



Clear Blue Technologies International Inc.
Condensed Interim Financial Statements
For the six months ended June 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements

Clear Blue Technologies International Inc.

Condensed Interim Statements of Financial Position

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian dollars)

	Note	June 30, 2019 (unaudited)	December 31, 2018 (audited)
Assets			
Current assets			
Cash		\$ 162,044	\$ 767,116
Accounts receivable and other receivable	7	1,369,894	1,788,138
Research and development tax credits receivable	9	35,039	-
Inventory		2,040,146	1,638,951
Prepaid expenses		81,102	73,166
Total current assets		3,688,225	4,267,371
Non-current assets			
Long-term account receivable		-	115,976
Deferred costs		2,709	-
Property and equipment		375,370	105,260
Total assets		\$ 4,066,304	\$ 4,488,607
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,180,673	\$ 1,283,610
Customer deposits	8	5,344	-
Current portion of deferred revenue	8	128,564	128,550
Capital lease obligation		1,981	4,873
Current portion of lease liability		78,723	-
Current portion of long-term debt	10	76,091	72,395
Total current liabilities		1,471,376	1,489,428
Non-current liabilities			
Deferred revenue	8	154,673	162,146
Lease liability		200,001	-
Royalty Funding	11	375,000	375,000
Long-term debt	10	480,718	516,988
Total liabilities		2,681,768	2,543,562
Equity			
Share capital	12	15,933,384	14,506,319
Accumulated deficit		(18,782,103)	(15,638,285)
Contributed surplus		4,233,255	3,077,011
Total shareholders' equity		1,384,536	1,945,045
Total liabilities and shareholders' equity		\$ 4,066,304	\$ 4,488,607

Going Concern Uncertainty (note 2)

Commitments (note 17)

Approved on behalf of the Board

Director

Director

Clear Blue Technologies International Inc.

Condensed Interim Statements of Loss and Comprehensive Loss

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian dollars)

	Note	Three months ended June 30th		Six months ended June 30th	
		2019	2018	2019	2018
Revenue		\$ 568,037	\$ 1,697,696	\$ 908,303	\$ 2,022,512
Cost of sales		442,663	1,405,439	676,662	1,638,827
Gross profit		125,374	292,257	231,641	383,685
Operating expenses					
Salaries, wages and benefits		516,848	313,844	905,676	641,072
Research and development		511,792	392,137	1,042,124	668,233
General and administrative		215,111	106,055	325,801	238,538
Stock-based compensation	13	38,833	62,509	91,318	125,018
Travel		94,589	43,915	157,178	89,495
Business development and marketing		169,595	224,865	390,199	435,555
Rent		26,589	25,946	102,209	60,700
Professional fees		120,981	82,500	198,075	89,338
Total operating expenses		1,694,338	1,251,771	3,212,580	2,347,949
Loss before undernoted items		(1,568,964)	(959,514)	(2,980,939)	(1,964,264)
Other income(expense)					
Gain on derivative instruments		–	794	–	3,123
Interest on long-term debt	10	(22,731)	(10,082)	(36,473)	(52,034)
Interest on royalty funding		(5,113)	–	(8,175)	–
Foreign exchange loss		(31,319)	2,989	(56,342)	(6,153)
Depreciation of equipment		(54,517)	(5,854)	(64,668)	(10,131)
Amortization of deferred financing fees		(648)	(648)	(1,296)	(1,296)
Currency translation		7,333	–	4,075	–
Net loss and comprehensive loss		\$ (1,675,959)	\$ (972,315)	\$ (3,143,818)	\$ (2,030,755)
Net loss per share					
Basic and diluted		(0.04)	(0.05)	(0.07)	(0.10)
Weighted average number of common shares					
Outstanding - basic and diluted		45,742,806	20,970,800	41,565,439	20,888,364

Clear Blue Technologies International Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian dollars)

	Note	Number of common shares*	Share capital	Contributed surplus	Accumulated deficit	Total shareholders' equity
Balance December 31, 2017 (audited)		20,739,998	\$ 6,484,855	\$1,081,813	(\$ 7,505,547)	\$ 61,121
Share issuance - agent fees	11	38,743	25,000	-	-	25,000
Issuance costs - settled in options/shares	11	-	(25,000)	-	-	(25,000)
Exercise of options	12	192,059	104,905	(104,831)	-	74
Stock-based compensation	12	-	-	62,509	-	62,509
Net loss and comprehensive loss		-	-	-	(1,058,440)	(1,058,440)
Balance at March 31, 2018 (unaudited)		20,970,800	\$ 6,589,760	\$1,039,491	(\$ 8,563,987)	(934,736)
Share issuance - private placement	11	8,569,000	5,552,361	1,302,839	-	6,855,200
Share issuance - consultant fees	11	750,000	486,006	-	-	486,006
Options issued - agent fees	11	-	-	229,958	-	229,958
Issuance costs - settled in options/shares		-	(715,964)	-	-	(715,964)
Issuance costs - settled in cash	11	-	(484,764)	-	-	(484,764)
Stock-based compensation	12	-	-	120,510	-	120,510
outstanding prior to reverse takeover	6	4,560,549	-	-	-	-
Warrants issued to extinguish derivative liability		-	-	488,336	-	488,336
Shares issued on completion of the reverse takeover	12	30,289,804	2,955,275	-	-	2,955,275
outstanding prior to reverse takeover	6	(30,289,804)	-	-	-	-
Exercise of options	12	212,955	123,645	(104,123)	-	19,522
Net loss and comprehensive loss		-	-	-	(7,074,298)	(7,074,298)
Balance at December 31, 2018 (audited)		35,063,304	\$14,506,319	\$3,077,011	(\$15,638,285)	\$ 1,945,045
Share issuance - private placement	11	10,679,500	1,672,197	997,678	-	2,669,875
Warrants issued - agent fees	12	-	-	67,248	-	67,248
Issuance costs - settled in options/shares		-	(67,248)	-	-	(67,248)
Issuance costs - settled in cash	11	-	(177,884)	-	-	(177,884)
Stock-based compensation	12	-	-	91,318	-	91,318
Net loss and comprehensive loss		-	-	-	(3,143,818)	(3,143,818)
Balance at June 30, 2019 (unaudited)		45,742,804	\$15,933,384	\$4,233,255	(\$18,782,103)	\$ 1,384,536

Clear Blue Technologies International Inc.

Condensed Interim Statements of Cash Flows

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities				
Net loss for the period	(\$1,675,959)	(\$972,315)	(\$3,143,818)	(\$2,030,755)
Depreciation of property and equipment	54,517	5,854	64,668	10,131
Amortization of deferred financing fees	648	648	1,296	1,296
Stock-based compensation	38,833	62,509	91,318	125,018
Gain on derivative liability - warrants	-	(794)	-	(3,123)
Debt accretion	-	15,336	705	37,263
	(1,581,961)	(888,762)	(2,985,831)	(1,860,170)
Changes in non-cash working capital:				
Accounts receivable and other receivables	371,369	(1,034,458)	534,220	(597,225)
Research and development tax credits receivable	(35,039)	(211,544)	(35,039)	63,495
Inventory	(344,845)	28,238	(401,195)	(451,442)
Prepaid expenses and deposits	2,052	42,374	(7,936)	289
Accounts payable and accrued liabilities	391,562	288,230	(97,593)	(592,964)
Deferred revenue	(24,142)	(124,077)	(7,459)	(140,679)
Deferred costs	(2,709)	-	(2,709)	-
Cash used in continuing operations	(1,223,713)	(1,899,999)	(3,003,542)	(3,578,696)
Financing activities				
Advances of short-term loan	-	(40,000)	-	250,000
Paid issuance costs	(11,883)	(6,926)	(177,884)	(6,926)
Receipt of share subscriptions	-	451,898	2,669,875	3,480,633
Repayment of long-term debt	(17,146)	(48,059)	(34,575)	(63,706)
Repayment of capital lease obligation	(1,463)	(1,013)	(2,892)	(1,999)
Cash from financing activities	(30,492)	355,900	2,454,524	3,658,002
Investing activity				
Purchase of property and equipment	(50,561)	(1,042)	(56,054)	(27,031)
Cash used in investing activities	(50,561)	(1,042)	(56,054)	(27,031)
Net increase in cash during the period	(1,304,766)	(1,545,141)	(605,072)	52,275
Cash, beginning of period	1,466,810	1,994,017	767,116	396,601
Cash, end of period	\$162,044	\$448,876	\$162,044	\$448,876

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2019 and 2018
(Unaudited)
(Expressed in Canadian dollars)

1. Nature of Operations

Clear Blue Technologies International Inc. (formerly Dagobah Ventures Ltd.) (the “Company”) was incorporated on November 11, 2014 under the laws of British Columbia, Canada. On November 30, 2017, the Company entered into a non-binding letter of intent with Clear Blue Technologies Inc. (“CBTI”), a private Ontario company incorporated on September 8, 2011, whereby the Company would acquire all of the issued and outstanding common shares in the capital of CBTI (the “Transaction”).

On July 13, 2018, the Company completed the transaction with 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. 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.

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 have been prepared using International Financial Reporting Standards (“IFRS”) on a going concern, which presumes 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 six months ended June 30, 2019, the Company incurred operating losses in the amount of \$3,143,818 and negative cash used in operations of \$3,003,542. As at June 30, 2019, the Company had a working capital surplus of \$2,216,849, cash of \$162,044, and shareholders’ equity of \$1,384,536.

The Company’s ability to continue as a going concern is dependent upon achieving sustained profitability through its business plan and the ability to raise additional debt or equity financing to fund its operations. Various risks and uncertainties affecting the Company’s operations including, but not limited to, the rate of commercialization of the Company’s offerings, the public policy environment for renewable energy solutions, the Company’s ability to raise sufficient equity and/or debt financing, the ability of the Company to work with its bank to resolve any defaults of its loan agreement as they may arise, and general global economic conditions. There are no guarantees that the funds raised will be sufficient to sustain the Company’s ongoing operations beyond twelve months or that additional debt or equity financing will be available to the Company or available at acceptable terms. Failure to implement the Company’s business plan or the ability for the Company to raise sufficient funds could have a material adverse effect on the Company’s financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company’s ability to continue as a going concern.

These consolidated 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 consolidated financial statements, adjustments might be necessary in the carrying amounts of assets and liabilities and the reported expenses and consolidated balance sheet classifications; such adjustments could be material.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2019 and 2018
(Unaudited)
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3. Basis of Presentation

Statement of compliance

These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the consolidated financial statements of the Company for the year ended December 31, 2018 and should be read in conjunction with those financial statements.

The Consolidated Financial Statements were approved for issuance by the Company's Board of Directors on August 27, 2019.

Basis of measurement

These Consolidated Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as described in the significant accounting policies.

Functional and presentation currency

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

Basis of consolidation

The Consolidated Financial Statements consolidate those of the parent company Clear Blue Technologies International Inc., and all its subsidiaries, namely Clear Blue Technologies Inc. and Clear Blue Technologies US Corp. as of the date that control was obtained over those subsidiaries.

All transactions and balances between the companies are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Amounts reported in the Consolidated 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 Judgements, 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.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2019 and 2018
(Unaudited)
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4. Significant Accounting Judgements, Estimates and Assumptions (continued)

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 equipment is dependent upon estimates of useful lives, residual values and patterns in which the asset's 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.

(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 provision for impairment. Provisions for doubtful accounts receivable 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 Statement of Financial Position and the estimated net collectible amount. Charges for doubtful accounts receivable are recorded as bad debt costs recognized in the Consolidated Statements of Loss and Comprehensive Loss.

(v) Recoverability of inventory

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

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2019 and 2018
(Unaudited)
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4. Significant Accounting Judgements, Estimates and Assumptions (continued)

(vi) Fair value of common share

The Company uses estimates to determine the fair value of common shares that were issued in the reverse takeover transaction to acquire Dagobah Ventures Ltd (“DVL”). 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 Black–Scholes model.

5. New Accounting Standards and Recent Pronouncements

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments (“IFRS 9”) to replace IAS 39 – Financial Instruments: Recognition and Measurement. The new standard uses a principle-based approach for the classification and measurement of financial assets: amortized cost and fair value. Additional amendments include a single “expected loss” impairment method and a substantially reformed approach to hedge accounting. This standard is effective for annual periods beginning on or after January 1, 2018.

The Company’s Consolidated Financial Statements were not affected by IFRS 9. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with no restatement of comparative periods. As a result of the adoption of IFRS 9 there was no impact to the Company’s Consolidated Financial Statements.

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16, Leases (“IFRS 16”) which will replace IAS 17 Leases. The Company will be required to adopt 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, while requiring enhanced disclosures to be provided by lessors.

The company will adopt the standard for the annual period beginning on January 1, 2019 and has selected the modified retrospective transition approach. The company has also elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease under IAS 17 or IFRIC 4.

Upon transition, the company will recognize the lease liability at the present value of the remaining lease payments discounted using the company’s incremental borrowing rate of 10% upon adoption of the new standard. The company will measure the ROU assets 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 will recognize additional ROU assets and lease liabilities of approximately \$356K, subject to finalization of reviews, as of January 1, 2019.

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2019 and 2018
(Unaudited)
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5. New Accounting Standards and Recent Pronouncements (continued)

IFRS 15 – Revenue from Contract with Customers

The Company adopted IFRS 15, Revenue from Contract sand Customers, which sets out the accounting standards for the classification and measurement of revenue. IFRS 15 became effective for the annual periods beginning on or after January 1, 2018. The new standard provides a revenue model that has five steps: (i) Identify the contract with a customer; (ii) Identify all the individual performance obligations within the contract; (iii) Determine the transaction price; (iv) Allocate the price to the performance obligations; & (v) Recognize revenue as the performance obligations are fulfilled.

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. The interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as 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 Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. Management does not anticipate that the application of the amendments in the future will have an impact on the Company's Consolidated Financial Statements.

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 (the "Transaction") and apply for a listing on the TSX Venture Exchange (the "Exchange"). Upon completion, the transaction constituted a reverse take-over 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, which 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

Clear Blue Technologies International Inc.

Notes to the Consolidated Financial Statements
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6. Reverse Takeover Transaction (continued)

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 trades on the Exchange under the symbol "TSXV:CBLU". Pursuant to the terms of the Transaction, all the outstanding securities of CBTI were exchanged for equivalent securities of the Company on a one-for-one basis (following a subdivision of CBTI's common shares described above), such that the former securityholders of CBTI continued as securityholders of CBLU. In addition, all 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 was 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 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.

As a result of the completion of the Transaction, there are: (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 Dagobah Ventures Ltd ("DVL") shareholders to effect the Transaction.

The acquisition of the Corporation has been accounted for as follows:

	Amount
Net assets acquired	
Assets acquired	
Cash and cash equivalent	\$ 1,061
Loan receivable	200,000
Liabilities assumed	
Accounts payable and accrued liabilities	(17,603)
Company's net assets as at July 12, 2018	<u>183,458</u>
Consideration paid	
4,560,549 common shares deemed issued to the Company's existing shareholders	<u>2,955,275</u>
Listing expense	<u>\$ 2,711,817</u>

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(Unaudited)
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6. Reverse Takeover Transaction (continued)

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 recognized in 2018. The public company listing expense has been included in the Consolidated Statements of Loss and Comprehensive Loss.

7. Trade and Other Receivables

Included in accounts receivable and other as at June 30, 2019 is:

	June 30, 2019	December 31, 2018
Accounts receivable	1,367,487	1,801,906
Harmonized sales taxes receivable	146,857	70,518
Miscellaneous tax refund receivable	7,060	7,060
Long-term accounts receivable	–	179,259
Less:		
Expected credit loss	(151,510)	(154,629)
Total	1,369,894	1,788,138

8. Deferred Revenue

	June 30, 2019	December 31, 2018
(i) Deposits and advance billings	5,344	–
(ii) Energy management services	277,893	291,696
	283,237	291,696
Less: current portion of deferred revenue	128,564	128,550
	154,673	163,146

- (i) Deposits and advance billings are comprised of upfront security deposits received from customers in advance of the related goods being shipped or the services provided, and on a specific project basis, the excess of amounts invoiced over revenue recognized; and
- (ii) Monitoring and communications relates to the unearned revenue for software licenses and on-going remote power management services which are amortized into income on a straight-line basis over the life of the related contract.

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9. Research and Development Tax Credits Receivable

The Company's research and development tax credits receivable balance is comprised of the following amounts related to SRED and IRAP tax credits:

	June 30, 2019	December 31, 2018
2019 Claims	\$ 35,039	-
2017 Claims	-	\$ 492,000
2016 Claims	-	240,000
2015 Claims	-	118,688
2014 Claims	-	136,977
2013 Claims	-	86,351
Less:		
Amount refunded in 2017	-	(67,538)
Amount refunded in 2018	-	(953,714)
Valuation allowance:	-	(52,764)
Total	\$ 35,039	\$ -

10. Long-term Debt

	June 30, 2019	December 31, 2018
(i) Eastern Ontario Futures Development Corporation Networks Inc.	269,407	307,704
(ii) Federal Economic Development Agency of Southern Ontario	294,315	292,889
	\$ 563,722	\$ 597,683
Less:		
Current portion	76,091	72,395
Deferred financing fees	6,913	8,210
	\$ 480,718	\$ 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.
- (ii) Federal Economic Development Agency for 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 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 \$25,395 for the six months period ended June 30, 2019 (June 30, 2018 – \$30,585).

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10. Long-term Debt (continued)

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

2019	\$	61,804
2020		135,607
2021		159,607
2022		162,405
Thereafter		184,000
Total	\$	703,423

11. 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 and is being 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 – 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) 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 because it represents a contractual obligation to deliver cash or another financial asset to another entity. 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, in perpetuity.

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12. Share Capital

Authorized:

Unlimited number of Class A common shares without nominal or par value. Details of the issued and outstanding Class A common shares are outlined below:

	Number (pre-split)	Number	Amount
Balance as of December 31, 2017	7,872,401	20,739,998	\$ 6,484,855
Shares issued		14,323,308	9,247,192
Issuance costs		–	(1,225,728)
Balance as of December 31, 2018		35,063,306	\$ 14,506,319
Shares issued		10,679,500	1,672,197
Issuance costs		–	(245,132)
Balance as of June 30, 2019		45,742,804	\$ 15,933,384

During the six months ended June 30, 2019, the Company completed three tranches of private placements. As a result, the Company issued 10,679,500 Class A common shares at \$0.25 per subscription unit for cash consideration of \$2,699,875.

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 RTO transaction (Note 5). The Company issued:

- (i) 788,743 Class A post-split common shares valued at \$625,000 as payment for services received related to private placements and RTO transaction;
- (ii) 4,560,549 Class A post-split common shares valued at \$3,648,439 as part of RTO transaction;
- (iii) 8,569,000 Class A post-split common shares at \$0.80 per subscription unit for cash consideration of \$6,855,200 as part of private placement equity transactions; and
- (iv) 285,856 Class A post-split 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 option exercises.

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13. 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 with expiry dates ranging from May 2024 to October 2027.

Below is a continuity of stock options outstanding. On June 14, 2018, the common shares were subdivided on a 2.63452:1 basis. All references to share numbers reflect this subdivision.

Stock options outstanding - December 31, 2017	2,954,872
Stock options issued during year	1,280,205
Stock options exercised during year	(405,014)
Stock option forfeited during year	(255,052)
Stock options outstanding – December 31, 2018	3,575,011
Stock options issued	–
Stock options exercised	–
Stock option forfeited	(114,842)
Stock options outstanding – March 31, 2019	3,460,169
Stock option forfeited	(275,000)
Stock options outstanding – June 30, 2019	3,185,169

As at June 30, 2019, 2,249,347 (December 31, 2018 – 2,098,509) options were vested and exercisable. For the six months ended June 30, 2019, the Company recognized \$66,530 (six months ended June 30, 2018– \$125,018) of stock-based compensation in relation to its stock option plan.

Options outstanding at June 30, 2019 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	4.8	144,796	\$0.05	4.8
\$0.26	5.8-6.0	349,165	\$0.26	5.9
\$0.31	6.8	126,367	\$0.31	6.8
\$0.49	4.4	388,000	\$0.49	4.4
\$0.50	6.8-8.3	1,343,046	\$0.50	7.3
\$0.52	6.4	236,590	\$0.52	6.4
\$0.80	1.0	597,205	\$0.80	1.0
		3,185,169		5.6

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13. Equity Based Settlements (continued)

b. Warrants

On February 22, 2019, March 22, 2019, and March 28, 2019, the Company completed the 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 common share purchase warrant. Each share purchase warrant will entitle the holder thereof to purchase one common share at a price of \$0.50 per common share for a period of 36 months following the closing of the private placement.

As of June 30, 2019, there were 15,742,813 warrants outstanding, including 10,679,500 shares from the private placements.

The following is a summary of changes in share purchase warrants from December 31, 2017 to June 30, 2019:

Share purchase warrants - December 31, 2017	1,305,097
Granted during year	4,284,500
Expired during year	(55,799)
Share purchase warrants – December 31, 2018	5,533,798
Granted	11,399,065
Expired	(41,776)
Share purchase warrants – March 31, 2019	16,891,087
Expired	(1,148,274)
Share purchase warrants – June 30, 2019	15,742,813

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:

	June 30, 2019	December 31, 2018
Expected option life (years)	3	1 - 7
Volatility	115.32%	73% – 137%
Risk-free interest rate	1.48% – 1.79%	0.59% – 1.88%
Dividend yield	–	–

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14. 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:

	June 30, 2019	June 30, 2018
Salaries and benefits, including bonuses	\$ 294,000	\$ 210,000
Stock based compensation	11,000	26,000
Total	\$ 305,000	\$ 236,000

Accounts payable and accrued liabilities as at June 30, 2019 includes amounts owing to a shareholder of the Company for reimbursement of business expenses totaling \$160,109 (December 31, 2018 – \$263,706).

15. Capital Risk Management

Capital is comprised of the Company's shareholders' equity (deficiency) and any debt it may issue. At June 30, 2019, the Company's shareholders' equity was \$1,384,536 (December 31, 2018 – \$1,945,045) and the Company's debt was \$933,790 (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 six months ended June 30, 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. The Company is not subject to any externally imposed capital requirements.

16. Fair Value Measurement

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.

At June 30, 2019, the Company's financial instruments consist of cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable, accrued liabilities and long-term debt. The fair values of cash, accounts receivable and other receivables, accounts payable, accrued liabilities, deferred revenue, and royalty funding approximate their carrying values due to their nature. The Company

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16. Fair Value Measurement (continued)

classifies its financial instruments as outlined in Note 3. The fair value of cash is based on level 1 inputs of the fair value hierarchy.

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.

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, capital lease obligations and accounts payable, accrued liabilities, and long-term debt.

(i) 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 and capital lease obligations are subject to fixed interest rates and the risk of fluctuating future cash flows resulting from changes in market interest rate is limited.

(ii) 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.

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

	June 30, 2019	December 31, 2018
Cash	\$ 160,160	\$ 191,942
Accounts receivable	1,075,919	1,476,613
Accounts payable and accrued liabilities	466,236	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 could change by approximately \$77,000 at June 30, 2019 (December 31, 2018 – \$128,000) due to the fluctuation and this would be recorded in the statements of loss and comprehensive loss.

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 43% at June 30, 2019 (December 31, 2018 – three customers represented 29%) of the Company's accounts receivable balance. The Company performs credit assessments of potential customers and insures its accounts receivable where appropriate. Regular

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16. Fair Value Measurement (continued)

credit assessments are performed of customer's accounts receivable balances and allowances for potentially uncollectable accounts are provided where appropriate.

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the six months ended June 30, 2019, five customers represented 71% (December 31, 2018 – five customers represented 63%) of its total revenue.

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, capital lease obligation, long-term debt, and royalty funding by ensuring sufficient cash is on hand from cash flows from operations and financing from investors. As at June 30, 2019, the Company had a positive working capital of \$2,216,849 (December 31, 2018 – \$2,777,943).

Contractual maturities of the Company's lease obligations and long-term debt are outlined in Notes 11 and 12 to the Consolidated Financial Statements, respectively. Other financial liabilities, including accounts payable and accrued liabilities and short-term loans, have maturities within 12 months of the Company's year-end.

17. Commitments and Contingencies

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

2019	\$ 57,743
2020	115,486
2021	115,486
2022	76,991
Total	\$ 365,706

The Company is committed to pay Grenville equal to 1.125% of its annual revenue unless the buyout options are exercised.

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18. 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, United States of America ("USA"), and Africa, as well as other areas.

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

	June 30, 2019	December 31, 2018
Canada	\$ 109,941	\$ 1,109,713
USA	563,109	1,010,151
MEA	151,527	1,579,751
Other	83,726	80,560
Total	\$ 908,303	\$ 3,780,176