



Clear Blue Technologies International Inc. Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(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, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years 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, 2020 and 2019, and its financial performance and its cash flows for the years 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.

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.

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.

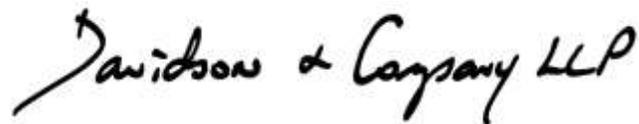
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

A handwritten signature in black ink that reads "Davidson & Coysany LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

March 15, 2021

Clear Blue Technologies International Inc.

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash		\$ 3,507,249	\$ 61,720
Accounts receivable and other receivables	5	1,754,792	2,809,879
Research and development tax credits receivable	6	187,453	796,890
Inventory	7	1,551,228	1,157,718
Prepaid expenses		523,207	61,518
Current portion of deferred costs	7	232,584	33,666
Total current assets		7,756,513	4,921,391
Non-current assets			
Other receivable	5	272,959	–
Deferred costs	7	155,468	63,691
Property and equipment	8	213,234	323,414
Total assets		\$ 8,398,174	\$ 5,308,496
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	\$ 1,023,365	\$ 2,263,877
Customer deposits	9	545,610	124,080
Short-term loan	10	999,573	889,339
Current portion of deferred revenue	9	402,310	242,400
Current portion of lease liability	8	109,860	109,860
Current portion of long-term debt	11	118,846	115,976
Total current liabilities		3,199,564	3,745,532
Non-current liabilities			
Deferred revenue	9	573,354	272,208
Lease liability	8	50,405	139,352
Royalty funding	13	375,000	375,000
Convertible debenture	12	584,112	601,038
Long-term debt	11	2,370,512	406,524
Total liabilities		7,152,947	5,539,654
Shareholder's Equity (Deficiency)			
Share capital	14	19,455,976	15,919,928
Reserves	15	6,253,945	4,476,158
Equity portion of convertible debenture	12	99,728	112,959
Accumulated deficit		(24,564,422)	(20,740,203)
Total shareholders' equity (deficiency)		1,245,227	(231,158)
Total liabilities and shareholders' equity (deficiency)		\$ 8,398,174	\$ 5,308,496

Nature of operations (Note 1)

Commitments (Note 21)

Subsequent events (Note 25)

On behalf of the Board:

“Miriam Tuerk”

President and Director

“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, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Revenue		\$ 4,023,811	\$ 3,971,301
Cost of sales	7	2,756,812	3,080,138
Gross profit		1,266,999	891,163
Operating expenses			
Salaries, wages and benefits	16,23	737,632	1,757,614
Research and development	6,16	1,493,850	1,351,874
General and administrative		659,291	563,038
Bad debt expense	5	70,927	216,971
Stock-based compensation	15,16	298,322	320,748
Travel		92,080	270,057
Business development and marketing		509,301	625,093
Rent	23	165,178	209,759
Professional fees		463,782	229,866
Depreciation of property and equipment	8	138,861	135,641
Total operating expenses		4,629,224	5,680,661
Loss before other items		(3,362,225)	(4,789,498)
Other items			
Write down of inventory	7	-	(126,584)
Interest income, net	5	308	2,540
Interest and accretion on convertible debenture	12	(125,487)	(21,705)
Interest on short-term loan	10	(39,566)	(9,756)
Interest on lease liability	8	(20,918)	(29,203)
Interest on long-term debt	11	(249,133)	(54,132)
Interest on royalty funding	13	(39,100)	(29,397)
Foreign exchange gain (loss)		14,715	(82,316)
Amortization of deferred financing fees	11	(2,593)	(2,593)
Gain on modification of debt	11	21,924	-
Loss on settlement of debt	14	(22,144)	-
Net loss before taxes		(3,824,219)	(5,142,644)
Deferred tax recovery		-	40,726
Net loss and comprehensive loss		(3,824,219)	(5,101,918)
Loss per share		(0.08)	(0.12)
Weighted average number of shares outstanding Basic and Diluted		47,930,564	43,671,290

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)

As at December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Reserves	Equity portion of convertible debenture	Accumulated deficit	Total shareholders' equity (deficiency)
Balance at December 31, 2018	35,063,306	14,506,319	3,077,011	-	(15,638,285)	1,945,045
Share issuance - private placement	10,679,500	\$ 1,672,197	\$ 997,678	-	-	\$ 2,669,875
Issuance costs - private placements	-	(258,588)	67,248	-	-	(191,340)
Convertible debenture - equity portion, net of tax	-	-	-	112,959	-	112,959
Issuance costs - convertible debenture	-	-	13,473	-	-	13,473
Stock-based compensation	-	-	320,748	-	-	320,748
Net loss and comprehensive loss	-	-	-	-	(5,101,918)	(5,101,918)
Balance at December 31, 2019	45,742,806	\$ 15,919,928	\$ 4,476,158	\$ 112,959	\$ (20,740,203)	\$ (231,158)
Share issuance - private placement	13,157,800	3,594,769	1,405,195	-	-	4,999,964
Issuance costs - private placements	-	(772,782)	293,666	-	-	(479,116)
Exercise of options	62,242	33,061	(29,949)	-	-	3,112
Maturity of Restricted Share Units	1,200,653	191,384	(191,384)	-	-	-
Conversion of convertible debenture	475,000	67,113	16,460	(13,231)	-	70,342
Stock-based compensation	-	-	298,322	-	-	298,322
Shares issued for debt settlement	2,013,161	362,369	-	-	-	362,369
Exercise of warrants	225,000	95,084	(16,334)	-	-	78,750
Shares withheld for payroll taxes	-	(145,130)	-	-	-	(145,130)
Sale of shares withheld for payroll taxes	-	110,180	-	-	-	110,180
Warrants issued to convertible debenture holders	-	-	1,811	-	-	1,811
Net loss and comprehensive loss	-	-	-	-	(3,824,219)	(3,824,219)
Balance at December 31, 2020	62,876,662	\$ 19,455,976	\$ 6,253,945	\$ 99,728	\$ (24,564,422)	\$ 1,245,227

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, 2020 and 2019

(Expressed in Canadian Dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
Operating activities		
Net Loss for the year	\$ (3,824,219)	\$ (5,101,918)
Items not involving cash:		
Depreciation of property and equipment	138,861	135,641
Amortization of deferred financing fees	2,593	2,593
Stock-based compensation	298,322	320,748
Foreign exchange	(1,457)	-
Bad debt expense	70,927	216,971
Interest income	(22,827)	(2,540)
Interest on long-term debt	135,962	27,212
Interest on royalty funding	39,100	29,397
Interest on convertible debenture	-	13,516
Accretion of long-term debt	123,456	26,919
Accretion of lease liability	20,918	20,048
Accretion of convertible debenture	53,416	8,189
Write down of inventory	-	126,584
Warrants issued to convertible debenture holders	1,811	-
Gain on modification of debt	(21,924)	-
Loss on settlement of debt	22,144	-
Loss on sale of equipment	820	-
Shares withheld for payroll taxes	(145,130)	-
Deferred income tax recovery	-	(40,726)
Changes in non-cash working capital items:		
Accounts receivables and other receivable	659,593	(1,122,736)
R&D tax credits receivable	609,437	(796,890)
Inventory	(684,205)	257,292
Prepaid expenses	(461,689)	20,803
Accounts payable and accrued liabilities	(974,380)	941,894
Customer deposits	421,530	124,080
Deferred revenue	461,056	223,912
Interest received	22,827	2,540
Interest paid	(203,419)	(41,508)
Sale of shares withheld for payroll taxes	110,180	-
Net cash used in operating activities	(3,146,297)	(4,607,979)
Cash flows from investing activities		
Acquisition of computer and equipment	(29,501)	(19,876)
Repayment of other receivable	53,065	-
Net cash provided by (used in) investing activities	23,564	(19,876)
Cash flow from financing activities:		
Proceeds from short-term loan	298,254	899,095
Repayment of short-term loan	(148,454)	-
Proceeds from long-term debt	2,000,000	(96,395)
Debt issuance costs	(94,862)	-
Repayment of long-term debt	(53,614)	-
Proceeds from issuance of shares	4,999,964	2,669,875
Share issue costs	(405,023)	(191,340)
Proceeds from exercise of options	3,112	-
Proceeds from exercise of warrants	78,750	-
Proceeds from convertible debentures	-	811,000
Convertible debentures - transaction costs	-	(50,993)
Repayment of lease liability - computer equipment	-	(4,873)
Repayment of lease liability - office premise	(109,865)	(113,910)
Net cash provided by financing activities	6,568,262	3,922,459
Net increase (decrease) in cash during the year	3,445,529	(705,396)
Cash, beginning of year	61,720	767,116
Cash, end of year	\$ 3,507,249	\$ 61,720

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

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

1. Nature of Operations

Clear Blue Technologies International Inc. (the “Company” or “CBLU”) was incorporated on November 11, 2014 under the laws of British Columbia, Canada. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the ticker symbol “CBLU”.

The Company is in the business of developing and selling “Smart Off-Grid” power solutions and management services to the 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.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. Basis of Presentation

Statement of compliance

The Company's consolidated financial statements (the "Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), 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.

As at December 31, 2020, the Company had a working capital of \$4,556,949 (December 31, 2019 - \$1,175,859) and cash of \$3,507,249 (December 31, 2019 - \$61,720). The Company has the ability to draw down up to \$3,000,000 from a loan facility subject to meeting certain financial milestones (Note 11). Subsequent to year end, the Company issued 740,544 common shares pursuant to exercise of share purchase warrants for gross proceeds of \$363,278 (Note 25). Therefore, management concludes that the Company has sufficient funds to fund its operations for the subsequent 12 months.

These Financial Statements were approved for issuance by the Company's Audit Committee and Board of Directors on March 15, 2021.

Certain amounts reported in prior year Financial Statements have been reclassified to conform to the current year presentation.

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 functional and presentation currency of the Company and its subsidiaries.

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.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. Significant Accounting Policies

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

a. 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.

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.

b. 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.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

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

c. 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 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

d. 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.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

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

e. Leases

At inception, the Company assesses whether a contract is, or contains, a lease. The assessment involves the exercise of judgment about whether the lease depends on a specified asset, whether the Company obtains substantially all of the economic benefits for the use of that asset during the lease term, and whether the Company has the right to direct the use of the asset. If the lease contains an extension option that the Company considers reasonably certain to be exercised, the term of the lease becomes the base lease plus renewal option, including any associated costs. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of use asset is initially measured at cost, which includes the initial amount of the liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amount expected to be payable under any residual value guarantees; and
- Exercise price of options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company's estimation of the amount expected to be payable under a residual guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

When the Company subleases a right-of-use asset, the Company classifies the sublease as an operating lease if the head lease is a short-term lease. Otherwise, the sublease is classified as a finance lease. When the sublease is classified as a finance lease, the lessor derecognizes the right-of-use asset pertaining to the head lease that it transfers to the sublessee, at the commencement date, but continues to account for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in sublease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

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

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.

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. Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

h. 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 stock options expected to vest at the grant date and revises the estimate if subsequent information indicates that the actual number of stock options to vest differs significantly from the original estimate. The stock-based compensation expense 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 Restricted Share Units ("RSUs") is determined using the closing market price of the Company's shares on grant date. The number of RSUs 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.

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

i. 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.

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 test. 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.

Clear Blue Technologies International Inc.

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

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

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.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity instrument is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortized cost using the effective interest method. The equity component of a compound instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

Embedded derivatives

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss.

j. 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.

Clear Blue Technologies International Inc.

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

j. Foreign currency translation (cont'd...)

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

k. 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, 2020 and 2019.

l. 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.

m. 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.

4. 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.

Clear Blue Technologies International Inc.

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

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. All of the Company’s operations and assets are located in Canada.

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 that 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.

(iv) Recoverability of accounts receivable

Accounts receivable are amounts due from customers for products 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.

Clear Blue Technologies International Inc.

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

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for expected credit loss ("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 the 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, 2020, management has determined that ECL was \$139,045 (2019 - \$335,984).

(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) COVID-19

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.

5. Accounts Receivable and Other Receivables

	December 31, 2020	December 31, 2019
Accounts receivable, net	\$ 1,537,207	\$ 2,549,042
Harmonized sales taxes receivable	129,654	248,046
Miscellaneous tax refund receivable	16,704	12,791
Loan receivable (i)	344,186	-
Less:		
Long-term loan receivable (i)	(272,959)	-
Total	\$ 1,754,792	\$ 2,809,879

- (i) On January 22, 2020, a loan agreement was executed to allow a customer to settle the receivable amounting to US\$309,910 in 60 equal consecutive monthly installments of US\$6,181 beginning on April 1, 2020. The loan receivable has an interest rate is 7.3% per annum and matures on June 30, 2025. As at December 31, 2020, the carrying value of the loan receivable amounts to \$344,186, of which \$71,227 relates to current portion. During the year ended December 31, 2020, the Company received interest of \$21,534 (US\$16,041) (2019 - \$nil (US\$nil)).

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
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5. Accounts Receivable and Other Receivables (cont'd...)

During the year ended December 31, 2020, the Company recorded bad debts expense of \$70,927 (2019 - \$216,971).

6. Research and Development Tax Credits Receivable

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

	December 31, 2020	December 31, 2019
Scientific Research and Experimental Development (SR&ED) tax credits	\$ -	\$ 269,534
Industrial Research Assistance Program	24,583	192,844
Ontario Innovation tax credits	162,870	307,512
Total	\$ 187,453	\$ 796,890

Included in research and development expense was \$363,457 (2019 - \$920,459) in government grants and credits.

7. Inventory

	December 31, 2020	December 31, 2019
Raw materials	\$ 534,338	\$ 316,882
Finished goods	1,016,890	840,836
Total	\$ 1,551,228	\$ 1,157,718

Inventory included in cost of sales amounted to \$2,315,476 (2019 - \$2,711,973).

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

During the year ended December 31, 2020, the Company wrote down \$nil (2019 - \$126,584) in obsolete inventory.

Clear Blue Technologies International Inc.

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8. Property and Equipment

	Computer and equipment	Furniture and fixtures	Leasehold improvements	Right-of-use Assets	Total
Balance as of December 31, 2018	\$ 116,198	\$ 10,304	\$ 29,618	\$ -	\$ 156,120
Additions	19,876	-	-	333,919	353,795
Disposals (1)	(32,178)	(2,752)	-	-	(34,930)
Balance as of December 31, 2019	103,896	7,552	29,618	333,919	474,985
Additions	29,501	-	-	-	29,501
Disposals (1)	(15,681)	-	-	-	(15,681)
Balance as of December 31, 2020	\$ 117,716	\$ 7,552	\$ 29,618	\$ 333,919	\$ 488,805

Accumulated Depreciation					
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 (1)	(32,178)	(2,752)	-	-	(34,930)
Balance as of December 31, 2019	49,995	3,146	7,361	91,069	151,571
Depreciation	36,079	1,510	10,203	91,069	138,861
Disposals (1)	(14,861)	-	-	-	(14,861)
Balance as of December 31, 2020	\$ 71,213	\$ 4,656	\$ 17,564	\$ 182,138	\$ 275,571

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
December 31, 2020	\$ 46,503	\$ 2,896	\$ 12,054	\$ 151,781	\$ 213,234

(1) During the year ended December 31, 2020, the Company disposed of equipment for consideration of \$nil (2019 - \$nil), resulting in a loss on sale of equipment of \$820.

Lease Liability

A reconciliation of the carrying amount of the lease liability recognized on the initial adoption of IFRS 16 to December 31, 2020 is as follows:

Initial adoption	\$ 333,919
Lease payments	(113,910)
Lease interest	29,203
Balance as of December 31, 2019	249,212
Lease payments	(109,865)
Lease interest	20,918
Balance as of December 31, 2020	\$ 160,265

	December 31, 2020	December 31, 2019
Current portion of lease liability	\$ 109,860	\$ 109,860
Long term portion of lease liability	50,405	139,352
Total	\$ 160,265	\$ 249,212

Clear Blue Technologies International Inc.

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8. Property and Equipment (cont'd...)

Maturity analysis – contractual undiscounted cash flows:

2021	\$	109,865
2022		73,243
Total undiscounted future lease payments	\$	183,108

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 years ended December 31, 2020 and 2019.

9. Customer Deposits and Deferred Revenue

Customer Deposits

Customer deposits of \$545,610 (December 31, 2019 - \$124,080) pertain to the 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, 2020	December 31, 2019
Deferred revenue	\$ 975,664	\$ 514,608
Less: Current portion	402,310	242,400
	\$ 573,354	\$ 272,208

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, 2020, expected revenue to be recognized over the term of the contracts are as follows:

2021	402,310
2022	351,552
2023	221,802
Total	975,664

10. Short-term Loan

In 2019, the Company obtained a \$1,000,000 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, 2020 is \$999,573 (December 31, 2019 - \$889,339). The Company incurred interest expense related to its short-term loan of \$39,566 during the year ended December 31, 2020 (2019 - \$9,756). Subsequent to December 31, 2020, the short-term loan was repaid in full.

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11. Long-term Debt

	December 31, 2020	December 31, 2019
(i) Eastern Ontario Futures Development Corporations Networks Inc.	\$204,902	\$232,308
(ii) Federal Economic Development Agency of Southern Ontario	284,986	295,809
(iii) Business Development of Canada	2,002,494	-
	2,492,382	528,117
Less:		
Current portion	118,846	108,976
Deferred financing fees	3,024	5,617
	\$2,370,512	\$413,524

- (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, was amended, as a result of the COVID-19 pandemic, on April 6, 2020 to defer the installments from March 1, 2020 to August 31, 2020 and extend the maturity date from September 30, 2022 to April 30, 2023. The amendment to the terms of the loan did not result in a gain or loss on modification of debt. The loan is secured by a general security agreement against all of the assets of the Company. For the year ended December 31, 2020, the Company recognized interest expense of \$22,397 (2019 - \$27,212).
- (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 was amended, as a result of the COVID-19 pandemic, on June 8, 2020 to: (i) extend the maturity date to December 1, 2024; (ii) defer monthly instalments from April 1, 2020 to September 1, 2020; (iii) reduce monthly instalments to \$2,000 from October 1, 2020 to December 31, 2020; and (iv) adjust the monthly installments to \$3,000, \$5,000, \$8,000 and \$14,000 for the years 2021 through 2024, respectively, with a final month payment of \$15,000, which resulted in a gain on modification of debt of \$21,924 (2019 - \$nil). 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 with an effective interest rate of 9.54% per annum. For the year ended December 31, 2020, the Company recognized interest expense of \$26,101 (2019 - \$26,920).
- (iii) Business Development of Canada ("BDC") loan facility of \$5,000,000. The loan facility matures on January 15, 2025 and consists of interest-only monthly payments through August 15, 2022, monthly principal payments of \$86,207 and interest payments from September 15, 2022 to and including December 15, 2024 (or earlier date if the loan facility is not fully drawn) and a balloon payment at the end of the term. Subject to meeting certain financial milestones, the Company has the option to draw down an additional \$3,000,000 in \$1,000,000 tranches. The loan is secured against the assets of the Company and carries an annual interest rate of BDC Capital Floating Base Rate plus 2.95%. In addition to the cash interest, a non-compounding payment in kind ("PIK") interest of up to 9.5% per annum will accrue and be payable at the end of the term. The PIK interest rate will be reduced by 0.5% (to 9.0%) when the Company reaches a trailing 12 months of EBITDA greater than \$1,000,000, and a further 0.5% (to 8.5%) when the Company reaches a trailing 12 months of EBITDA greater than \$3,000,000. For the year ended December 31, 2020, the Company recognized interest expense of \$200,635 (2019 - \$nil). As at December 31, 2020, the Company has drawn \$2,000,000 of the facility.

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11. Long-term Debt (cont'd...)

In connection with the BDC loan facility, the Company agreed to issue an aggregate of 72,100 common share purchase warrants ("Warrants") of the Company to existing debenture holders of the Company as compensation for entering into postponement agreements in favor of BDC. Each Warrant is exercisable for one common share of the Company at an exercise price of \$0.50 share until March 28, 2022. The share purchase warrants were valued at \$1,811 using the Black-Scholes valuation model with the following assumptions: expected life of 1.0 year, risk-free rate of 0.25%, dividend yield of 0% and volatility of 115%.

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

2021	\$ 285,197
2022	648,655
2023	1,243,476
2024	801,764
2025	1,238,274
<u>Total</u>	<u>\$4,217,366</u>

12. 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 noteholders, 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 was first payable on December 31, 2019.

The Company has the right to require the Convertible Debenture holder to convert the principal outstanding on these debentures into units at the conversion price if, for any 10 consecutive VWAP days, the VWAP of the Common Shares on TSX-V is greater than \$0.70.

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 \$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 share purchase warrant entitled the holder for one common share at an exercise price of \$0.35 until November 1, 2022. The share purchase warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 3.0 years, risk-free rate of 1.58%, dividend yield of 0% and volatility of 109%.

During the year ended December 31, 2020, \$95,000 of the Convertible Debenture was converted into 475,000 Common Shares valued at \$53,882 and 237,500 Warrant Shares valued at \$16,460. The value of

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12. Convertible Debenture (cont'd...)

the Common Shares and Warrant Shares were valued using the relative fair value method. As result of the conversion, equity portion of Convertible Debenture amounting to \$13,231 was reclassified to share capital.

As at December 31, 2020, the outstanding balances associated with the convertible debenture were as follows:

	December 31, 2020	December 31, 2019
Liability component of debenture	\$ 601,038	\$ 592,849
Accretion	53,416	8,189
Interest	72,071	13,516
Interest paid	(72,071)	-
Interest recorded in accounts payable and accrued liabilities	-	(13,516)
Fair value of the debenture converted	(70,342)	-
Balance	<u>\$ 584,112</u>	<u>\$ 601,038</u>

13. 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:

- 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 June 30, 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 June 30, 2018 and was not exercised by the Company;
- 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"); This right expired on November 17, 2020 and was not exercised by the Company;
- 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");
- 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.

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13. 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 \$39,100 for year ended December 31, 2020 (2019 - \$29,397).

14. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value.

Transactions during the year ended December 31, 2020

- (i) On September 3, 2020, the Company issued 2,013,161 common shares valued at \$362,369 pursuant to settlement of management and employee bonuses totaling \$340,225, resulting in a loss on settlement of \$22,144. 522,827 common shares valued at \$94,109 were withheld by the Company for settlement of payroll taxes on behalf of management and employees. The Company sold 522,827 common shares withheld for gross proceeds of \$68,438.
- (ii) During the year ended December 31, 2020, the Company issued 1,200,653 common shares valued at \$191,384 pursuant to the maturity of RSUs. 318,881 common shares valued at \$51,021 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders. The Company sold 318,881 common shares withheld for gross proceeds of \$41,742.
- (iii) During the year ended December 31, 2020, the Company issued 475,000 units pursuant to the conversion of convertible debenture amounting to \$95,000. Each unit is comprised of one common share and one-half share purchase warrant. Each full share purchase warrant is exercisable for \$0.35 per share until November 1, 2022, subject to early expiration if the 10-day weighted average trading price of the common shares of the Company is at any time greater than \$0.70 per share. In connection with the conversion, equity portion of convertible debenture amounting to \$13,321 was reclassified to share capital.
- (iv) On January 31, 2020, the Company issued 62,242 common shares pursuant to exercise of stock options for gross proceeds of \$3,112. In connection with the exercise of options, the fair value of stock options amounting to \$29,949 was reclassified from reserves to share capital.
- (v) On December 22, 2020, the Company completed a private placement through issuance of 13,157,800 units at \$0.38 per unit for gross proceeds of \$4,999,964. Each unit is comprised of one common and one-half share purchase warrant, with each full share purchase warrant exercisable for one common share at \$0.55 per share until December 22, 2023. The common shares and share purchase warrants were valued at \$3,594,769 and \$1,405,195, respectively, using the relative fair value method. In connection with the private placement, the Company incurred share issuance costs of \$479,116 and issued 751,196 broker warrants valued at \$293,666. Each broker warrant is exercisable for one common share at \$0.38 per share until December 22, 2023. The stand-alone value of share purchase warrants and broker warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 3.0 years, risk-free rate of 0.27%, dividend yield of 0% and volatility of 132%.

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14. Share Capital (cont'd...)

- (vi) On December 15, 2020, the Company issued 225,000 shares pursuant to exercise of share purchase warrants for gross proceeds of \$78,750. In connection with the exercise of share purchase warrants, the fair value of share purchase warrants amounting to \$16,334 was reclassified from reserves to share capital.

Transactions during the year ended December 31, 2019

- (i) During the year ended December 31, 2019, the Company completed a private placement through issuance of 10,679,500 units at \$0.25 per unit for gross proceeds of \$2,669,875. Each unit is comprised of one common share and one share purchase warrant exercisable for one common share at \$0.50 per share for 3 years, subject to early expiration if the 10-day weighted average trading price of the common shares of the Company is at any time greater than \$0.80 per share. The common shares and share purchase warrants were valued at \$1,672,197 and \$997,678, respectively, using the relative fair value method. In connection with the private placement, the Company incurred share issuance costs of \$191,340 and issued 719,565 broker warrants valued at \$67,248. Each broker warrant is exercisable for one common share at \$0.50 per share for 3 years. The stand-alone value of share purchase warrants and broker warrants were valued using the Black-Scholes valuation model with the following weighted average assumptions: expected life of 3.0 years, risk-free rate of 1.62%, dividend yield of 0% and volatility of 109%.

Escrowed Shares

As at December 31, 2020, 2,492,989 (2019 - 4,985,965) common shares are held in escrow, of which 1,246,488 common shares and 1,246,501 common shares are to be released on January 17, 2021 and July 17, 2021, respectively.

15. Reserves

a. Options

Under the Company's stock option plan, the Company may, at its discretion, grant stock options to its directors, officers, and employees. Unless specified within the option agreement, all stock options vest equally over 4 years. All stock options have a maximum term of 7 years from the date of the grant.

Below is a continuity of stock options outstanding:

Stock options outstanding – December 31, 2018	3,575,011
Stock options issued	487,002
Stock options forfeited	(506,421)
Stock options outstanding – December 31, 2019	3,555,592
Stock options exercised	(62,242)
Stock options issued	389,335
Stock options forfeited	(866,962)
Stock options outstanding – December 31, 2020	3,015,723

For the year ended December 31, 2020, the Company recognized \$96,720 (2019 - \$174,909) of stock-based compensation expense in relation to its stock option plan.

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15. Reserves (cont'd...)

a. Options (cont'd...)

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, 2020	December 31, 2019
Expected option life (years)	5	5
Volatility	116%	116%
Risk-free interest rate	0.36% – 0.39%	1.46%
Dividend yield	–	–

Options outstanding and exercisable at December 31, 2020 were comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of options	Number of options exercisable
\$0.05	2024-05-02	3.34	56,209	56,209
\$0.13	2025-05-29	4.41	100,000	100,000
\$0.16	2024-09-12	3.70	457,668	213,885
\$0.16	2025-09-30	4.75	99,334	-
\$0.17	2025-05-29	4.41	167,334	-
\$0.26	2025-04-20	4.30	247,394	247,394
\$0.26	2025-06-30	4.50	94,242	94,242
\$0.31	2026-04-30	5.33	117,018	117,018
\$0.49	2023-11-26	2.90	388,000	214,000
\$0.50	2026-04-30	5.33	868,755	868,755
\$0.50	2027-10-31	6.84	183,179	141,183
\$0.52	2025-12-11	4.95	236,590	236,590
\$0.37		Total	3,015,723	2,289,276

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15. Reserves (cont'd...)

b. Share purchase warrants

The following is a summary of changes in share purchase warrants during the years ended December 31, 2020 and 2019:

	Number of Warrants	Weighted average exercise price
Share purchase warrants - December 31, 2018	5,533,789	\$0.76
Granted	11,489,015	\$0.50
Expired	(1,190,041)	\$0.65
Share purchase warrants - December 31, 2019	15,832,763	\$0.58
Granted	7,639,696	\$0.53
Exercised	(225,000)	\$0.35
Expired	(4,310,582)	\$0.80
Share purchase warrants – December 31, 2020	18,936,877	\$0.51

Share purchase warrants outstanding and exercisable at December 31, 2020 are comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of Warrants
\$0.35	2022-11-01	1.84	102,450
\$0.50	2022-02-22	1.15	4,300,240
\$0.50	2022-03-22	1.22	6,403,825
\$0.50	2022-03-28	1.24	767,100
\$0.38	2023-12-22	2.98	751,196
\$0.55	2023-12-22	2.98	6,578,900
\$0.50	2024-07-11	3.53	17,209
\$0.50	2025-02-11	4.12	15,957
Total:			18,936,877

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.

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15. Reserves (cont'd...)

c. Restricted Share Units (cont'd...)

Transactions during the year ended December 31, 2020

On May 29, 2020, the Company granted 951,000 RSUs to directors, officers and employees. The RSUs vest on May 29, 2021.

On May 29, 2020, the Company granted 365,680 RSUs to directors and employee. The RSUs vest on February 1, 2021.

On June 30, 2020, the Company granted 24,000 RSUs to directors. The RSUs vest on June 30, 2021.

On September 30, 2020, the Company granted 15,000 RSUs to an employee. The RSUs vest on May 29, 2021.

On November 30, 2020, the Company granted 300,000 RSUs to an officer. The RSUs vest in 100,000 tranches, with each tranche vesting on November 29, 2021, November 29, 2022 and November 29, 2023, respectively.

Transactions during the year ended December 31, 2019

On September 12, 2019, the Company granted 1,176,653 RSUs to directors, officers, employees and consultants, which vested on February 1, 2020.

On November 25, 2019, the Company granted 24,000 RSUs to a director, which vested on November 25, 2020.

Total stock-based compensation related to RSUs during the year ended December 31, 2020 was \$201,602 (2019 - \$145,839).

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, 2020, there were 1,667,880 (December 31, 2019 – 1,200,653) RSUs outstanding. For the year ended December 31, 2020, the company recognized \$201,602 (2019 - \$145,839) of stock-based compensation expense in relation to the RSU's.

16. 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, 2020	December 31, 2019
Salaries and benefits, including bonuses	\$ 496,203	\$ 842,144
Stock-based compensation	178,798	144,241
Total	\$ 675,001	\$ 986,385

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16. Related Party Transactions (cont'd...)

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 of December 31, 2020 includes short-term amounts owing to key management of the Company for reimbursement of business expenses totaling \$86,019 (December 31, 2019 - \$526,161).

17. 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, 2020	December 31, 2019
Stock options	3,015,723	3,555,592
Warrants	18,936,377	15,742,813
RSUs	1,655,880	1,176,653
Total	23,607,980	20,475,058

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 15.

18. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2020	2019
Loss for the year	\$ (3,824,219)	\$ (5,142,644)
	26.5%	26.5%
Expected income tax (recovery)	\$ (1,013,000)	\$ (1,363,000)
Change in statutory, foreign tax, foreign exchange rates and other	(281,000)	(182,726)
Permanent differences	87,000	100,000
Deferred financing fees	(127,000)	(51,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	79,000	133,000
Change in unrecognized deductible temporary differences	1,255,000	1,323,000
Total income tax expense (recovery)	\$ -	\$ (40,726)
Current income tax	\$ -	\$ -
Deferred tax recovery	\$ -	\$ (40,726)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2020	2019
Deferred tax assets (liabilities)		
Government assistance	\$ -	\$ -
Convertible debenture	-	(40,726)
Non-capital losses	-	40,726
Net deferred tax liability	\$ -	\$ -

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18. Income Taxes (cont'd...)

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:

	2020	Expiry Date Range	2019	Expiry Date Range
Temporary Differences				
Research and development tax credits and other	3,469,000	2035 to 2040	610,000	2035 to 2039
Property and equipment	-	No expiry date	-	No expiry date
Capital lease obligation	119,000	No expiry date	85,000	No expiry date
Deferred financing fees	1,058,000	2041 to 2044	1,030,000	2040 to 2043
Non-capital losses available for future periods	15,579,000	2026 to 2040	14,604,000	2033 to 2039
	20,225,000		16,329,000	

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

19. Capital Risk Management

Capital is comprised of the Company's shareholders' equity (deficiency) and any debt it may issue. At December 31, 2020, the Company's shareholders' equity was \$1,245,227 (December 31, 2019 - deficiency of \$231,158) and the Company's debt was \$4,608,308 (December 31, 2019 - \$2,637,089).

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, 2020.

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.

20. 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.

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20. Financial Instruments (cont'd...)

As at December 31, 2020, the Company's financial instruments consist of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, long-term debt, convertible debentures, and royalty funding. The fair values of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, long-term debt, and royalty funding approximate their carrying values due to their nature.

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 risks 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.

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.

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 revenues 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.

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

	December 31 2020	December 31, 2019
Cash	\$ 72,674	\$ 53,051
Accounts receivable and other receivables	1,876,271	2,685,646
Accounts payable and accrued liabilities	234,455	1,226,002

A change in foreign currency exchange rates by 10% would change the foreign exchange gain or loss on the Company's net monetary assets by approximately \$179,000 at December 31, 2020 (December 31, 2019 - \$151,000).

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20. Financial Instruments (cont'd...)

(ii) 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 94% at December 31, 2020 (December 31, 2019 – three customers represented 68%) of the Company's accounts receivable balance. The Company performs credit assessments of potential customers and ensures 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, 2020:

	December 31, 2020	December 31, 2019
Current (not past due)	\$ 1,381,330	\$ 1,501,665
0 – 30 days past due	10,830	113,009
31 – 60 days past due	139,458	442,614
61 – 90 days past due	0	51,903
Over 90 days past due	140,874	768,461
Total	<u>\$ 1,672,492</u>	<u>\$ 2,877,672</u>

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the year ended December 31, 2020, five customers represented 76% (2019 - five customers represented 68%) of its total revenue.

(iii) 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 of December 31, 2020, the Company's current assets exceeded its current liabilities by \$4,556,949 (December 31, 2019 - \$1,175,859).

Contractual maturities of the Company's long-term debt are outlined in Note 11 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.

21. Commitments

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 13).

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22. 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 the Middle East and Africa (“MEA”).

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

	December 31, 2020	December 31, 2019
Canada	\$ 414,129	\$ 301,081
USA	1,040,912	1,401,041
MEA	117,882	1,601,619
Africa	2,419,733	-
Other	31,155	667,560
Total	\$ 4,023,811	\$ 3,971,301

All non-current assets are located in Canada.

23. Government Grants

During year ended December 31, 2020, the Company received government grants through Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Commercial Rent Assistance (“CECRA”) in response to the COVID-19 pandemic. During the year ended December 31, 2020, the Company received \$732,575 from CEWS and \$18,310 from CECRA, which were recorded in salaries, wages and benefits and rent expense, respectively.

24. Supplemental Cash Flow Information

During the year ended December 31, 2020, inventory reclassified to deferred costs amounted to \$290,695 (2019 - \$97,357). There were no income taxes paid during the years ended December 31, 2020 and 2019.

25. Subsequent Events

Subsequent to December 31, 2020, the Company issued 740,554 common shares pursuant to exercise of share purchase warrants for gross proceeds of \$363,278 and 36,000 common shares pursuant to the maturity of RSUs.