



Clear Blue Technologies International Inc. Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2021 and 2020
(Expressed in Canadian dollars)
(Unaudited)**

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 by an entity's auditor.

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Financial Position

As at September 30, 2021 and December 31, 2020

(Unaudited – Expressed in Canadian Dollars)

| | Note | September 30, 2021 | December 31, 2020 |
|---|------|--------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | \$ 538,049 | \$ 3,507,249 |
| Accounts receivable and other receivables | 5 | 1,798,697 | 1,754,792 |
| Research and development tax credits receivable | 6 | 152,569 | 187,453 |
| Inventory | 7 | 3,058,480 | 1,551,228 |
| Prepaid expenses | | 193,685 | 523,207 |
| Current portion of deferred costs | 7 | 161,370 | 232,584 |
| Total current assets | | 5,902,850 | 7,756,513 |
| Non-current assets | | | |
| Long-term account receivable | 5 | 222,949 | 272,959 |
| Deferred costs | 7 | 179,111 | 155,468 |
| Property and equipment | 8 | 176,208 | 213,234 |
| Intangible Assets | 9 | 1,770,245 | – |
| Total assets | | \$ 8,251,363 | \$ 8,398,174 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 1,403,320 | \$ 1,023,365 |
| Customer deposits and advanced billing | 10 | 157,437 | 545,610 |
| Short-term loans | 11 | 926,123 | 999,573 |
| Current portion of deferred revenue | 10 | 520,203 | 402,310 |
| Current portion of lease liability - office lease | 8 | 87,494 | 109,860 |
| Current portion of long-term debt | 12 | 118,912 | 118,846 |
| Total current liabilities | | 3,213,489 | 3,199,564 |
| Non-current liabilities | | | |
| Deferred revenue | 10 | 501,767 | 573,354 |
| Lease liability | 8 | – | 50,405 |
| Royalty funding | 14 | 375,000 | 375,000 |
| Convertible debenture | 13 | 587,448 | 584,112 |
| Long-term debt | 12 | 3,427,693 | 2,370,512 |
| Total liabilities | | 8,105,397 | 7,152,947 |
| Shareholder's Equity | | | |
| Share capital | 15 | 20,382,568 | 19,455,976 |
| Reserves | 16 | 6,248,333 | 6,253,945 |
| Equity portion of convertible debenture | 13 | 89,282 | 99,728 |
| Accumulated deficit | | (26,574,217) | (24,564,422) |
| Total shareholders' equity | | 145,966 | 1,245,227 |
| Total liabilities and shareholders' equity | | \$ 8,251,363 | \$ 8,398,174 |

Nature of operations (note 1)

On behalf of the Board:

“Miriam Tuerk”

President

“Steve Parry”

Director

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

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2021 & 2020
(Unaudited - Expressed in Canadian Dollars)

| | Note | Three months ended September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|--|--------|---|------------|--|--------------|
| Revenue | | \$ 2,247,857 | 940,849 | \$ 6,517,270 | \$ 1,519,365 |
| Cost of sales | 7 | 1,365,718 | 565,254 | 4,579,685 | 922,068 |
| Gross profit | | 882,139 | 375,595 | 1,937,585 | 597,297 |
| Operating expenses | | | | | |
| Salaries, wages and benefits | 17, 23 | 465,035 | 119,929 | 1,306,532 | 356,475 |
| Research and development | | 67,272 | 406,024 | 292,906 | 1,148,476 |
| General and administrative | | 246,434 | 74,898 | 769,484 | 353,389 |
| Bad debt expense(recovery) | | — | — | — | (195,394) |
| Stock-based compensation | 16, 17 | 157,931 | 95,664 | 293,864 | 200,725 |
| Travel | | 3,857 | 3,975 | 11,161 | 88,616 |
| Business development and marketing | | 158,095 | 142,264 | 376,832 | 371,218 |
| Rent | | 71,835 | 41,762 | 118,342 | 138,739 |
| Professional fees | | 73,448 | 57,967 | 185,661 | 207,761 |
| Depreciation of property and equipment | 8 | 34,597 | 32,987 | 106,481 | 99,586 |
| Total operating expenses | | 1,278,504 | 975,470 | 3,461,263 | 2,769,591 |
| Loss before other items | | (396,365) | (599,875) | (1,523,678) | (2,172,294) |
| Other items | | | | | |
| Write down of inventory | | (3,721) | — | (25,082) | — |
| Interest on long-term debt | | (129,003) | (138,069) | (377,302) | (304,002) |
| Interest on royalty funding | | (20,230) | (8,467) | (58,655) | (13,674) |
| Foreign exchange gain (loss) | | (46,443) | (23,193) | (23,133) | 59,669 |
| Amortization of deferred financing fees | | (649) | (648) | (1,945) | (1,944) |
| Net loss and comprehensive loss | | (596,411) | (770,252) | (2,009,795) | (2,432,245) |
| Loss per share | | (0.01) | (0.02) | (0.03) | (0.05) |
| Weighted average number of shares outstanding Basic and Diluted | | 64,857,177 | 48,022,520 | 64,080,175 | 46,980,317 |

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

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in Canadian Dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|--------------|--------------------------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Cash provided by (used in): | | | | |
| Operating activities | | | | |
| Net loss for the year | \$ (596,411) | \$ (561,203) | \$ (2,009,795) | \$ (1,661,993) |
| Depreciation of property and equipment | 34,597 | 33,270 | 106,481 | 66,599 |
| Amortization of deferred financing fees | 1,944 | 648 | 1,944 | 1,296 |
| Stock-based compensation | 157,931 | 4,072 | 293,864 | 105,061 |
| Bad debt expense (recovery) | – | (195,394) | – | (195,394) |
| Write down of inventory | (3,721) | – | (25,082) | – |
| Debt accretion | – | 4,207 | – | 15,852 |
| | (427,021) | (714,400) | (1,632,588) | (1,668,579) |
| Changes in non-cash working capital: | | | | |
| Accounts receivables and other receivable | (279,242) | 644,884 | 6,104 | 1,563,579 |
| R&D tax credits receivable | 90,301 | (26,883) | 34,884 | 552,020 |
| Inventory | (516,682) | (433,464) | (1,482,170) | (563,352) |
| Prepaid expenses | 366,869 | (16,392) | 329,522 | (79,404) |
| Accounts payable and accrued liabilities | 250,573 | (556,167) | 379,955 | (587,898) |
| Lease Liability | (24,864) | – | (72,771) | – |
| Customer deposits | (86,355) | 152,033 | (388,173) | 106,111 |
| Deferred revenue | 27,261 | (94,583) | 46,306 | (86,167) |
| Deferred cost | 15,181 | – | 47,572 | – |
| Cash used in operating activities | (583,979) | (1,044,972) | (2,731,359) | (763,690) |
| Financing activities | | | | |
| Exercise of Warrants & Options | – | – | 740,106 | 3,112 |
| Maturity of RSU's | – | – | 211,078 | – |
| Share issuance costs | – | – | (24,592) | – |
| Proceeds from short-term loan | 64,786 | 14,295 | (73,450) | 80,643 |
| Contributed Surplus | – | – | (309,922) | – |
| Advance of long-term debt | 1,051,067 | 1,909,220 | 1,058,639 | 1,905,742 |
| Cash generated from financing activities | 1,115,853 | 1,923,515 | 1,601,859 | 1,989,497 |
| Investing activities | | | | |
| Additions to intangible assets | (623,788) | – | (1,770,245) | – |
| Purchase of property and equipment | (27,003) | (23,929) | (69,455) | (48,174) |
| Cash used in investing activities | (650,791) | (23,929) | (1,839,700) | (48,174) |
| Net change in cash during the period | (118,917) | 854,614 | (2,969,200) | 1,177,633 |
| Cash, beginning of period | 656,966 | 384,739 | 3,507,249 | 61,720 |
| Cash, end of period | \$ 538,049 | \$ 1,239,353 | \$ 538,049 | \$ 1,239,353 |

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

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
 For the periods ended September 30, 2021 and 2020
 (Unaudited - Expressed in Canadian Dollars)

| | Number of common shares* | Share capital | Contributed Reserves | Equity portion of convertible debenture | Accumulated deficit | Total shareholders' equity (deficiency) |
|--|--------------------------------|----------------------|-------------------------|--|------------------------|---|
| Balance at January 1, 2020 | 45,742,806 | \$ 15,919,928 | \$ 4,476,158 | \$ 112,959 | \$ (20,740,203) | \$ (231,158) |
| Exercise of options | — | 33,061 | (29,949) | — | — | 3,112 |
| Maturity of RSUs | — | 178,986 | (188,265) | — | — | (9,279) |
| Conversion of debenture | — | 62,901 | 16,334 | (12,535) | — | 66,700 |
| Stock-based compensation | — | — | 200,725 | — | — | 200,725 |
| Debt to shares | — | 336,698 | — | — | — | 336,698 |
| Warrants issued as part of BDC loan | — | — | 1,810 | — | — | 1,810 |
| Net loss and comprehensive loss | — | — | — | — | (2,432,245) | (2,432,245) |
| Balance at September 30, 2020 (unaudited) | 45,742,806 | \$ 16,531,574 | \$ 4,476,813 | \$ 100,424 | \$ (23,172,448) | \$ (2,063,637) |
| Balance at January 1, 2021 | 62,876,662 | \$ 19,455,976 | \$ 6,253,945 | \$ 99,728 | \$ (24,564,422) | \$ 1,245,227 |
| Exercise of Warrants | 1,230,054 | 669,926 | (95,658) | — | — | 574,268 |
| Exercise of Options | 43,468 | 3,970 | — | — | — | 3,970 |
| Share issuance costs | — | (24,592) | — | — | — | (24,592) |
| Maturity of RSUs | 1,240,880 | 211,078 | (205,440) | — | — | 5,638 |
| Conversion of debenture | 375,000 | 66,210 | 1,622 | (10,446) | — | 57,386 |
| Stock-based compensation | — | — | 293,864 | — | — | 293,864 |
| Net loss and comprehensive loss | — | — | — | — | (2,009,795) | (2,009,795) |
| Balance at September 30, 2021 (unaudited) | 65,766,064 | \$ 20,382,568 | \$ 6,248,333 | \$ 89,282 | \$ (26,574,217) | \$ 145,966 |

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

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - 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 streetlights, 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. Basis of Presentation

Statement of compliance

These Interim Financial Statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) 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.

The Interim Financial Statements were approved for issuance by the Company’s Audit Committee and Board of Directors on November 15, 2021.

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 and lease liabilities which are measured at their present values. 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., Clear Blue Technologies US Corp. and Clear Blue Technologies Kenya Limited, 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 Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - 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:

Newly adopted accounting policy

Capitalized Research and development Costs

The Company capitalizes development costs for its Smart off-grid technology (technology) developed for internal use. The Company capitalizes costs for its technology to be used internally during the development stage. This occurs when the preliminary project stage is complete, management authorizes and commits to funding the projects, and it is feasible that the projects will be completed, and the technology will perform the intended function. Capitalization of costs related to the technology project is ceased when it enters the post- implementation and operation stage. If different determinations are made with respect to the state of development of technology project, then the amount capitalized, and the amounts charged to expense for that project could differ materially.

Costs capitalized during the development stage consist of payroll and related costs for employees who are directly associated with, and who devote time to, a project to develop or implement the technology for internal use. The Company capitalizes the direct costs of materials and services, which generally include outside contractors. The Company does not capitalize any general and administrative costs, or costs incurred during the development stage related to training. Costs related to upgrades and enhancements to internal-use technology, if those upgrade and enhancements result in additional functionality, are capitalized.

The Company amortizes capitalized technology with respect to development projects for internal-use technology when the technology is ready for use. The capitalized technology development costs are generally amortized using the straight-line method over a five-year period. In determining and re-assessing the estimated useful life over which the cost incurred for the technology should be amortized, the Company considers the effects of obsolescence, technology, competition, and other economic factors. If different determinations are made with respect to the estimated useful life of the technology, the amount of amortization charged in a particular period could differ materially.

4. Significant Accounting Judgments, Estimates and Assumptions

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

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - Expressed in Canadian dollars)

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

disclosed in the consolidated financial statements also represent segment amounts. All 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.

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 September 30, 2021, management has determined that ECL was \$nil (2020 - \$nil).

(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.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - Expressed in Canadian dollars)

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

(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

| | September 30, 2021 | December 31, 2020 |
|-------------------------------------|--------------------|-------------------|
| Accounts receivable, net | \$ 1,605,315 | \$ 1,537,207 |
| Harmonized sales taxes receivable | 71,396 | 129,653 |
| Miscellaneous tax refund receivable | (650) | 16,704 |
| Loan receivable (i) | 345,585 | 344,186 |
| Less: Long-term loan receivable (i) | (222,949) | (272,959) |
| Total | \$ 1,798,697 | \$ 1,754,791 |

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 September 30, 2021, the carrying value of the loan receivable amounts to \$345,585, of which \$122,636 relates to current portion. During the nine months ended September 30, 2021, the Company charged interest of \$18,089 (US \$14,360) (2020 - \$14,644 (US \$10,916)).

6. Research and Development Tax Credits Receivable

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

| | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| Industrial Research Assistance Program | 32,569 | 24,583 |
| Ontario Innovation tax credits | 120,000 | 162,870 |
| Total | \$ 152,569 | \$ 187,453 |

7. Inventory

| | September 30, 2021 | December 31, 2020 |
|----------------|--------------------|-------------------|
| Raw materials | \$ 1,541,097 | \$ 534,338 |
| Finished goods | 1,517,383 | 1,016,890 |
| Total | \$ 3,058,480 | \$ 1,551,228 |

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - Expressed in Canadian dollars)

Inventory included in cost of sales amounted to \$4,051,119 (2020 - \$922,068). During the nine months ended September 30, 2021, the Company wrote down \$163,991 (2020 - \$nil (US \$nil)) of obsolete inventory.

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.

8. Property and Equipment

| | Computer and equipment | Furniture and Fixtures | Leasehold improvements | Right-of-use assets— office space | Total |
|---|------------------------|------------------------|------------------------|-----------------------------------|-------------------|
| Balance as of December 31, 2019 | 103,896 | 7,552 | 29,618 | 333,919 | 474,985 |
| Additions | 29,501 | - | - | - | 29,501 |
| Disposals | (15,681) | - | - | - | (15,681) |
| Balance as of December 31, 2020 | 117,716 | 7,552 | 29,618 | 333,919 | 488,805 |
| Additions | 49,507 | 3,945 | 17,191 | - | 70,643 |
| Balance as of September 30, 2021 | \$ 167,223 | \$ 11,497 | \$ 46,809 | \$ 333,919 | \$ 559,448 |

| Accumulated Depreciation | | | | | |
|---|-------------------|-----------------|------------------|-------------------|-------------------|
| 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 | (14,861) | - | - | - | (14,861) |
| Balance as of December 31, 2020 | 71,213 | 4,656 | 17,564 | 182,138 | 275,571 |
| Depreciation | 29,754 | 1,343 | 8,270 | 68,302 | 107,769 |
| Balance as of September 30, 2021 | \$ 100,967 | \$ 5,999 | \$ 25,834 | \$ 250,440 | \$ 383,340 |

| Net book value as at: | | | | | |
|---------------------------|------------------|-----------------|------------------|-------------------|-------------------|
| 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 |
| September 30, 2021 | \$ 66,256 | \$ 5,498 | \$ 20,975 | \$ 83,479 | \$ 176,208 |

Lease Liability

Included in the property, plant and equipment line item in the statement of financial position is the Company's right of use assets arising from its leases for office space. A reconciliation of the carrying amount of the lease liability is as follows:

| | |
|---|-------------------|
| Balance as of December 31, 2019 | 249,212 |
| Lease payments | (109,865) |
| Lease interest | 20,917 |
| Balance as of December 31, 2020 | \$ 160,264 |
| Lease payments | (82,398) |
| Lease interest | 9,628 |
| Balance as of September 30, 2021 | \$ 87,494 |

| | September 30, 2021 | December 31, 2020 |
|--------------------------------------|--------------------|-------------------|
| Current portion of lease liability | \$ 87,494 | \$ 109,860 |
| Long term portion of lease liability | - | 50,405 |
| Total | \$ 87,494 | \$ 160,265 |

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - Expressed in Canadian dollars)

Maturity analysis – contractual undiscounted cash flows:

| | | |
|---|-----------|----------------|
| 2021 | \$ | 27,466 |
| 2022 | | 73,243 |
| Total undiscounted future lease payments | \$ | 100,709 |

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 nine months ended September 30, 2021 and 2020.

9. Intangible Assets

Below is a continuity of internally generated Smart Off-Grid Technology:

| | |
|-------------------------------------|------------------|
| Balance – December 31, 2020 | - |
| Additions ⁽¹⁾ | 1,770,245 |
| Balance – September 30, 2021 | 1,770,245 |

(1) Internally generated intangible assets are in the development phase. Amortization will commence once technology is ready for use.

10. Customer Deposits and Deferred Revenue

Customer Deposits

Customer deposits of \$157,437 (2020 - \$545,610) 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:

| | September 30, 2021 | December 31, 2020 |
|-----------------------|---------------------------|--------------------------|
| Deferred revenue | \$ 1,021,969 | \$ 975,664 |
| Less: Current portion | 520,203 | 402,310 |
| | \$ 501,766 | \$ 573,354 |

The deferred revenue is amortized to profit or loss on a straight-line basis over the life of the related contract. As at September 30, 2021, expected revenue to be recognized over the term of the contracts are as follows:

| | |
|--------------|----------------|
| 2021 | 131,198 |
| 2022 | 509,255 |
| 2023 | 285,225 |
| Total | 925,678 |

11. Short-term Loan

In 2019, the Company obtained a \$1,000,000 revolving credit facility with Scotia Bank. 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 September 30, 2021 is \$926,123 (December 31, 2020 - \$999,573). The Company incurred interest expense related to its short-term loan of \$11,807 during the nine months ended September 30, 2021 (2020 - \$30,674).

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited - Expressed in Canadian dollars)

12. Long-term Debt

| | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| (i) Eastern Ontario Futures Development Corporations Networks Inc. | \$ 143,547 | \$ 204,902 |
| (ii) Federal Economic Development Agency of Southern Ontario | 277,313 | 284,986 |
| (iii) Business Development of Canada | 3,126,825 | 2,002,494 |
| | \$ 3,547,685 | \$ 2,492,382 |
| Less: | | |
| Current portion | 118,912 | 118,846 |
| Deferred financing fees | 1,080 | 3,024 |
| | \$ 3,427,693 | \$ 2,370,512 |

- (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 nine months ended September 30, 2021, the Company recognized interest expense of \$13,351 (2020 - \$16,311).
- (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. 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 nine months ended September 30, 2021, the Company recognized interest expense of \$19,326 (2020 - \$19,590).
- (iii) Business Development of Canada (“BDC”) loan of \$3,000,000 under a total 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 \$2,000,000 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. On August 15, 2021, the Company drew down an additional tranche of \$1,000,000 resulting in a cumulative

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drawdown as at September 30, 2021 of \$3,040,000. For the nine months ended September 30, 2021, the Company recognized interest expense of \$243,079 (2020 - \$128,829).

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 | \$ 89,998 |
| 2022 | 726,211 |
| 2023 | 1,325,166 |
| 2024 | 1,288,978 |
| 2025 | 589,932 |
| <u>Total</u> | <u>\$4,020,286</u> |

13. 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%.

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During the nine months ended September 30, 2021, \$75,000 (2020 - \$90,000) of the Convertible Debenture was converted into 375,000 (2020 – 450,000) Common Shares and 187,500 (2020 - 225,000) Warrant Shares.

As at September 30, 2021, the outstanding balances associated with the convertible debenture were as follows:

| | September 30, 2021 | December 31, 2020 |
|---------------------------------------|--------------------|-------------------|
| Liability component of debenture | \$ 584,112 | \$ 601,038 |
| Accretion | \$28,853 | 53,416 |
| Interest | \$65,975 | 72,071 |
| Interest paid / payable | \$(34,863) | (72,071) |
| Fair value of the debenture converted | (56,629) | (70,342) |
| Balance | <u>\$ 587,448</u> | <u>\$ 584,112</u> |

14. 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.

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

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\$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 \$61,930 for nine months ended September 30, 2021 (2020 - \$10,494).

15. Share Capital

Authorized: Unlimited number of common shares without nominal or par value.

Transactions during the nine months ended September 30, 2021

- (i) During the nine months ended September 30, 2021, the Company issued 1,240,880 common shares valued at \$543,745 pursuant to the maturity of RSUs. 311,660 common shares valued at \$136,743 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.
- (ii) On June 30, 2021, the Company issued 43,468 common shares pursuant to exercise of stock options for gross proceeds of \$3,970. In connection with the exercise of options, the fair value of stock options amounting to \$1,623 was reclassified from reserves to share capital.
- (iii) During the nine months ended September 30, 2020, the Company issued 375,000 units pursuant to the conversion of convertible debenture amounting to \$75,000. 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 \$10,446 was reclassified to share capital.
- (iv) During the nine months ended September 30, 2021, the Company issued 1,230,054 shares pursuant to exercise of share purchase warrants for gross proceeds of \$574,268. In connection with the exercise of share purchase warrants, the fair value of share purchase warrants amounting to \$96,035 was reclassified from reserves to share capital.

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.

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

- (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%.
- (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.

Escrowed Shares

As at September 30, 2021, nil (2020 - 2,492,989) common shares are held in escrow.

16. 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, 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 |
| Stock options exercised | (43,468) |
| Stock options issued | 1,390,129 |
| Stock Options forfeited | (27,500) |
| Stock options outstanding – September 30, 2021 | 4,334,884 |

For the nine months ended September 30, 2021, the Company recognized \$23,258 (2020 - \$38,270) of stock-based compensation expense in relation to its stock option plan.

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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:

| | September 30, 2021 | December 31, 2020 |
|------------------------------|--------------------|-------------------|
| Expected option life (years) | 4.9 | 5 |
| Volatility | 116% | 116% |
| Risk-free interest rate | 0.36% – 0.39% | 0.36% – 0.39% |
| Dividend yield | – | – |

Options outstanding and exercisable at September 30, 2021 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 | 2.59 | 16,692 | 16,692 |
| \$0.13 | 2025-05-29 | 3.66 | 100,000 | 100,000 |
| \$0.16 | 2024-09-12 | 2.95 | 452,418 | 298,137 |
| \$0.16 | 2025-09-30 | 4.00 | 79,334 | 12,417 |
| \$0.17 | 2025-05-29 | 3.66 | 167,334 | 28,667 |
| \$0.26 | 2025-04-20 | 3.56 | 247,394 | 247,394 |
| \$0.26 | 2025-06-30 | 3.75 | 94,242 | 94,242 |
| \$0.30 | 2024-09-08 | 2.94 | 650,000 | - |
| \$0.31 | 2026-04-30 | 4.58 | 117,018 | 117,018 |
| \$0.34 | 2026-08-31 | 4.92 | 704,129 | - |
| \$0.49 | 2023-11-26 | 2.16 | 385,750 | 278,875 |
| \$0.50 | 2026-04-30 | 4.58 | 864,804 | 864,804 |
| \$0.50 | 2027-10-31 | 6.09 | 183,179 | 174,195 |
| \$0.52 | 2025-12-11 | 4.20 | 236,590 | 236,590 |
| \$0.54 | 2026-01-02 | 5.09 | 36,000 | 18,000 |
| \$0.32 | | Total | 4,334,884 | 2,487,031 |

b. Share purchase warrants

The following is a summary of changes in share purchase warrants from December 31, 2019 to September 30, 2021:

| | Number of Warrants | Weighted average exercise price |
|---|--------------------|---------------------------------|
| 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 |
| Granted | 187,500 | \$0.35 |
| Exercised | (1,230,054) | \$0.49 |
| Share purchase warrants – September 30, 2021 | 17,894,323 | \$0.51 |

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Share purchase warrants outstanding and exercisable at September 30, 2021 are comprised of the following:

| Exercise price | Expiry date | Remaining contractual life (years) | Number of Warrants |
|----------------|-------------|------------------------------------|--------------------|
| \$0.35 | 2022-11-01 | 1.09 | 56,575 |
| \$0.50 | 2022-02-22 | 0.40 | 4,042,040 |
| \$0.50 | 2022-03-22 | 0.47 | 5,673,825 |
| \$0.50 | 2022-03-28 | 0.49 | 759,600 |
| \$0.38 | 2023-12-22 | 2.23 | 750,217 |
| \$0.55 | 2023-12-22 | 2,23 | 6,578,900 |
| \$0.50 | 2024-07-11 | 2.78 | 17,209 |
| \$0.50 | 2025-02-11 | 3.37 | 15,957 |
| Total: | | | 17,894,323 |

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.

Transactions during the nine months ended September 30, 2021

On January 2, 2021, the Company granted 60,000 RSUs to directors. The RSUs vest on January 2, 2022.

On September 1, 2021, the Company granted 95,000 RSUs to directors and employee. The RSUs vest in three equal tranches tranches, with each tranche vesting on August 31, 2022, August 31, 2023 and August 31, 2024, respectively.

On September 20, 2021, the Company granted 1,088,177 RSUs to directors, officers and employees. The RSUs vest on December 31, 2021.

On September 23, 2021, the Company granted 24,000 RSUs to directors. The RSUs vest on June 30, 2022.

On September 30, 2021, the Company granted 208,749 RSUs to directors, officers and employees. The RSUs vest in three equal tranches tranches, with each tranche vesting on August 31, 2022, August 31, 2023 and August 31, 2024, respectively.

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.

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On September 30, 2020, the Company granted 15,000 RSUs to an employee. The RSUs vest on May 29, 2022.

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.

17. 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:

| | September 30, 2021 | September 30, 2020 |
|--|--------------------|--------------------|
| Salaries and benefits, including bonuses | \$ 443,030 | \$ 308,250 |
| Stock-based compensation | 178,792 | 152,005 |
| Total | \$ 621,822 | \$ 460,255 |

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 September 30, 2021, includes short-term amounts owing to shareholders of the Company for reimbursement of business expenses totaling \$29,798 (December 31, 2020 – \$86,019).

18. 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:

| | September 30, 2021 | December 31, 2020 |
|---------------|--------------------|-------------------|
| Stock options | 4,334,884 | 3,015,723 |
| Warrants | 17,894,323 | 18,936,377 |
| RSUs | 375,000 | 1,655,880 |
| Total | 22,604,207 | 23,607,980 |

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.

19. Capital Risk Management

Capital is comprised of the Company's shareholders' equity (deficiency) and any debt it may issue. At September 30, 2021, the Company's shareholders' equity was \$145,966 (December 31, 2020 - deficiency of \$1,245,227) and the Company's debt was \$5,060,176 (December 31, 2020 - \$4,608,308).

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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 period ended September 30, 2021.

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.

As at September 30, 2021, 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

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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):

| | September 30, 2021 | December 31, 2020 |
|---|--------------------|-------------------|
| Cash | \$ 502,521 | \$ 72,674 |
| Accounts receivable and other receivables | 1,732,101 | 1,876,271 |
| Accounts payable and accrued liabilities | 669,524 | 234,455 |

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 \$106,000 at September 30, 2021 (December 31, 2020 - \$179,000).

(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 63% at September 30, 2021 (December 31, 2020 – three customers represented 94%) 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 September 30, 2020:

| | September 30, 2021 | December 31, 2020 |
|------------------------|--------------------|-------------------|
| Current (not past due) | \$ 946,172 | \$ 1,381,330 |
| 0 – 30 days past due | 62,443 | 10,830 |
| 31 – 60 days past due | 20,446 | 139,458 |
| 61 – 90 days past due | 22,525 | - |
| Over 90 days past due | 553,729 | 5,589 |
| Total | \$ 1,605,315 | \$ 1,537,207 |

Where possible, the Company obtains Economic Development Canada (EDC) receivables insurance to mitigate its credit risk.

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the nine months ended September 30, 2021, five customers represented 63% (2020 - five customers represented 76%) 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 September 30, 2021, the Company's current assets exceeded its current liabilities by \$2,689,361 (December 31, 2020 - \$4,556,949).

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.

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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 14).

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:

| | September 30, 2021 | September 30, 2020 |
|--------|--------------------|--------------------|
| Canada | \$ 123,676 | \$ 395,782 |
| USA | 649,190 | 794,182 |
| MEA | 5,736,164 | 321,955 |
| Other | 8,239 | 7,446 |
| Total | \$ 6,517,269 | \$ 1,519,365 |

All non-current assets are located in Canada.

23. Government Grants

During the nine months ended September 30, 2021, the Company received \$360,942 (2020 - \$610,960) from Canada Emergency Wage Subsidy (CEWS), which were recorded in salaries, wages and benefits.

24. Events After the Reporting Period

On October 27, 2021, the Company completed a private placement offering of convertible unsecured subordinated debentures of the Company at a conversion price of \$0.40 per unit, for gross proceeds of \$1,535,000 followed by an additional issue of \$2,899,000 on November 15, 2021. The net proceeds shall be used to fund working capital requirements and for general corporate purposes.

The debentures shall pay interest semi-annually at 10% per annum and shall mature at a date which is the earlier of: (i) 48 months of the Closing Date and (ii) the date specified in any Debenture Acceleration Notice. After twelve months following the initial Closing Date, the Company will have the right to extinguish the Debentures if the daily volume weighted average trading price of the Common Shares be greater than \$1.20 for any 10 consecutive trading days on the TSX Venture Exchange (the "TSXV").

The principal amount of the Debentures will be convertible into units of the Company (the "Units") at the option of the holder at any time preceding the Maturity Date, at a conversion price of \$0.40 per Unit (the "Conversion Price"). A Unit comprises 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, a "Warrant") carrying exercise price of \$0.60.