves are recorded in share capital.

The fair value of RSUs is determined using the closing market price of the Company's shares on the day of granting. The number of RSU expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

h. Financial instruments

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition that are debt instruments depends on the financial assets' contractual cash flow characteristics and the Company's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument and are measured initially at fair value plus transactions costs. Accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the "SPPI test" and is performed at an instrument level.

4. Significant Accounting Policies (cont'd...)

h. Financial instruments (cont'd...)

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets subsequently measured at amortized cost using the effective interest method ("EIR") and are subject to impairment. Interest received is recognized as part of interest and other income. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Discounting is omitted where the effect of discounting is immaterial.

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, other financial liabilities, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt, convertible debentures, and royalty funding.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized, as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statements of loss and comprehensive loss.

Financial assets and liabilities that are subsequently measured at amortized cost include cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, short-term loans, long-term debt, convertible debenture, and royalty funding.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Impairment of financial assets

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired using a forward-looking expected credit loss ("ECL") model. Loss allowances will be measured on either of the following bases:

i. 12-month ECLs which are ECLs that result from possible default events within 12 months after the reporting date (stage 1); and
ii. Lifetime ECLs which are ECLs that result from all possible default events over the expected life of a financial instrument (stage 2 and 3).

The Company applies the simplified approach to measuring expected credit losses which uses lifetime ECLs for all of its financial assets. For financial assets carried at amortized cost, the loss is the difference between the amortized cost of the receivable and the present value of the estimated future cash flows, discounted using the effective interest rate.

4. Significant Accounting Policies (cont'd...)

i. Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company at the exchange rate in effect at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of loss and comprehensive loss.

j. Research and development

Research expenditures and development expenditures that do not meet the criteria for capitalization are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Development costs that are directly attributable to the design and testing of identifiable new product designs controlled by the Company are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the project so that it will be available for use;
- Management intends to complete the project and use or sell the product;
- There is an ability to use or sell the product;
- It can be demonstrated how the project will generate probable future economic benefits;
- Adequate technical, financial, and other resources to complete the development and to use or sell the project are available; and
- The expenditure attributable to the project during its development can be reliably measured.

The Company did not have any development expenditures that met the capitalization criteria for the years ended December 31, 2019 and 2018.

k. Government grants

Government grants are not recognized until there is reasonable assurance that they will be received and that the Company will be in compliance with any conditions associated with the grant. Grants that compensate the Company for expenses are recognized in the consolidated statements of loss and comprehensive loss with the same classification as the related expense and in the same period in which the expense is recognized.

l. Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the periods and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

Judgments

The judgments that management has applied in the application of accounting policies and related estimates that have the most significant effect on the amounts recognized in these consolidated financial statements are discussed below.

(i) Determination of functional currency

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, management determined that the functional currencies of the Company and its subsidiaries is the Canadian dollar as this is the currency of the primary economic environment in which the Company operates.

(ii) Segment disclosures

The Company’s operations comprise a single reporting operating segment engaged in the provision of off-grid power solutions and related services. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, residual values and patterns in which the assets’ future economic benefits are expected to be consumed, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

(ii) Stock-based compensation

The Company uses estimates, including but not limited to, the fair value of the Company, estimates of forfeitures, share price volatility at the time of issuance, the risk-free interest rates and expected lives of the options and warrants granted in the calculation of the stock-based compensation and issuance related costs, respectively.

(iii) Deferred income taxes

The calculation of deferred income taxes is based on assumptions which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse as well as assumptions as to the extent and likelihood that the Company will be able to utilize its non-capital losses.

5. Significant Accounting Judgments, Estimates and Assumptions (cont'd...)

(iv) Recoverability of accounts receivable

Accounts receivable are amounts due from customers for product and services delivered in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for ECL. Provisions for expected credit losses are established using an ECL model. The provisions are based on a forward-looking ECL, which includes possible default events on the accounts receivable over the entire holding period of the accounts receivable, considering the occurrence of a significant increase in credit risk. Significant financial difficulties of a customer, such as probability of bankruptcy, financial reorganization, default or delinquency in payments are considered indicators that recovery of the accounts receivable is doubtful. These provisions represent the difference between the accounts receivable's carrying amount in the consolidated statements of financial position and the estimated net collectible amount. Charges for ECLs are recorded as bad debt expense (recovery) in the consolidated statements of loss and comprehensive loss. As at December 31, 2019, management has determined that ECL was $335,984 (2018 – $154,629).

(v) Recoverability of inventory

Determining whether the carrying value of inventory is recoverable requires management to exercise judgment in estimating the ability to sell the inventory on-hand for amounts in excess of its carrying value.

(vi) Royalty funding

The Company's royalty funding agreement has been accounted for as a financial liability and measured at fair value at initial recognition. The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent advance payments for any future sales. The Company has valued the royalty agreement at fair value when it became party to the arrangement.

(vii) Fair value of common shares

The Company uses estimates to determine the fair value of common shares that were issued in the Transaction to acquire CBTI. The share price is calculated by allocating the subscription price received prior to becoming a public company between the half warrant and common share, where the fair value of the half warrant is calculated using the Black-Scholes model.

6. Reverse Takeover Transaction

On November 30, 2017, the Company entered into a non-binding letter of intent with CBTI, whereby the Company would acquire all of the issued and outstanding common shares in the capital of CBTI and apply for a listing on the TSX Venture Exchange (the "Exchange"). Upon completion, the Transaction constituted a reverse takeover of the Company by CBTI.

On February 16, 2018 the Company and CBTI entered into an amended and binding letter of intent with regards to the Transaction. As agreed, the Transaction was affected by way of a reverse triangular amalgamation under the laws of Ontario. 2621388 Ontario Ltd. ("Subco"), a wholly-owned subsidiary of the Company, was merged with and into CBTI. The separate corporate existence of Subco ceased and CBTI was the surviving corporation and wholly-owned by the Company.

On February 22, 2018 and March 14, 2018, CBTI completed equity financing by way of a brokered private placement in two tranches which resulted in the issuance of 8,569,000 subscription receipts at a price of $0.80 per subscription receipt for aggregate gross proceeds to CBTI of $6,855,200. Each subscription receipt would automatically be converted immediately prior to the closing of the Transaction into a CBTI unit comprised of one CBTI common share and one half of one CBTI common share purchase warrant. Each share purchase warrant would entitle the holder thereof to purchase one common share of CBTI at a price of $1.50 per common share for a period of 24 months following the closing of the private placement. Each CBTI common share and share purchase warrant issued in the private placement would automatically be converted into CBLU common shares and CBLU warrants upon the completion of the Transaction.

To facilitate the Transaction, CBTI underwent a split of its outstanding common shares on the basis of post-split 2.63452 common shares for each one pre-split common share prior to the completion of the Transaction (excluding the CBTI common shares issued on the conversion of the subscription receipts as described above).

On July 13, 2018, the Company completed the Transaction with CBTI, with the Company being renamed "Clear Blue Technologies International Inc." and trading on the Exchange under the symbol "TSXV:CBLU". Pursuant to the terms of the Transaction, all of the outstanding securities of CBTI were exchanged for equivalent securities of the Company on a one-for-one basis (following the subdivision of CBTI's common shares described above), such that the former securityholders of CBTI continued as securityholders of CBLU. In addition, all of the outstanding convertible securities of CBTI (including share purchase warrants and stock options) were, subject to the rules of the Exchange, exchanged for convertible securities of the Company on a one-for-one basis and on the same economic terms and conditions as previously issued. As a result, 30,289,804 CBLU common shares were issued to former CBTI shareholders, including 8,569,000 common shares issued pursuant to CBTI's private placement completed on February 22, 2018 and March 14, 2018 described above.

As a result of the Transaction, the shareholders of CBTI held a majority of the common shares of the Company and the Company will continue CBTI's existing business, CBTI is considered to have acquired the Company on an accounting basis, and the transaction has been accounted for as a reverse takeover.

At the time of the Transaction, the Company did not constitute a business as defined under IFRS 3, Business Combinations. Therefore, the Transaction is accounted for under IFRS 2, Share-based Payment, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense. CBTI, the legal subsidiary, has been treated as the accounting parent company, and the Company, the legal parent, has been treated as the accounting subsidiary in these consolidated financial statements. As CBTI was deemed to be the acquirer for accounting purposes, these consolidated financial statements present the historical financial information of CBTI to the date of the Transaction.

(Expressed in Canadian dollars)

6. Reverse Takeover Transaction (cont'd...)

As a result of the completion of the Transaction, there were: (i) 34,850,353 common shares; (ii) 5,589,598 common share purchase warrants; (iii) 2,762,812 options to purchase common shares; and (iv) 597,205 compensation options outstanding.

The total consideration has been estimated based on $0.648 per common share. The total purchase price as described above results in a share capital increase of $2,955,275 which represents the fair value of the Company's 4,560,549 common shares issued to the Dagobah Ventures Ltd. ("DVL") shareholders to effect the Transaction.

The acquisition has been accounted for as follows:

Net assets acquired	
Assets acquired	
Cash	$ 1,061
Loan receivable	200,000
Liabilities assumed	
Accounts payable and accrued liabilities	(17,603)
Company's net assets as at July 13, 2018	183,458
Consideration paid	
4,560,549 common shares deemed issued to the Company's existing shareholders	2,955,275
Listing expense	$ 2,711,817

The fair value of the consideration paid exceeds the fair value of the net assets acquired by $2,711,817 which is treated as a public company listing expense and has been recognized in the consolidated statements of loss and comprehensive loss.

7. Accounts Receivable and Other Receivables

	December 31, 2019	December 31, 2018
Accounts receivable, net	$ 2,549,042	$ 1,710,560
Harmonized sales taxes receivable	248,046	70,518
Miscellaneous tax refund receivable	12,791	7,060
Term accounts receivable (i), net	-	115,976
Less:		
Long-term accounts receivable (i)	-	(115,976)
Total	$ 2,809,879	$ 1,788,138

(i) The terms with a customer required payments within 30 days of the earlier of: (a) December 31, 2019; (b) systems sold for temporary deployment in Puerto Rico are redeployed to another customer location; or (c) systems sold for temporary deployment in Puerto Rico are converted to a permanent installation in Puerto Rico. The Company's entire long-term accounts receivable relates to this transaction. The impact of discounting the receivable and related revenue was determined not to be material and is not reflected in these consolidated financial statements. During the year ended December 31, 2019, the amount was reclassified to current account receivable. As at December 31, 2019 the Company has recorded an allowance for doubtful accounts of $335,984 (2018-154,629).

During the year ended December 31, 2019, the Company recorded bad debts expense of $216,971 (2018 – recovery of $75,030).

(Expressed in Canadian dollars)

8. Research and Development Tax Credits Receivable

The Company's research and development tax credits receivable balance is comprised of the following:

	December 31, 2019	December 31, 2018
Scientific Research and Experimental Development tax credits	$ 269,534	-
Industrial Research Assistance Program	192,844	-
Ontario Innovation tax credits	307,512	-
Total	$ 796,890	-

Subsequent to December 31, 2019 the Company received $441,176 of the research and development tax credits receivable.

Included in, and off-setting, research and development expense was $920,459 (2018 - $319,236) in government grants and credits.

9. Inventory

	December 31, 2019	December 31, 2018
Raw materials	$ 316,882	$ 479,182
Finished goods	840,836	1,159,769
Total	$ 1,157,718	$ 1,638,951

Inventory included in cost of sales amounted to $2,711,973 (2018 – $2,840,934).

The Company recognizes deferred costs which all relate to the Company's new EAAS revenue stream (Note 4. b). The costs will be recognized as services are being rendered.

During the year ended December 31, 2019 the Company wrote down $126,584 (2018 - $nil) in obsolete inventory.

(Expressed in Canadian dollars)

10. Property and Equipment

	Computer and equipment	Furniture and fixtures	Leasehold improvements	Right-of-use Assets	Total
Cost					
Balance as of December 31, 2017	**$ 45,400**	**$ 10,304**	**$ –**	$ -	**$ 55,704**
Additions	70,798	–	29,618	-	100,416
Balance as of December 31, 2018	**116,198**	**10,304**	**29,618**	-	**156,120**
Additions	19,876	-	-	333,919	353,795
Disposals (i)	(32,178)	(2,752)	-	-	(34,930)
Balance as of December 31, 2019	$ 103,896	$ 7,552	$ 29,618	$ 333,919	$ 474,985
Accumulated Depreciation					
Balance as of December 31, 2017	**19,115**	**2,049**	**–**	-	**21,164**
Depreciation	24,227	2,339	3,130	-	29,696
Balance as of December 31, 2018	**43,342**	**4,388**	**3,130**	-	**50,860**
Depreciation	38,831	1,510	4,231	91,069	135,641
Disposals (i)	(32,178)	(2,752)	–	–	(34,930)
Balance as of December 31, 2019	$ 49,995	$ 3,146	$ 7,361	$ 91,069	$ 151,571
Net book value as at:					
December 31, 2018	$ 72,856	$ 5,916	$ 26,488	$ -	$ 105,260
December 31, 2019	$ 53,901	$ 4,406	$ 22,257	$ 242,850	$ 323,414

(i) During the year ended December 31, 2019, the Company disposed of equipment for $nil consideration.

Lease Liability – Office Lease

A reconciliation of the carrying amount of the lease liabilities recognized on the initial adoption of IFRS 16 to December 31, 2019 is as follows:

	December 31, 2019
Initial adoption	$ 333,919
Lease payments	(113,910)
Lease interest	29,203
December 31, 2019	$ 249, 212
Current portion of lease liability	$ 88,947
Long term portion of lease liability	$ 160,265

(Expressed in Canadian dollars)

10. Property and Equipment (cont'd…)

Maturity analysis – contractual undiscounted cash flows:

Fiscal 2020	$	109,865
Fiscal 2021		109,865
Fiscal 2022		75,243
Total undiscounted future lease paymen	$	294,973

The Company did not have any short-term leases or leases of low-value assets included in statement of loss and comprehensive loss for the year ended December 31, 2019 and 2018.

11. Customer Deposits and Deferred Revenue

Customer Deposits

Customer deposits pertains to sale of solar or hybrid streetlight systems and power pack solutions that are paid by customers and billed by the Company in advance. ..
Deferred revenue

Deferred revenue is comprised of ongoing energy management services paid in advance by customers:

	December 31, 2019	December 31, 2018
Deferred revenue	$ 514,608	$ 290,696
Less: Current portion	242,400	128,550
	$ 272,208	$ 162,146

The deferred revenue is amortized to profit or loss on a straight-line basis over the life of the related contract. As at December 31, 2019, expected revenue to be recognized over the term of the contracts are as follows:

2020	242,400
2021	143,051
2022	129,157
Total	514,608

12. Short-term Loan

In 2019, the Company obtained a $1.0 million revolving credit facility. The credit facility bears interest at a rate equivalent to the bank's prime lending rate plus 1.5%, is due on demand and is secured by the assets of the Company. The outstanding balance as of December 31, 2019 is $889,339 (2018 – $nil). The Company incurred interest expense related to it's short-term loan of $9,756 during the year ended December 31, 2019 (2018 - $nil).

(Expressed in Canadian dollars)

13. Long-term Debt

	December 31, 2019	December 31, 2018
(i) Eastern Ontario Futures Development Corporations Networks Inc.	$ 232,308	$ 304,704
(ii) Federal Economic Development Agency of Southern Ontario	295,809	292,889
	$ 528,117	$ 597,593
Less:		
Current portion	82,293	72,395
Deferred financing fees	5,617	8,210
	$ 440,207	$ 516,988

(i) Eastern Ontario Community Futures Development Corporations Network Inc. loan bearing interest at 10% per annum, repayable in monthly blended principal and interest installments of $8,301, maturing on September 30, 2022. The loan is secured by a general security agreement against all of the assets of the Company. For the year ended December 31, 2019, the Company recognized interest expense of $27,212 (2018 – $26,573).

(ii) Federal Economic Development Agency of Southern Ontario non-interest-bearing loan, repayable in monthly installments beginning January 1, 2019 and maturing on December 1, 2023. Monthly installments are $2,000, $3,000, $5,000, $8,000 and $15,000 for the years 2019 through 2023, respectively, with a final month payment of $19,000. The face value of the loan is $400,000. It was initially recorded on the consolidated statement of financial position at its fair market value of $251,608 and is being accreted (through interest expense) back to its face value over the term of the loan.

The Company incurred interest expense related to its long-term debt of $54,132 for the year ended December 31, 2019 (2018 – $99,793). Accretion of deferred financing fees relating to long-term debt for the year ended December 31, 2019 was $2,593 (2018 - $2,593).

The future principal and interest payments required under the terms of the Company's long-term debt agreements are as follows:

2020	162,209
2021	184,368
2022	174,253
2023	192,967
Total	713,877

14. Convertible Debenture

On November 1, 2019, the Company issued 10% convertible notes in the principal amount of $811,000. The convertible notes mature on November 1, 2022 and are convertible at any point prior to maturity, at the option of the note holders, into units comprised of: (i) one common share of the Company (each,a "Common Share"); and (ii) one-half of one Common Share purchase warrant (each whole warrant being a "Warrant"). Each Convertible Debenture is convertible into that number of units computed on the basis of the principal amount of the Convertible Debentures divided by the conversion price of $0.20 per unit. Each Warrant entitles the holder thereof to purchase one Common Share of the Company (each a "Warrant Share") until November 1, 2022 at a price of $0.35 per Warrant Share (subject to adjustment in certain circumstances). Interest on the principal amount outstanding is calculated and payable semi-annually in June and December each year and shall be first payable on December 31, 2019.

(Expressed in Canadian dollars)

14. Convertible Debenture (cont'd…)

Upon initial recognition, the Company allocated the proceeds between the components based on the fair value of the debt and the residual to the equity component. Transaction costs were allocated proportionally to the liability and equity components. The fair value of the liability component of $592,849, net of transaction costs of $51,195, was determined using a market rate of 20%. The value of the equity component amounted to $112,959, net of transaction costs of $13,271 and deferred taxes of with $40,726. The transaction costs totaling $64,466, as described above, comprised of finders' fees amounting to $50,993 and 89,950 share purchase warrants issued to finders with a fair value of $13,473. Each warrant entitles the holder for one common share at an exercise price of $0.35 until November 1, 2019.

Liability component of debenture	592,849
Accretion	8,189
Interest	13,516
Interest payable recorded in AP and accrued liabilities	(13,516)
Balance	601,038
Less: current portion	81,100
	519,938

15. Royalty Funding

On November 12, 2013, the Company entered into a sales agreement under which Flow Capital Corp., formerly known as Grenville Strategic Royalty Corp. ("Grenville"), advanced the Company $375,000. In form, the amount received represents a prepaid deposit for future goods and services to be provided by the Company to Grenville to be drawn down based on Grenville's annual purchases from the Company.

Grenville is entitled to a royalty of 1.125% ("Royalty Percentage") of the Company's revenues, in perpetuity, unless partially or fully extinguished through the exercise of repurchase rights as described below. Under the terms of the agreement, the Company has the following options to extinguish its royalty payment obligation to Grenville:

a) The Company may extinguish 50% of the Royalty Percentage by paying $750,000 to Grenville during the period from November 12, 2017 to November 17, 2017 (the "Initial Repurchase Right"). In November 2017, the Company amended its agreement with Grenville to extend this right to the earlier of: March 31, 2018 or within 30 days of the date on which the Company becomes a publicly listed company on a recognized exchange. This right expired on March 31, 2018 and was not exercised by the Company;

b) Because the Initial Repurchase Right was not exercised, the Company may extinguish 50% of the Royalty Percentage by paying $1,125,000 during the period from November 12, 2020 and November 17, 2020 (the "Subsequent Repurchase Right");

c) If the Company has not exercised the Subsequent Repurchase Right, the Company may extinguish 100% of the Royalty Percentage at any point after November 12, 2023 by paying $1,875,000 to Grenville (the "Final Repurchase Right");

d) If the Company exercises the Subsequent Repurchase Right, the Company may extinguish the remaining 50% of the Royalty Percentage under the same terms as the Final Repurchase Right, except that the buyout amount is $750,000 instead of $1,875,000.

The agreement meets the definition of financial liability under IAS 32, Financial Instruments: Presentation because it represents a contractual obligation to deliver cash or another financial asset to another entity.

15. Royalty Funding (cont'd…)

The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent a deposit for any future sales, but rather an obligation for future royalty payments that will remain payable at the original amount of $375,000 until such time as the Company extinguishes all or part of the Royalty Percentage and the obligation for future royalty payments.

The Company incurred interest expense related to its royalty funding of $29,397 for the year ended December 31, 2019 (2018 – $39,889).

16. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value.

During the year ended December 31, 2019, the Company issued:

(i) 10,679,500 common shares at $0.25 per unit for gross proceeds of $2,669,875 in relation to a private placement. Each unit is comprised of one share and one share purchase warrant exercisable for one common share at $0.50 for three years. The Company determined the fair value of shares and warrants issued using the relative fair value method. The fair value of the shares and warrants amounted to $1,672,197 and $997,678, respectively.

During the year ended December 31, 2018, the Company underwent a split of its outstanding common shares on the basis of post-split 2.63452 common shares for each one pre-split common share as part of the RTO transaction (see Note 6).

During the year ended December 31, 2018, the Company issued:

(i) 788,743 common shares valued at $511,006 as payment for services received related to private placements and the RTO transaction;
(ii) 4,560,549 common shares valued at $2,955,275 as part of the RTO transaction;
(iii) 8,569,000 common shares at $0.80 per subscription unit for cash consideration of $6,855,200 as part of private placement equity transactions. The Company determined the fair value of shares and warrants issued using the relative fair value method. The fair value of the shares and warrants amounted to $5,552,361 and $1,302,839, respectively; and
(iv) 405,014 common shares at various exercise prices for cash consideration of $19,596 and the transfer of $208,954 from contributed surplus to share capital in respect of stock option exercises.

During the year ended December 31, 2019, $191,340 (2018 – $484,764) of cash consideration was paid for legal fees and commissions and compensation options with an estimated fair value of $67,248 (2018 – $229,958) were issued in relation to the private placement transactions.

Escrowed Shares

As at December 31, 2019, 4,985,965 common shares are held in escrow to be released at a rate of 15% on each of January 17, 2020, July 17, 2020, January 17, 2021, and July 17, 2021 respectively.

(Expressed in Canadian dollars)

17. Equity-based Settlements

a. Options

Under the Company's stock option plan, the Company may, at its discretion, grant stock options to its directors, officers, and employees. The options vest over periods ranging from upon issuance to four years. All of the options expire 10 years from the date of grant.

Below is a continuity of stock options outstanding. On July 13, 2018, the stock options were subdivided on a 2.63452:1 basis. All references to stock options reflect this subdivision.

Stock options outstanding - December 31, 2017	**2,954,893**
Stock options issued during year	1,280,205
Stock options exercised during year	(405,014)
Stock options forfeited during year	(255,073)
Stock options outstanding – December 31, 2018	**3,575,011**
Stock options issued during year	487,002
Stock options forfeited during year	(506,421)
Stock options outstanding – December 31, 2019	**3,555,592**

As at December 31, 2019, 2,566,711 (2018 – 2,098,509) options were vested and exercisable. For the year ended December 31, 2019, the Company recognized $174,909 (2018 – $183,019) of stock-based compensation expense in relation to its stock option plan.

The fair value of all options granted was estimated at the date of grant using the Black-Scholes option pricing model, using the following assumptions:

	December 31, 2019	**December 31, 2018**
Expected option life (years)	2 – 7	2 – 7
Volatility	71% – 126%	71% – 126%
Forfeiture rate	0% – 50%	0.48% – 50%
Risk-free interest rate	0.81% – 2.27%	0.81% – 2.27%
Dividend yield	–	–

(Expressed in Canadian dollars)

17. Equity-based Settlements (cont'd…)

Options outstanding and exercisable at December 31, 2019 were comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of options*	Number of options exercisable	Weighted average exercise price
$0.05	2024-05-02	4.3	144,796	144,796	$0.05
$0.16	2024-09-12	4.7	487,002	-	$0.16
$0.26	2025-04-20	5.3	247,394	247,394	$0.26
$0.26	2025-06-30	5.5	101,771	101,771	$0.26
$0.31	2026-04-30	6.3	126,367	126,367	$0.31
$0.49	2023-11-26	3.9	388,000	127,000	$0.49
$0.50	2026-04-30	6.3	921,445	806,217	$0.50
$0.50	2027-10-31	7.8	305,022	179,371	$0.50
$0.52	2025-12-11	6.0	236,590	236,590	$0.52
$0.80	2020-07-13	0.5	597,205	597,205	$0.80
		Total	3,555,592	2,566,711	$0.46

Options outstanding and exercisable at December 31, 2018 were comprised of the following:

Exercise price	Remaining contractual life (years)	Number of options*	Weighted average exercise price	Weighted average remaining contractual life (years)
$0.05	5.3	144,796	$0.05	5.3
$0.26	6.3-6.5	349,165	$0.26	6.4
$0.31	7.3	126,367	$0.31	7.3
$0.49	4.9	483,000	$0.49	4.9
$0.50	7.3-8.8	1,437,888	$0.50	7.8
$0.52	7.0	236,590	$0.52	7.0
$0.62	4.7	200,000	$0.62	4.7
$0.80	1.5	597,205	$0.80	1.5
	Total	3,575,011		5.9

*On July 13, 2018, the stock options were subdivided on a 2.63452:1 basis. All references to stock options reflect this subdivision.

On July 13, 2018, as part of the Transaction, the Company re-priced 338,239 stock options to have an exercise price of $0.05 per share to fulfill a minimum price requirement by the Exchange. The modification of options caused an increase in exercise price with the other terms and conditions remaining the same. This modification of stock options resulted in no incremental value and therefore no additional stock-based compensation expense was recognized for this modification.

b. Warrants

In Q1 2019, the Company completed equity financing by way of a brokered private placement in three tranches which resulted in the issuance of 10,679,500 subscription receipts. Each subscription receipt was automatically converted into one common share and one share purchase warrant. Additionally, the

(Expressed in Canadian dollars)

17. Equity-based Settlements (cont'd…)

Company issued 719,565 share purchase warrants to the brokers as part of issuance costs. Each share purchase warrant entitles the holder thereof to purchase one common share at $0.50 per common share for a period of 36 months following the closing of the private placement.

The Company issued 89,950 warrants in connection with it's convertible debt issuance (Note 14).

On February 22, 2018 and March 14, 2018, the Company completed equity financing by way of a brokered private placement in two tranches which resulted in the issuance of 8,569,000 subscription receipts. Each subscription receipt was automatically converted into one common share and one half of one common share purchase warrant upon completion of the Transaction (see Note 6) on July 13, 2018. Each share purchase warrant entitles the holder thereof to purchase one common share at a price of $1.50 per common share for a period of 24 months following the closing of the private placement.

As of December 31, 2018, there were 5,533,789 warrants outstanding, including 4,284,500 warrants from the private placements and 1,029,089 warrants issued to Ontario Centres of Excellence ("OCE"). The OCE warrants were issued on July 13, 2018 to settle warrants issued May 5, 2014 as part of a convertible debenture which were classified as a derivative liability. The difference between the carrying amount of the derivative liability extinguished and the consideration paid of $488,336 has been recognized in the consolidated statements of loss and comprehensive loss in the amount of $422,591.

The following is a summary of changes in share purchase warrants from December 31, 2017 to December 31, 2019:

Share purchase warrants - December 31, 2017	**275,999**
Granted during year	4,284,500
Expired during year	(55,799)
Warrants issued to extinguish the derivative liability	1,029,089
Share purchase warrants - December 31, 2018	**5,533,789**
Granted during year	11,489,015
Expired during year	(1,190,041)
Share purchase warrants - December 31, 2019	**15,832,763**

(Expressed in Canadian dollars)

17. Equity-based Settlements (cont'd…)

Warrants outstanding and exercisable at December 31, 2019 were comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of Warrants	Weighted average exercise price
$0.05	2020-03-13	0.20	26,082	$0.05
$0.50	2024-07-11	4.53	17,209	$0.50
$0.50	2022-02-22	2.15	4,300,240	$0.50
$0.50	2022-03-22	2.22	6,403,825	$0.50
$0.50	2022-03-28	2.24	695,000	$0.50
$0.35	2022-11-01	2.84	89,950	$0.35
$0.50	2025-02-11	5.12	15,957	$0.50
$1.50	2020-02-22	0.15	2,196,312	$1.50
$1.50	2020-03-14	0.20	2,088,188	$1.50
		Total:	15,832,763	$0.58

The fair value of all warrants granted was estimated at the date of grant using the Black-Scholes option pricing model, using the following assumptions:

	December 31, 2019	December 31, 2018
Expected warrant life (years)	3	1 – 7
Volatility	109%-115%	73% – 137%
Risk-free interest rate	1.48% – 1.89%	0.59% – 1.88%
Dividend yield	–	–

On July 13, 2018, as part of the Transaction, the Company re-priced 26,082 warrants to have an exercise price of $0.05 per share to fulfill a minimum price requirement by the Exchange. The modification of warrants caused an increase in exercise price with the other terms and conditions remaining the same. This modification of warrants resulted in no incremental value and therefore no additional expense was recognized for this modification.

c. Restricted Share Units ("RSU")

Under the Company's equity incentive compensation plan, the Company may, at its discretion, grant RSUs to its directors, officers, and employees, that give rights to receive shares or cash or a combination thereof upon settlement, Each RSU is subject to a Period of Restriction, during which time the RSU is subject to forfeiture based on the passage of time, the achievement of performance criteria, and/or upon the occurrence of other events as determined.

On September 12, 2019, the Company granted 1,176,653 RSUs with each RSU vesting on February 1, 2020 to its employees, consultants, officers and directors. On November 25, 2019, the Company granted 24,000 RSUs to its director with each RSU vesting on November 25, 2020.

Total stock-based compensation related to RSUs during the year ended December 31, 2019 was $145,839 (2018 - $nil).

(Expressed in Canadian dollars)

17. Equity-based Settlements (cont'd…)

Each vested RSU entitles the holder to receive one common share of the Company by delivering an exercise notice in accordance with the Company's 2019 Omnibus Equity Incentive Compensation Plan.

The fair value of all RSUs granted was based on the stock price at the date of grant. As of December 31, 2019, there were 1,200,653 RSUs outstanding.

18. Related Party Transactions

The Company transacts with key individuals from management who have authority and responsibility to plan, direct, and control the activities of the Company. Key management personnel are defined as the executive officers of the Company and certain other key employees, including the Chief Executive Officer, Chief Power Officer, Chief Technology Officer, and Chief Financial Officer.

Remuneration to key management was as follows:

	December 31, 2019	December 31, 2018
Salaries and benefits, including bonuses	$ 842,144	$ 687,573
Stock-based compensation	144,241	67,936
Total	$ 986,385	$ 755,509

The remuneration related to stock-based compensation in the table above represents the entire fair value of the stock options issued to key management during each year which will be recognized as expense over the related vesting periods.

Accounts payable and accrued liabilities as at December 31, 2019 includes short-term amounts owing to shareholders of the Company for reimbursement of business expenses totaling $526,161 (December 31, 2018 – $263,706).

(Expressed in Canadian dollars)

19. Loss Per Share

For all the periods presented, diluted net loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

	December 31, 2019	December 31, 2018
Stock options	3,555,592	3,575,011
Warrants	15,742,813	5,533,789
RSUs	1,176,653	-
Total	20,475,058	9,108,800

Expenses related to the warrants and RSUs are included in stock-based compensation in the consolidated statements of loss and comprehensive loss or as an adjustment to share capital if the costs relate to the issuance of shares and are based on the same assumptions as disclosed in Note 16.

20. Income Taxes

The Company's income tax (recovery) expense is determined as follows:

	December 31, 2019	December 31, 2018
Loss before income taxes	$ (5,142,644)	$ (8,098,567)
Statutory income tax rate	26.50%	26.50%
Expected recovery at statutory income tax rate	(1,363,000)	(2,146,120)
Permanent differences	100,000	900,767
Deferred financing fees	(51,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	133,000	-
Tax rate changes and other adjustments	(182,726)	2,373
Change in tax benefits not recognized	1,323,000	1,242,980
Income tax (recovery) expense	$ (40,726)	$ –

Current income tax	$ -	$ -
Deferred tax recovery	$ (40,726)	$ -

(Expressed in Canadian dollars)

20. Income Taxes (cont'd…)

The temporary differences that give rise to the deferred tax asset or deferred tax liability at the substantively enacted tax rate of 26.5% (2018 – 26.5%) are as follows:

	December 31, 2019	December 31, 2018
Non-capital losses carried-forward	$ -	$ 8,865
Convertible debenture	(40,726)	-
Government assistance	40,726	(8,865)
Net deferred tax asset (liability)	$ –	$ –

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary Differences				
Research and development tax credits and other	610,000	2035 to 2039	898,950	2035 to 2038
Property and equipment	-	No expiry date	34,750	No expiry date
Lease liability	85,000	No expiry date	4,873	No expiry date
Deferred financing fees	1,030,000	2040 to 2043	1,178,686	2039 to 2042
Non-capital losses available for future periods	14,604,000	2033 to 2039	10,190,747	2033 to 2038
	$ 16,329,000		$ 12,308,006	

Tax attributes are subject to review, and potential adjustment, by tax authorities.

21. Capital Risk Management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. At December 31, 2019, the Company's shareholders' equity was $(231,158) (December 31, 2018 – $1,945,045) and the Company's debt was $2,637,089 (December 31, 2018 – $969,256).

The Company's objective is to maintain a capital structure that supports its long-term growth strategy, maintains creditor and customer confidence, and maximizes shareholder value. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. No changes were made in the objectives, policies or processes of capital management during the year ended December 31, 2019.

The Company is dependent on cash flows generated from its operations and from external financing to fund its activities. The Company will spend its existing working capital and raise additional amounts as needed.

22. Financial Instruments

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

As at December 31, 2019, the Company's financial instruments consist of cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt, convertible debentures, and royalty funding. The fair values of cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt, and royalty funding approximate their carrying values due to their nature. The Company classifies its financial instruments as outlined in Note 4.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the period.

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and other price risk such as equity price. The Company's exposure to other price risk is low. Financial instruments affected by market risk include accounts receivable and other receivables, accounts payable and accrued liabilities, long-term debt, and royalty funding.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's long-term debt is subject to fixed interest rates and the risk of fluctuating future cash flows resulting from changes in market interest rates is limited.

(iii) Foreign currency risk

Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than its functional currency. A significant portion of the Company's revenue are denominated in United States dollars ("USD") along with a portion of its purchases. To the extent possible, the Company uses cash received from sales to finance its USD purchases and limit its exposure to foreign currency risk.

22. Financial Instruments (cont'd…)

(iii) Foreign currency risk (cont'd…)

The Company has the following balances denominated in USD (amounts in the table below are post-translation to Canadian dollars):

	December 31, 2019	December 31, 2018
Cash	$ 53,051	$ 191,942
Accounts receivable and other receivables	2,685,646	1,476,613
Accounts payable and accrued liabilities	1,226,002	382,340

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets would change by approximately $151,000 at December 31, 2019 (December 31, 2018 – $128,000) due to the fluctuation and this would be recorded in the consolidated statements of loss and comprehensive loss.

(iv) Concentration of credit risk and economic dependence

The Company is exposed to credit risk with respect to the collectability of its customer accounts receivable. Credit risk is concentrated as three customers represented 68% at December 31, 2019 (December 31, 2018 – three customers represented 51%) of the Company's accounts receivable balance. The Company performs credit assessments of potential customers and insures its accounts receivable where appropriate. Regular credit assessments are performed of customers' accounts receivable balances and allowances for potentially uncollectible accounts receivable are provided where appropriate. The following table provides information about the exposure to credit risk for accounts receivable as at December 31, 2019:

Current (not past due)	$ 1,501,665
0 – 30 days past due	113,009
31 – 60 days past due	442,614
61 – 90 days past due	51,903
Over 90 days past due	768,461
Total	$ 2,877,672

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the year ended December 31, 2019, five customers represented 68% (December 31, 2018 – five customers represented 60%) of its total revenue.

(v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk resulting from its accounts payable and accrued liabilities, long-term debt, convertible debentures, and royalty funding by ensuring sufficient cash is on hand from cash flows from operations and financing from investors. As at December 31, 2019, the Company's current assets exceeded its current liabilities by $1,149,355 (December 31, 2018 – $2,777,943).

Contractual maturities of the Company's long-term debt are outlined in Note 13 to the consolidated financial statements. Other financial liabilities, including accounts payable and accrued liabilities have maturities within 12 months of the Company's year-end.

(Expressed in Canadian dollars)

23. Commitments and Contingencies

The Company has entered into a lease agreement for its premises with estimated minimum annual payments as follows:

2020	$	109,865
2021		109,865
2022		73,243
Total	$	292,973

The Company is committed to pay Grenville annually an amount equal to 1.125% of its annual revenue unless the buyout options are exercised (see Note 14).

24. Segment Information

The Company has one reportable segment. This single reportable operating segment derives its revenues from the sale of off-grid solar power solutions and related services.

The Company operates in three principal geographical areas: Canada, the United States of America (“USA”), and Middle East and Africa (“MEA”).

The Company’s revenue from external customers by location of operations is detailed below:

	December 31, 2019	December 31, 2018
Canada	$ 301,081	$ 1,105,543
USA	1,401,041	936,379
MEA	1,601,619	1,657,694
Other	667,560	80,560
Total	$ 3,971,301	$ 3,780,176

25. Subsequent Events

On January 3, $90,000 of the convertible notes were converted in to 450,000 common shares and 225,000 warrants.

On April 14, 2020, the Company has received $2 million from BDC as the first tranche of a $5 million loan facility. The loan has a 5-year term and consists of an initial period of interest-only payments through August 15, 2022, and a subsequent period commencing on September 15, 2022, of principal and interest payments, culminating in a balloon payment at the end of the term.